Annual Report 2018

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Santander Totta, SGPS

Annual Report

2018

Santander Totta SGPS, SA
Rua do Ouro, 88 - 1100-063 Lisboa - Portugal
Share Capital: 1,972,962,079.58 euros
Registered at Lisbon Commercial Registry under the number 507 096 851 and tax identification number 507 096 851
LEI: 5493005RLLC1P7VSVC58

Highlights

PROFITABILITY	GROWTH	SOUNDNESS	SUPPORT FOR SOCIETY
Net income from banking activities 1,240 mn€ (+8.0%)	Mortgage Loans Customer deposits Change YoY: +1.9% and +6.1%	NPE Ratio 4.0%	Increase of the share of Corporate Loan and Mortgage Loan production 19.8% and 22%
Net income 500 mn€ (+14.6%)	Main Bank Customers €752k (+10%)	Cost of Credit 0.01%	Santander Advance 696 training grants
ROE 12.4%	Digital Customers €734k (+32%)	CET1 Capital Ratio 13.6%	Social Responsibility 23,981 beneficiaries

Table of Indicators

BALANCE SHEET AND RESULTS (million euro)	2018	2017	Var.
Total Net Assets	55,039	53,169	+3.5%
Loans and advances to customers (net)	39,597	39,646	-0.1%
Customers' Resources	39,312	36,698	+7.1%
Total shareholders' equity	4,172	4,032	+3.5%
Net Interest Income	866.3	696.9	+24.3%
Net Fees and Other Income	378.0	327.4	+15.5%
Net Income from Banking Activities	1,240.0	1,147.7	+8.0%
Net Operating Income	619.0	619.7	-0.1%
Income before taxes and non-controlling interests*	696.5	590.8	+17.9%
Consolidated net income attributable to the shareholders of ST, SGPS	500.0	436.3	+14.6%

RATIOS	2018	2017	Var.
ROE	12.4%	11.8%	+0.6 p.p.
ROA	0.9%	0.8%	+0.1 p.p.
Efficiency ratio	50.1%	46.0%	+4.1 p.p.
CET I ratio**	14.0%	14.2%	-0.2 p.p.
Tier I ratio**	17.0%	16.9%	+0.1 p.p.
Capital ratio**	17.1%	17.0%	+0.1 p.p.
Non-Performing Exposure Ratio	4.0%	5.7%	-1.7 p.p.
Non-Performing Exposure coverage ratio	51.0%	55.4%	-4.4 p.p.
Cost of credit	0.01%	0.11%	-0.10 p.p.
Loans-to-deposits ratio (tranformation ratio)	118.9%	126.5%	-7.6 p.p.

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

Other Data	2018	2017	Var.
Employees	6,517	6,816	-299
Employees in Portugal	6,492	6,781	-289
Branches	572	682	-110
Total Branches and Corporate Centers in Portugal	562	670	-108

* Excludes non-recurrent results

** Fully implemented with results net of payout

Corporate Culture

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

Simple I Personal I Fair

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

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

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

Simple

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

Personal

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

Fair

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

Our culture is based on eight corporate conducts...

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

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

All the Santander team engaged in risk

risk pro

Santander Brand

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

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

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

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

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

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

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

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

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

A modern, more-digital brand

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

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

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

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

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

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

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

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

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

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

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

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

A solid, reputable and trustworthy brand

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

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

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

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

Main Awards and Recognitions

Bank of the Year in Portugal	Santander was awarded the **"Bank of the Year" in Portugal** award by ***The Banker*** magazine of the *Financial Times* Group , within the scope of the *The Banker Awards* 2018. This is the fourteenth time that Santander has received this distinction. The financial data of the institutions were analysed, as were aspects such as performance, technology, innovation and marketing initiatives.
Best Bank in Portugal	The North American magazine ***Global Finance*** elected Santander as the "Best Bank in Portugal", within the scope of the "World's Best Banks 2018" that distinguishes those banking institutions that best responded to the needs of their customers and obtained the best results.
5-star Bank	Santander won the **Five Star Award 2019** in the Large Banks category. After an evaluation of five major Portuguese banks, Santander obtained the best classification, with an overall satisfaction of 71.8%, considering variables such as satisfaction, recommendation, trust in the brand and innovation.
Best Private Banking Services Overall	Santander won the **"Best Private Banking Services Overall"** in Portugal prize, awarded by ***Euromoney*** magazine. This is the eighth consecutive time that Bank receives this award. The study was conducted through qualitative analysis of the sector's best practices, by region and by type of service.
Best Private Bank	Santander Totta's Private Banking was elected by ***Global Finance*** magazine as the **"Best in Portugal"**, within the scope of The World's Best Private Banks Awards for 2019, which distinguish the world's best private-banking business models. This is now the fourth consecutive distinction.

Best Retail Bank	Santander was distinguished as **Best Retail Bank in Portugal"** by the British magazine ***World Finance***, in the annual awards of this publication. The entity highlighted the Bank's leadership, based on the profitability and sustainability of the business model.
Safest Bank	Santander was elected as the **"Safest Bank in Portugal"**, according to ***Global Finance*** magazine, within the scope of the World's Safest Banks 2018, which distinguishes banks on the basis of the quality of the long-term debt ratings and size of assets.
Most Reputed Financial Brand	Santander came first as the **"Banking brand bank with the best reputation"** in OnStrategy's Global Reputation Pulse RepScore positioning study for 2018. The results presented assess trust, preference and recommendation, products and services, innovation and differentiation, business and financial performance, governance and ethics, leadership and vision.
Best Bank to Work For	Santander was considered the **"Best Bank to Work For in Portugal"**. An analysis with the scope of the Great Place to Work, which also included the opinion of the Bank's employees.

Other awards and distinctions

Best Private Banking in service categories, Euromoney

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

"Best Banking Contact Centre", Portuguese Contact Centres Association

Relevant Facts in 2018

A modern, more-digital brand

Santander has evolved its brand to enhance its digital presence.

Conclusion of the integration of Banco Popular

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

New digital solutions

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

+32% Digital Customers

A partner for enterprises

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

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

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

Strengthening of the Social Commitment

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

€7.8k invested in CSR

23,981 beneficiaries

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

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

360,000 Mundo 1|2|3 customers

Launch of the 1st Work Café

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

Closer, more digital

Governing bodies of Santander Totta, SGPS, in 2018

Board of the 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
Members	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
Alternate	José Luis Areal Alves da Cunha

Auditors

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

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	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

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

The beginning of the performance of duties by the new corporate officers was subject to authorisation by or non-opposition of the competent supervisory authorities, which was obtained on March 4, 2019.

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

Board of the General Meeting

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

Board of Directors

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

Audit Board

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Executive Committee

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

Company Secretary

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

Sustainability Policy

Introduction

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

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

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

€7.8 million euros in society-support projects

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

23,981 people supported

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

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

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

Main areas of action in the sustainability policy

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

Social Wellbeing

Support for children and youths

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

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

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

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

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

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

Support for the elderly

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

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

Social inclusion

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

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

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

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

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

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

Combating poverty and social exclusion

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

The four winning organisations are:

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

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

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

Health and Sport

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

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

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

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

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

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

Financial Education and Entrepreneurship

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

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

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

Volunteering

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

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

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

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

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

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

Universities

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

Awards

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

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

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

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

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

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

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

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

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

Scholarships

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

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

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

Entrepreneurship

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

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

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

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

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

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

Promotion of Culture

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

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

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

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

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

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

Environment

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

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

More efficient buildings

Measures to reduce energy consumption and efficiency:

Branches:

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

Buildings:

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

Climate Finance

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

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

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

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

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

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

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

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

Business Framework

International

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

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

World Economic Growth

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

Source: IMF (January 2019)

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

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

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

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

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

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

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

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

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

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

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

Source: EC (February 2019)

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

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

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

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

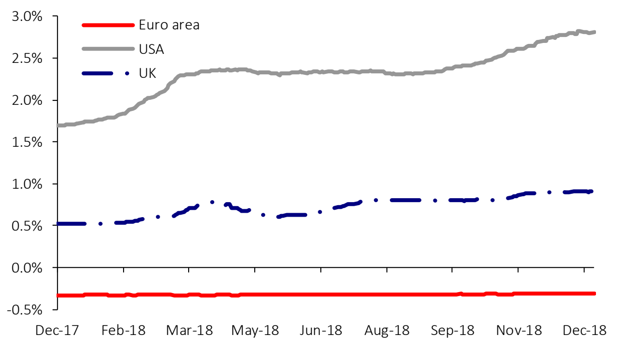
In the **emerging economies** economic growth stabilised, though with differing trends between regions. As mentioned above, the Chinese economy maintained the trend of deceleration, reflecting the combination of several factors. Besides the trade tensions with the US, structural issues also played a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

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

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

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

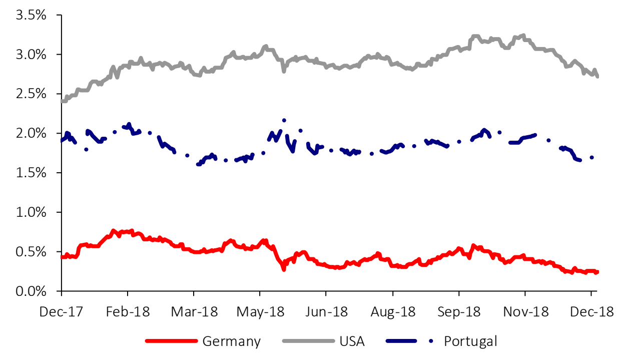
3-Months Interest Rates



Source: Bloomberg

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

10 Year Bond Yields



Source: Bloomberg

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

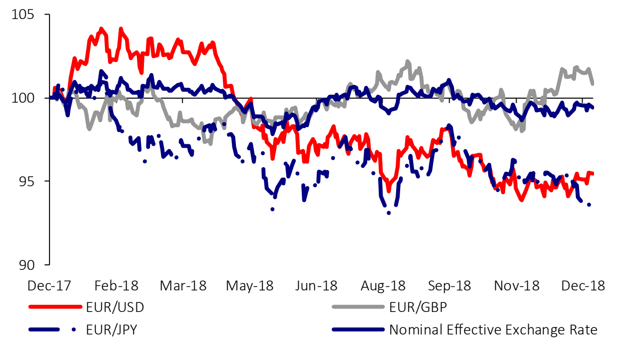
There were very limited contagion effects, but it did not prevent the spreads against Germany from rising from the minimums that had been observed during the second quarter.

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

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

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

Main Exchange Rates
(Dec-2017 = 100)

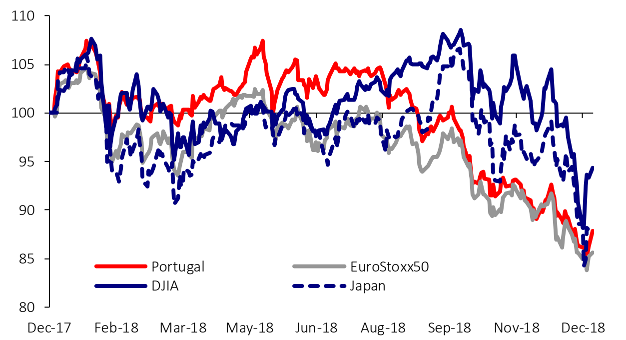


Source: BCE

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

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

Equity Markets
(Dec-2017 = 100)

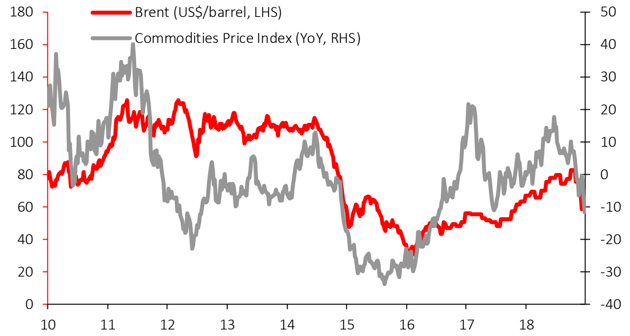


Source: Bloomberg

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

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

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



Source: Bloomberg

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

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

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

Portuguese Economy

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

Macroeconomic Data

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

Source: INE, Banco de Portugal, Ministério das Finanças

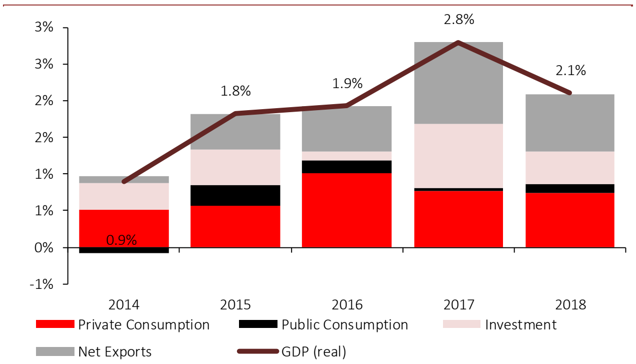
In 2018, the **GDP** increased 2.1%, a slight deceleration from the 2.8% observed in 2017, the result of a slowdown of exports which, however, together with investment, continued to be one of the engines of growth.

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

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

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

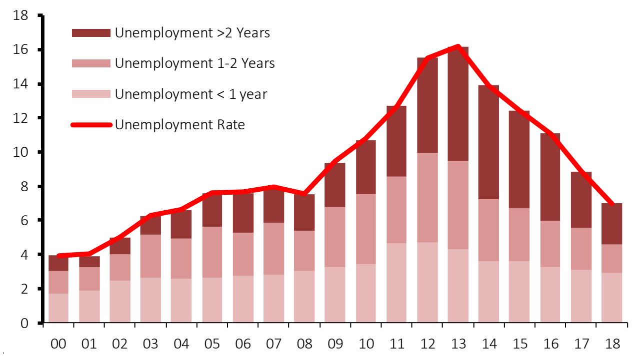
Contributions to GDP Growth (YoY)



Source: INE

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

Unemployment Rate



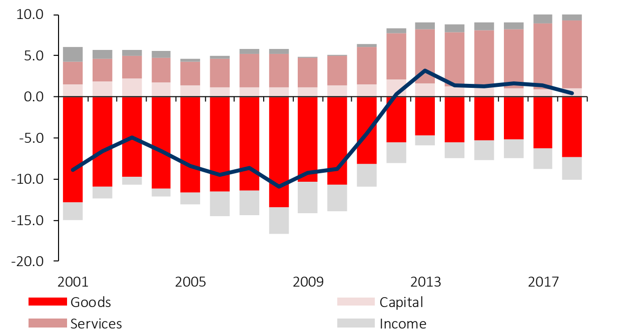
Source: INE

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

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

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

Current and Capital Account
(% GDP)



Source: Banco de Portugal, INE

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

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

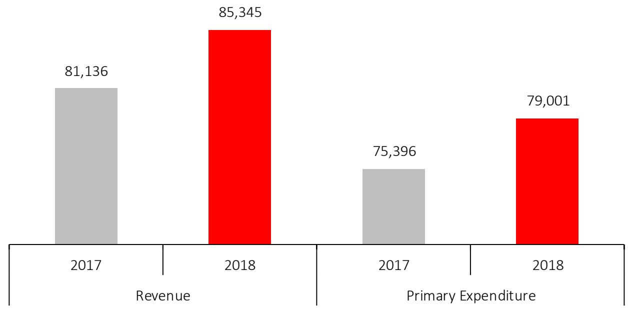
As a result of the full settlement of the IMF loan towards the end of 2018, the **public debt**, from the Maastricht standpoint, stood at 122% of GDP at the end of the year, a reduction of about 3pp from the previous year.

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

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

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

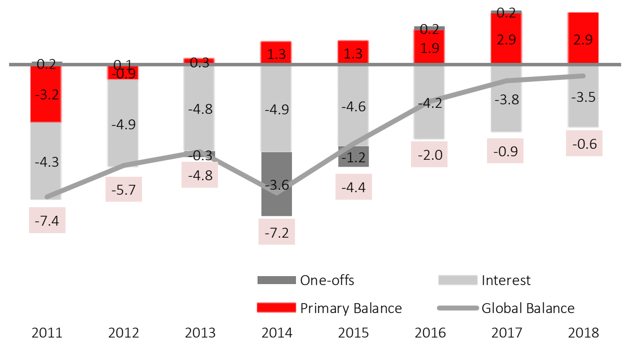
Current Revenue and Primary Expenditure
(€ mn)



Source: Ministério das Finanças

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

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

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

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

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

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

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

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

Major risks and uncertainties for 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Areas (through subsidiaries)

Commercial Banking

Individuals

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

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

Mundo 123

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

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

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

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

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

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

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

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

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

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

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

Companies

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

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

Santander Advance

696
Internships in companies

have allowed students the opportunity to have professional experiences in companies.

More than 2.000
Companies benefited

in online and face-to-face training programs.

6 initiatives of the "BOX - Santander Advance" in Porto, in Torres Vedras, Braga, São João da Madeira, Leiria and Santarém, in 2018.

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

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

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

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

IFRRU 2020

Líder
in number of contracts

for urban financing and rehabilitation.

767M€
available on the credit line

Santander makes available 53% of the funds available in the IFRRU 2020 Line of Credit.

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

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

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

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

Promoters and Estate Agents

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

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

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

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

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

Cross-Segment

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

Of the main attracting factors the following are underscored:

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

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

Institutional Banking

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

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

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

Omni-channelling

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

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

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

Public site

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

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

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

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

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

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

NetBanco

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

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

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

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

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

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

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

Some functions are underscored:

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

Contact Centre

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

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

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

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

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

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

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

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

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

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

International business – residents abroad

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

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

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

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

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

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

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

Corporate & Investment Banking

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

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

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

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

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

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

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

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

Insurance and investment funds marketed

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

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

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

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

Relevant Facts after the close of the period

There were no relevant facts after the close of the period

The outlook for 2019

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

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

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

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

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

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

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

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

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

Economic and Financial Information

Consolidated Business

Net income

€500 million (+14.6%)

Highlights in 2018

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

In 2018, Santander Totta, SGPS posted net income of €500.0 million, 14.6% more than the figure for 2017, equivalent to a return on equity (RoE) of 12.4%.

The efficiency ratio stood at 50.1%, the result of a growth of 8.0% of net income from banking activities and of 17.6% of operating costs.

Loans and advances to customers (gross) amounted to €40.7 billion, a decrease of 1.6% compared with the same period last year, influenced by the sale of non-productive portfolios. Excluding this effect, loans and advances to customers would have stabilised. Loans to individuals grew by 0.5% and loans to companies fell by 6.0%.

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

Customer resources totalled €39.3 billion, an increase of 7.1%, determined by a 6.1% increase of deposits and a 13.2% increase of off-balance sheet resources.

The (fully loaded) CET1 ratio stood at 14.0%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process.

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

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

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

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

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

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

Results

CONSOLIDATED INCOME STATEMENTS (million euro)	2018	2017	Var.
Net interest income	**866.3**	**696.9**	**+24.3%**
Income from equity instruments	1.7	2.9	-42.5%
Net fees	372.4	331.1	+12.5%
Other operating results	(14.2)	(14.7)	-3.6%
Insurance activity	19.8	11.0	+80.4%
Commercial revenue	**1,245.9**	**1,027.2**	**+21.3%**
Gain/losses on financial assets	(5.9)	120.5	-
Net income from banking activities	**1,240.0**	**1,147.7**	**+8.0%**
Operating costs	(621.1)	(527.9)	+17.6%
Staff Costs	(357.2)	(311.2)	+14.8%
General Administrative Costs	(222.0)	(179.1)	+24.0%
Depreciation in the year	(41.8)	(37.7)	+11.1%
Net operating Income	**619.0**	**619.7**	**-0.1%**
Impairment, net provisions and other resutls *	63.0	(38.3)	-
Result from Associates	14.6	9.3	+56.8%
Income before taxes and non-controlling interests	**696.5**	**590.8**	**+17.9%**
Taxes *	(216.6)	(154.2)	+40.4%
Income after taxes and before non-controlling interests	**479.9**	**436.5**	**+9.9%**
Non-controlling interests	0.0	(0.2)	-
Non recurrent results	20.1	0.0	+100.0%
Consolidated net income attributable to the shareholders of ST, SGPS	**500.0**	**436.3**	**+14.6%**

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

* Excludes non-recurrent results

Net interest income totalled €866.3 million, an increase of 24.3% compared to the figure determined at the end of the previous year.

Net fees stood at €372.4 million, an increase of 12.5% over 2017, influenced by the favourable evolution in various business segments, such as account management and maintenance, payment means, funds marketed by the Bank and insurance.

Other operating results amounted to -€14.2 million, including the cost of €22.2 million of the Bank's contribution to the resolution fund (€14.7 million for the Single Resolution Fund and €7.5 million for the National Resolution Fund).

Insurance activity amounted to 19.8 million euros, an increase of 80.4% over the end of 2017, in line with the incorporation of the insurance activity of former Banco Popular Portugal in 2018

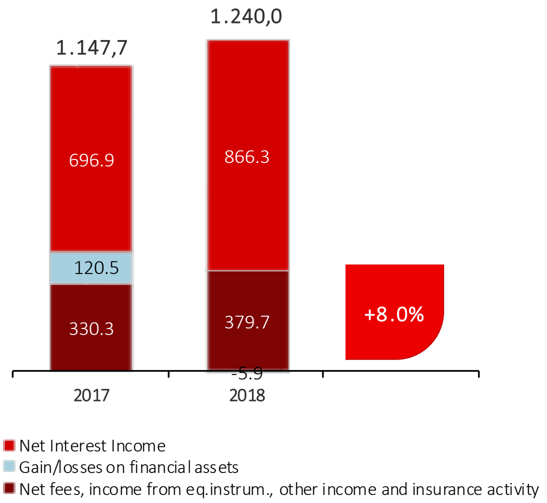
The commercial revenue, in the amount of €1,245.9 million, rose 21.3% over the amount determined in 2017.

Net income from banking activities amounted to €1,240.0 million, up 8.0% compared to 2017, with a 21.3% increase of the commercial revenue, which absorbed the entire reduction seen in the results on financial assets.

In the structure of the Net income from banking activities, it can be seen that the contribution of net interest income is preponderant at 70% (9 percentage points higher than a year earlier).

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs amounted to €621.1 million, a y-o-y increase of 17.6%.

The increase of costs was transverse to all aggregates, reflecting the impact of the inclusion of the former Banco Popular Portugal. Staff costs totalled €357.2 million (up 14.8% in y-o-y terms). General administrative costs amounted to €222.0 million (y-o-y increase of 24.0%). Depreciation in the year totalled €41.8 million (up 11.1%, compared to the end of 2017). As regards the operating costs structure, it can be seen that staff costs account for 58% of the total operating costs, followed by general administrative costs at 36% and depreciation and amortization at 7%.

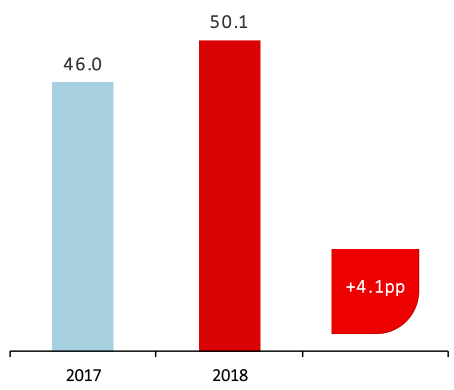
Within the scope of the commercial and digitisation transformation, Santander adjusted the size of the commercial network that, at the end of 2018, stood at 572 attendance points, 110 less than at the end of the previous year. Reflecting the improvement achieved in the optimisation of the structures, Santander had 6,517 employees at the end of 2018, 299 less than in 2017.

OPERATING COSTS (million euro)	2018	2017	Var.
Staff costs	(357.2)	(311.2)	+14.8%
General Administrative Costs	(222.0)	(179.1)	+24.0%
Depreciation in the year	(41.8)	(37.7)	+11.1%
Operating costs	**(621.1)**	**(527.9)**	**+17.6%**
Efficiency ratio	50.1%	46.0%	+4.1 p.p.

The combined evolution of the net income from banking activities and operating costs led to a 4.1 percentage points change of the efficiency ratio, standing at 50.1% at the end of 2018, compared to the figure achieved in 2017.

EFFICIENCY RATIO

%



Net operating income amounted to €619.0 million, and was almost in line with the value observed in December 2017.

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

The result of non-current assets held for sale amounted to €21.1 million, due to real estate asset portfolio management operations and the result of associates recognised using the equity method amounted to €14.6 million, an increase of 56.8%.

Income before taxes and non-controlling interests (excluding non-recurrent results) amounted to €696.5 million, an increase of 17.9% compared to the amount determined for the same period of 2017.

Taxes (excluding non-recurrent results) amounted to €216.6 million, a y-o-y increase of 40.4%. Taxes include the special levy on the banking sector in the amount of €22.7 million in 2018.

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

At the end of 2018, the net income of Santander Totta SGPS amounted to €500.0 million, a growth of 14.6% over the same period last year.

Balance sheet and business

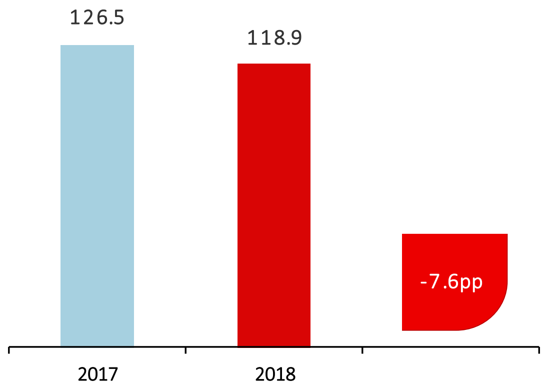
At the end of 2018, business volume amounted to €80.0 billion, an annual increase of 2.5%, resulting from the 7.1% increase of customer' resources, which offset the 1,6% decrease of loans and advances to customers (gross).

BUSINESS VOLUME (million euro)	2018	2017	Var.
Business Volume	**80,018**	**78,085**	**+2.5%**
Loans and advances to customers (gross)	40,707	41,387	-1.6%
Customers' Resources	39,312	36,698	+7.1%

The loan-to-deposit ratio measured by the ratio between net loans and deposits stood at 118.9% in December 2018, 7.6 percentage points less than the 126.5% in 2017.

LOAN-TO-DEPOSIT RATIO (transformation ratio)

%



In 2018, the loans and advances to customers (gross) amounted to €40.7 billion, down 1.6% compared to the same period of 2017.

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

LOANS (million euro)	2018	2017	Var.
Loans and advances to customers (gross)	40,707	41,387	-1.6%
of which			
Loans to individuals	21,550	21,438	+0.5%
of which			
Mortgage	19,462	19,091	+1.9%
Consumer	1,635	1,598	+2.3%
Loans to corporates	18,051	19,194	-6.0%

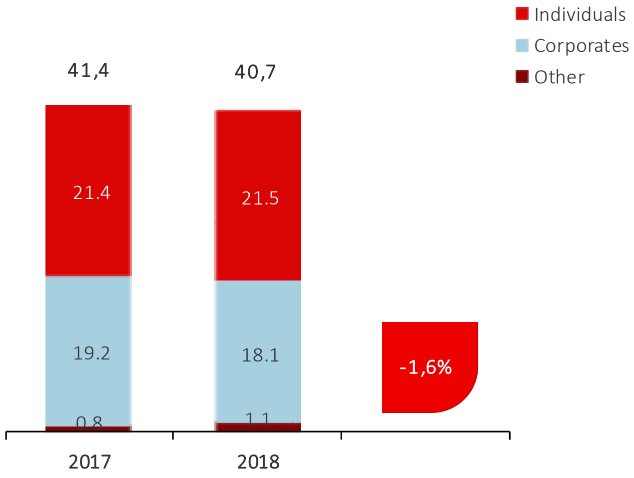
Note: Loans to corporates include credits to institutionals and public administrations

Loans to individuals stood at €21.5 billion, a y-o-y increase of 0.5% in the past year, across its major components: 1.9% in mortgage loans to €19.5 billion and 2.3% in consumer credit to €1.6 billion. The market share of new mortgage loans stood at 22% at end of November.

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

In the structure of loans and advances to customers, the individuals and companies portfolios accounted for 53% and 44% of total loans and advances respectively.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)
billion euro



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

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

In December 2018, customer resources amounted to €39.3 billion, up 7.1% compared to the same period last year.

RESOURCES (million euro)	2018	2017	Var.
Customers' resources	**39,312**	**36,698**	**+7.1%**
On-balance sheet resources	33,383	31,458	+6.1%
Deposits	33,383	31,458	+6.1%
Off-balance sheet resources	5,929	5,240	+13.2%
Investment funds	1,926	1,944	-0.9%
Insurance and other resources	4,003	3,296	+21.4%

Deposits totaled 33.4 billion euros, up 6.1% last year, accounting for 85% of total funds, which shows the strong activity of the commercial network and customer confidence in the Bank.

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

Solvency ratios

At the end of December 2018, the Common Equity Tier 1 (CET1) ratio stood at 14.0% (fully implemented), complying with all the capital ratios required by the European Central Bank under the SREP-Supervisory Review and Evaluation Process).

CAPITAL (million euro)	2018	2017	Var.
Common Equity Tier I	**2,805**	**3,112**	**-9.8%**
Tier I Capital	3,405	3,712	-8.3%
Total Capital	3,427	3,732	-8.2%
Risk Weighted Assets (RWA)	**20,052**	**21,939**	**-8.6%**
CET I ratio	14.0%	14.2%	-0.2 p.p.
Tier I ratio	17.0%	16.9%	+0.1 p.p.
Total Capital Ratio	17.1%	17.0%	+0.1 p.p.

Introduction

For Santander Totta quality in risk management constitutes a fundamental axis of action, in keeping with the corporate policy of the Group of which it is a part. Prudence in risk management allied to the use of advanced management techniques continues to be a decisive factor, particularly in a highly demanding environment.

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

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

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

Risk management function

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

In 2018, the activity of the Credit Risk Area maintained the following as its main vectors:

- Maintaining the principle of segmentation in the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers and of the products;
- Maintaining the strictness of the admission criteria and, consequently, of the quality of risk admitted in each segment with a view to preserving the good quality of the loan portfolio;
- The inclusion of the assets and liabilities relating to clients of the former Banco Popular was carried out successfully and their internal allocation to the respective economic groups was undertaken. On these, and in line with the Bank’s normal operative, as mentioned below, the Credit Risk area reviewed all the loan transactions that had been transferred, in those customers categorised as portfolio customers and reviewed of those standardised by the automated systems already in place;
- At the level of portfolio risks the policy was maintained of proximity with the customers in order to anticipate their credit needs, review their credit lines and detect possible problems in their repayment ability, including those resulting from the inclusion of Banco Popular;
- This action and the creditworthiness of the customers allowed the non-performing loans ratios to remain under control. The business support levels were intensified in attracting new good-risk transactions and customers, and improvements were implemented in the processes with a view to responding to customer requests more effectively and quickly;
- In portfolio and customer monitoring, the permanent focus was maintained on surveillance of lower-rating segments and on sectors that are, or expected to be, affected by the macro-economic context, with a view to mitigating the non-performing loan ratios. The policy of permanent review of the portfolio was maintained and intensified in the 2nd half of 2018 as a result of inclusion of new customers from the former Banco Popular, leading to the conclusion that the portfolio is analysed using appropriate criteria and the estimated impairment levels are also adequate;
- Customer monitoring and review meetings were held, the Bank’s usual practice for the early detection of loan-portfolio alerts;
- Review, development and application of improvement measures in the management of the new-loan admission process, with the aim of increasing the quality of the customer service whenever they present new loan opportunities;
- As a result of the inclusion of the former Banco Popular Portugal network, several credit-risk identification and assessment tasks were finalised in respect of loan

exposures, with a special focus on the major exposures. The process of temporary admission and monitoring of the transactions and customers of that network, in the Bank's models, was discontinued and the admission operative continued along the lines already implemented;

- In the standardised (or not portfolioed) risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Individuals and Business segments;
- Also in the matter of standardised risks, the focus continued to be centred on ensuring portfolio quality, while continuing to provide a range of debt-restructuring products and solutions to adapt the customers' charges to their repayment capacity and current and future disposable income;
- In this sense the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to customers;
- In order to foster commercial and cross-selling involvement of the customers and, at the same time, to increase the potential of attracting new customers, marketing campaigns were maintained for the Businesses segment, aimed at contracting new loans and customer retention and ongoing operations in order to compensate for the natural erosion of this portfolio;
- In a macroeconomic scenario, now less adverse, in which the nonperforming loan ratios are still important but less significant, a strong focus was maintained on recoveries activity, increasing intervention agility. Underscored is the activity of mass management of recoveries and permanent monitoring of special and judicial/extrajudicial cases;
- The policy of strengthening negotiations regarding payments in kind continued, so that, when they occur, the first focus will be to obtain payment in kind as an alternative to legal action;
- The process also took place of modernisation of the Recoveries area based on IT developments carefully pointed out by users as necessary, which aim to control the process from the entry into recoveries, relations with the lawyers and executive action;
- Surveillance was maintained of the work methodology with a view to optimising the various processes for the purpose of "stressing" the model, increasing the efficiency of the resources and the effectiveness of the actions to bring loan recoveries forward;
- In corporate risk management, ways were sought to provide adequate and timely management information, in order to allow proper management of the Bank's risks;
- Attention was also paid to the Bank's in-house models, almost all of which have already been recognised (by the regulators) as advanced (IRB) models for the calculation of the own funds requirements, as well as their increasing inclusion in the management;
- Having studied the regulatory requirements, IT models and tools were developed for the application of IFRS 9.

Risk model

Introduction

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

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

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

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

Risk measurement metrics and tools

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

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

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

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

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

Credit risk parameters

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

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

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

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

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

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

Credit-risk cycle

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

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

Planning and establishing limits

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

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

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

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

Study of the risk, transaction decision and monitoring and control

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

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

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

Recoveries

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

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

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

Counterparty risk

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

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

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

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

During 2018 actual exposure of the transactions on interest-rate indexes (Euribor) decreased slightly, reflecting the evolution of medium- and long-term market rates. With regard to exposure to Financial Groups, structural interest-rate risk hedging transactions were maintained, having the LCH Clearnet as clearing house. New exchange rate operations were contracted, though the exposure value of the derivatives with the Financial Groups fell, albeit rather insignificantly.

Balance-sheet risk

Control of the balance-sheet risk

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

Methodologies

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

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

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that endeavour to identify the potential risk under external market conditions. In parallel, ratios are estimated on the current items of the balance sheet that act as indicators of structural and short-term liquidity requirements.

At the end of 2017, the LCR (Liquidity Coverage Ratio), calculated in accordance with the ECB rules, stood at 152%, thus meeting the regulatory requirements on the fully-implemented basis that will be in force in 2018.

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

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

Management of the balance-sheet structural risk

Framework

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

Liquidity Reserve

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

Funding

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

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

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

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

Interest-rate Risk

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

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

Market Risk

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

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

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

Methodologies

Negotiating activity

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

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

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

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

Calibration and contrast measures (Backtesting)

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

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

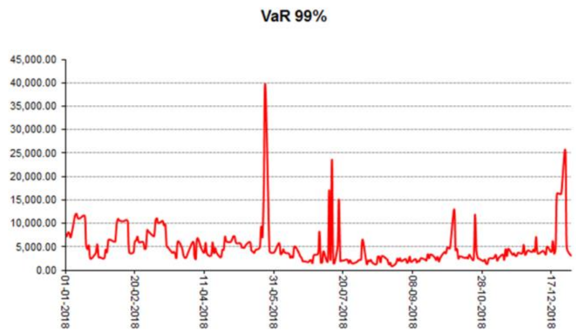
Limits

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

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

Quantitative analysis of the VaR throughout the year

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



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

Operational Risk

Definition and objectives

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

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

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

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

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

Management model

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

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

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

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

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

The various stages of the management and control model allow:

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

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

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

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

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

- Internal database, whose goal is to capture all operational-risk events that may or not have impacts on the accounts. There are accounting-reconciliation procedures that ensure the quality of the information contained in the database;
- External database that provides quantitative and qualitative information, allowing a more detailed and structured analysis of relevant events that occurred in the sector;
- Scenario analysis, in which the opinions of the various business lines, risk managers and controls are obtained

with a view to identifying potential events of low probability of occurrence and with a high loss for the institution. The possible impact is assessed and additional mitigation controls and/or measures are identified to reduce a possible high impact for the institution.

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

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

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

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

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

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

Compliance and Reputational Risk

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

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

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

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

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

- Corporate values;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct;
- Marketing and product follow-up policies;
- Risk policy;

- Identification and management of conflicts of interest policy;
- Quality policy;
- Personal data processing and protection policy;
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them;
- Staff training policy;
- Social responsibility and environmental protection policies;
- Corporate defence policies;
- Funding policies for sensitive sectors.

Proposal for the appropriation of net income

The Net Income for the year, in separate terms and in respect to 2018 amounted to €629,671,463.03€ (six hundred and twenty-nine million, six hundred and seventy-one thousand, four hundred and sixty-three Euro and three cents) and the Consolidated Net Income in 2018 amounted to €499,964,162 (four hundred and ninety-nine million, nine hundred and sixty-four thousand, one hundred and sixty-two Euro).

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

- Legal Reserve: €62,967,146.31 (sixty-two million, nine hundred and sixty-seven thousand, one hundred and forty-six Euro and thirty one cents);
- Dividend distribution: €495,000,000 (four hundred and ninety-five million), of which €100,000,000 (one hundred million Euro) have already been paid as an advance on profits for the year;
- Retained earnings: €71,704,316.72€ (seventy-one million, seven hundred and four thousand, three hundred and sixteen Euro and seventy-two cents).

Lisbon, April 9, 2019

THE BOARD OF DIRECTORS

Annexes

Money Laundering Prevention

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

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

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

The system is audited annually.

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

Shareholder Structure

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

Treasury shares movement

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

On December 31, 2017, Santander Totta, SGPS, held 100,181,318 treasury shares corresponding to 0.051% of its share capital. During 2018, Santander Totta, SGPS bought 5,760,940 treasury shares, corresponding to 0.003% of its share capital, closing the year with a total of 105,942,258 treasury shares.

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

TRANSACTION WITH OWN SHARES - 2018

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2017	100,181,318	0.02	2,165,375	0.051%
Purchases	5,760,940	0.02	118,477	0.003%
Disposals	-	-	-	-
31/12/2018	105,942,258	0.02	2,283,853	0.054%

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

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

	Entity	Number of shares at 31/Dec/2017	Transactions in 2018	Number of shares at 31/Dec/2018
António Basagoiti Garcia-Tuñón	Banco Santander, SA	419,325	15/11/2018: shares received as dividends: 3,409	422,734
António José Sacadura Vieira Monteiro	Banco Santander, SA	286,263	16/02/2018: corporate allocation: 6,716 shares - 5.60€/share 21/02/2018: corporate allocation: 63,403 shares - 5.60€/share 05/11/2018: shares received as dividends: 2,898	359,280
José Carlos Brito Sítima	Banco Santander, SA	36,145	16/02/2018 - shares deposit: 3,453 shares - 5.60€/share 21/02/2018 - shares deposit: 33,316 shares - 5.20€/share 05/11/2017 - capital increase by incorporation of reserves: 482 shares	71,971
Luís Filipe Ferreira Bento dos Santos	Banco Santander, SA	29,956	16/02/2018 - corporate allocation: 2,890 shares - 5.60€/share 21/02/2018 - corporate allocation: 24,086 shares - 5.60€/share 27/04/2018 - sale: 945 shares - 5.30/share 27/04/2018 - sale: 900 shares - 5.30/share 27/04/2018 - sale: 3.752 shares - 5.30/share 27/04/2018 - sale: 403 shares - 5.30/share 05/11/2018 - capital increase by incorporation of reserves: 413 shares	51,245
Manuel António Amaral Franco Preto	Banco Santander, SA	81,392	16/02/2018 - corporate allocation: 2,930 shares - 5.60€/share 21/02/2018 - corporate allocation: 22,751 shares - 5.60€/share 05/11/2018 - capital increase - preference rights: 867 shares 05/11/2018 - capital increase by incorporation of reserves: 2 shares	107,942
	Totta Ireland	1	-	1
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	72,720	16/02/2018 - shares deposit: 3,615 shares - 5.60€/share 21/02/2018 - shares deposit: 31,439 shares - 5.20€/share 05/11/2017 - capital increase by incorporation of reserves: 876 shares	108,650
Ricardo Castro		0	-	0
Fernando Vieira		0	-	0
José Luís Areal Alves da Cunha		0	-	0
José Duarte Assunção Dias		0	-	0

Duties performed by Members of the Board of Directors of Santander Totta, SGPS 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); Fundação Alfredo de Sousa (Trusttee); Instituto Superior Técnico (Advisory Board) e Nova (General Board)
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); ISEG (General Board)
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)

Table of non-financial indicators

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

Corporate Governance Report

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

   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. 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.

   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 2018, is proposed to the annual meeting of the General Assembly for the approval of the accounts for the financial year 2017.

1. 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 2017, a total value of 6.3 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.

Lisbon, 28 April 2018

Alternative Performance Indicators

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

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

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

Net interest income
"Interest income" net of "Interest charge".

Net fees
"Income from services and commissions" less "charges with services and commissions".

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

Net fees and other income
"Net fees" added to "other operating results" and "insurance activity".

Commercial revenue
Sum of "net interest income", "Income from equity instruments", "net fees", "other operating results" and "insurance activity".

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

Net income from banking activities
Commercial revenue plus gain/losses on financial assets.

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

Net operating income
Net income from banking activities minus operating costs.

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

Income before taxes and non-controlling interests (excludes non-recurrent results)
Net operating income less impairment, net provisions and other results plus "Result from associates".

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

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

Consolidated net income attributable to the shareholders of ST, SGPS / Net income
Income after taxes and before non-controlling interests, less “non-controlling interests” plus “non-recurrent results”.

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

Loan-to-Deposit ratio (transformation ratio)
Calculated in accordance with Bank of Portugal Instruction 23/2011.

Commercial gap
Difference between “Credit granted and other balances receivable at amortised cost” and “resources of customers and other debts”.

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

Loans and advances to customers (gross)
Corresponds to the balance sheet item “Credit granted and other balances receivable at amortised cost” before impairment and depreciation.

Loans and advances to customers (net)
Corresponds to the balance sheet item “Credit granted and other balances receivable at amortised cost” net of impairment and depreciation.

Loans to individuals (mortgage and consumer) and corporates
Defined in accordance with the management information system (MIS).

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

Cost of credit
Ratio between “impairment on financial assets at amortised cost” (of the income statement) and the average of “loans and advances to customers (gross)” (of the balance sheet).

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

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

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

Customer resources
Sum of deposits and off-balance sheet resources.

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

Return on Equity (RoE)
Ratio between net income for the period (annualised) and total shareholder's equity at the beginning of the period.

Return on Assets (RoA)
Ratio between net income and total net assets.

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 2018, 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 José Sacadura Vieira Monteiro

Chairman

Pedro Aires Coruche Castro e Almeida

Deputy-Chairman

José Carlos Brito Sítima

Member

Manuel António Amaral Franco Preto

Member

Declaration of the Audit Committee 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 2018, 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

Consolidated Financial Statements

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER, 31, 2018 & 2017

(Amounts expressed thousands Euros)

		31-12-2018			31-12-2017
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	1,655,732	-	1,655,732	1,039,555
Balances due from other banks	6	850,898	-	850,898	658,155
Financial assets held for trading	7	1,204,674	-	1,204,674	1,509,744
Other financial assets mandatory at fair value through profit or loss	8	3,053,810	-	3,053,810	1,976,263
Other financial assets at fair value through other comprehensive income	9	5,995,073	3	5,995,070	4,990,322
Financial assets at amortised cost					
Loans and advances to credit institutions	10	675,115	84	675,031	826,367
Credit granted and other balances receivable at amortized cost	10	40,706,612	1,109,486	39,597,126	39,646,179
Held to maturity investments					108,808
Hedging derivatives	11	73,464	-	73,464	15,349
Value adjustments on assets included in hedging operations	43	60,024	-	60,024	
Investment in associated companies	12	113,294	1,918	111,376	122,170
Investment properties	13	297,625	-	297,625	353,957
Other tangible assets	14	607,546	260,733	346,813	353,520
Intangible assets	14	80,348	49,731	30,617	36,586
Tax assets	15	683,733	-	683,733	479,328
Technical reserves	16	40,365	-	40,365	22,941
Other assets	17	442,242	109,483	332,759	942,477
Non-current assets held for sale	18	48,190	18,168	30,022	87,269
Total Assets		56,588,745	1,549,606	55,039,139	53,168,990

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2018	31-12-2017
Liabilities			
Financial liabilities held for trading	7	1,239,713	1,527,098
Other financial liabilities mandatory at fair value through profit or loss	19	3,175,960	2,430,798
Financial liabilities at amortised cost			
Resources of central banks	20	3,050,040	3,080,538
Resources from other credit institutions	20	3,539,911	4,351,906
Resources of customers and other debts	20	33,382,504	31,457,910
Debt securities	20	4,322,597	4,543,288
Other financial liabilities	20	200,336	
Hedging derivatives	11	90,556	39,275
Value adjustments on assets included in hedging operations	43	10,399	
Provisions	21	297,992	178,273
Technical provisions	16	742,857	411,816
Tax liabilities	15	254,269	238,068
Equity representative instruments	22	69,560	69,026
Other liabilities	23	490,707	808,762
Total liabilities		50,867,401	49,136,758
Shareholders' equity			
Share capital	24	1,972,962	1,972,962
Other equity instruments	24	600,000	600,000
Accumulated comprehensive income reserves	24	(235,157)	(304,565)
Other reseves and retained earnings	24	1,434,376	1,477,498
(Own shares)	24	(2,284)	(2,166)
Net income attributable to the shareholders of ST SGPS	25	499,964	436,337
Prepaid dividends	24	(100,000)	(150,000)
Shareholders' equity attributable to the shareholders of ST SGPS		4,169,861	4,030,066
Non-controlling interests	26	1,877	2,166
Total shareholders' equity		4,171,738	4,032,232
Total liabilities and shareholders' equity		55,039,139	53,168,990

The accompanying notes form an integral of the consolidated balance sheet for the year ended at December 31, 2018

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED AT DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousand Euros)

	Notes	2018	2017
Interest income	28	1,227,567	1,059,210
Interest charge	29	(361,289)	(362,282)
Net interest income		866,278	696,928
Income from equity instruments	30	1,674	2,911
Income from services and commissions	31	452,893	398,254
Charges with services and commissions	32	(80,495)	(67,144)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	33	(29,877)	(11,942)
Other Financial assets at fair value through other comprehensive income	33	26,774	81,915
Exchange revaluation	33	9,524	8,377
Disposal of other assets	33	(12,344)	42,133
Gross margin of life insurance in which the risk is borne by the policy holder		10,777	7,150
Gross margin in insurance activity	34	9,003	3,817
Other operating results	35	(14,190)	(14,723)
Net income from banking activities		1,240,017	1,147,676
Staff costs	36	(357,209)	(311,214)
General administrative costs	37	(222,012)	(179,064)
Depreciation in the year	14	(41,846)	(37,659)
Provisions, net of reversals	21	(250,652)	(32,351)
Impairment on financial assets at amortised cost	21	(2,800)	(38,760)
Impairment on other financial assets net of reversals and recoveries	21		(168)
Impairment of other assets net of reversals and recoveries	21	(31,118)	33,005
Results from associates	38	14,568	9,292
Results from non-current assets held for sale		21,107	
Income before taxes and non-controlling interests		370,055	590,757
Taxes	15	129,897	(154,227)
Income after taxes and before non-controlling interests		499,952	436,530
Non-controlling interests		12	(193)
Consolidated net income attributable to the shareholders of ST, SGPS		499,964	436,337
Number of ordinary shares outstanding	25	197,194,357,634	197,197,631,117
Earnings per share (in Euros)	25	0.0025	0.0022

The accompanying notes form an integral part of consolidated statement of income for the year ended at December 31, 2018

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	2018		2017	
	Attributable to the shareholders' of ST SGPS	Attributible to non-controlling interests	Attributable to the shareholders' of ST SGPS	Attributible to non-controlling interests
Consolidated net income for the year	499,964	(12)	436,337	193
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations in pensions:				
. Gross amount	(27,794)	(7)	36,767	71
. Tax effect	6,948	2	(11,420)	(19)
. Revaluation reserves of associated companies valued by the equity method:				
. Fair value	(986)	-	639	-
. Tax effect	575	-	(358)	-
Items that may be reclassified subsequently to the income statement::				
. Revaluation reserves of associated companies valued by the equity method of changes in fair value of financial assets at fair value through comprehensive income:				
. Fair value	536	-	1,020	1
. Tax effect	(143)	-	(258)	-
. Changes in fair value of financial assets at fair value through comprehensive income:				
. Fair value	78,914	26	454,086	202
. Tax effect	(22,838)	(7)	(136,879)	(62)
. Changes in fair value of investments held to maturity:				
. Fair value	-	-	840	1
. Tax effect	-	-	(244)	-
. Changes in fair value of cash flows hedging derivatives:				
. Fair value	45,817	20	3,778	3
. Tax effect	(14,203)	(6)	(818)	(1)
. Changes in shadow reserve:				
. Fair value	3,323	-	(1,159)	-
. Tax effect	(741)	-	273	-
	69,408	28	346,267	196
Consolidated comprehensive income for the year	569,372	16	782,604	389

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	Share Capital	Own Shares	Other Equity Instruments	Accrued income reserves - Fair Value	Accrued income reserves - Deferred Taxes	Accrued income reserves - Sub-total	Other reserves and Retained Earnings	Prepaid Dividends	Net Income for the year	Non-controlling interests	Total
Balances as at December 31, 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 for the year 2016:											
. Distribution of dividends	-	-	-	-	-	-	(117,288)	28,734	(135,477)	-	(224,031)
. Transfer to reserves	-	-	-	-	162	162	260,035	-	(260,197)	-	-
Income Distribution - "Aditional Tier 1 Instruments"	-	-	-	-	-	-	(62,665)	-	-	-	(62,665)
Acquisition and merger of Banco Popular Portugal	-	-	-	-	-	-	(8,411)	-	-	-	(8,411)
Distribution of prepaid dividends	-	-	-	-	-	-	-	(150,000)	-	-	(150,000)
Long-term incentives - shares	-	-	-	-	-	-	(24)	-	-	-	(24)
Purchase of own shares by Santander Totta, SGPS	-	(41)	-	-	-	-	-	-	-	-	(41)
Other	-	-	-	-	-	-	(64)	-	-	33	(31)
Comprehensive consolidated income for the year 2017	-	-	-	495,971	(149,704)	346,267	-	-	436,337	389	782,993
Balances as at December 31, 2017	**1,972,962**	**(2,166)**	**600,000**	**(384,047)**	**79,482**	**(304,565)**	**1,477,498**	**(150,000)**	**436,337**	**2,166**	**4,032,232**
Appropriation of net income for the year 2017:											
. Distribution of dividends	-	-	-	-	-	-	125	150,000	(392,015)	(275)	(242,165)
. Transfer to reserves	-	-	-	-	-	-	44,322	-	(44,322)	-	-
Income Distribution - Aditional Tier 1 Instruments	-	-	-	-	-	-	(61,200)	-	-	-	(61,200)
Distribution of prepaid dividends	-	-	-	-	-	-	-	(100,000)	-	-	(100,000)
Impact from the application of IFRS9	-	-	-				(26,196)	-	-	-	(26,196)
Long-term incentives - shares	-	-	-	-	-	-	343	-	-	-	343
Purchase of own shares by Santander Totta, SGPS	-	(118)	-	-	-	-	-	-	-	-	(118)
Other	-	-	-	-	-	-	(516)	-	-	(30)	(546)
Comprehensive consolidated income for the year 2018	-	-	-	99,810	(30,402)	69,408	-	-	499,964	16	569,388
Balances as at December 31, 2018	**1,972,962**	**(2,284)**	**600,000**	**(284,237)**	**49,080**	**(235,157)**	**1,434,376**	**(100,000)**	**499,964**	**1,877**	**4,171,738**

The accompanying notes form an integral of the Consolidated statements of changes in Shareholders' Equity for the year ended at December 31, 2018.

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1,578,703	1,329,105
Payment of interest and commissions	(399,081)	(413,207)
Payments to staff and suppliers	(650,342)	(512,196)
Contributions to the pension funds	(46,534)	(59,329)
Foreign exchange and other operating results, including comissions from reisurance ceded	93,805	5,165
Recovery of uncollectable loans	9,176	12,890
Receivables/(Payments) of insurance premiums	89,505	130,972
Cash flows before changes is operational assets and liabilities	675,232	493,400
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	148,512	(200,867)
Financial assets held for trading	305,297	270,549
Loans and advances to customers	342,846	(2,735,070)
Assets and liabilities at fair value through profit or loss	638,877	(311,384)
Non-current assets held for sale	65,633	(22,960)
Investment properties	56,332	17,503
Other assets	261,263	152,680
	1,818,760	(2,829,549)
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(842,000)	415,182
Resources of customers and other debts	2,020,988	(38,796)
Financial liabilities held for trading	(873,437)	(257,613)
Other liabilities	(230,156)	108,071
	75,395	226,844
Net cash flow from operating activities before income tax	2,569,387	(2,109,305)
Income tax paid	(92,228)	(39,735)
Net cash flow from operating activities	2,477,159	(2,149,040)
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Dividends received	1,674	2,911
Purchase of available-for-sale financial assets	(1,299,965)	(607,441)
Sale of available-for-sale financial assets	688,612	2,757,033
Sale of investments held to maturity	(490,570)	135,093
Income from available-for-sale financial assets	119,864	150,625
Purchase of tangible and intangible assets	(66,285)	(40,394)
Sale of tangible assets	13,036	(3,100)
Acquisition of Banco Popular Portugal	-	(554,000)
Acquisition of Eurovida	(88,000)	-
Net cash flow from investment activities	(1,121,634)	1,840,727
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	(341,890)	(374,031)
Issuance / (redemption) of cash bonds and other	(231,987)	678,388
Remuneration paid on cash bonds and other	(34,697)	(54,908)
Income Distribution - "Aditional Tier 1 Instruments"	(61,200)	(62,665)
Remuneration paid on subordinated liabilities	(570)	(634)
Net cash flow from financing activities	(670,344)	186,150
Net increase / (Decrease) in cash and cash equivalents	685,181	(122,163)
Cash and cash equivalents at the beginning of the year	1,697,710	1,536,809
Acquisition of Eurovida's activity	123,739	-
Acquisition of Banco Popular Portugal's activity	-	283,063
Cash and cash equivalents at the end of the year	2,506,630	1,697,710

The accompanying notes form an integral of the Consolidated statements of the cash flows for the year ended at December 31, 2018.

Notes to the Consolidated Financial Statements

INTRODUCTION

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

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

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

In this sense, on December 22, 2017, the European Central Bank communicated its non-opposition to the purchase by the Bank of the whole of the share capital and voting rights of BAPOP and to the merger into the Bank. Consequently, the merger was registered on December 27, 2017 (Note 1.4).

Santander Totta is part of the Santander Group. The main balances and transactions maintained with companies of the Santander Group during 2018 and 2017 are detailed in Note 41.

The Group has a nationwide network of 527 branches, (635 branches as at December 31, 2017) and an International Financial Branch in the Madeira Autonomous Region. As at December 31, 2018 the Bank's branch in London was closed. It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The consolidated financial statements and the Management report for the year ended December 31, 2018, were approved at the Board of Directors meeting on April 9, 2019.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

Santander Totta's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) nº 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice nº 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.
The accounting policies used by the Group in the preparation of its consolidated financial statements as at December 31, 2018, are consistent with those used in the preparation of the financial statements as at December 31, 2017, except those arising from regulatory changes that came into effect on January 1, 2018.

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

Within the scope of the implementation of the IFRS as required by the European Union, the Bank adopted the following standards, amendments and interpretations with reference to January 1, 2018:

- IFRS 15 (new) – Revenue from contracts with customers This new standard applies only to contracts for the delivery of goods or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as provided for in the “5-step method”.

- Amendments to IFRS 15 – Revenue from contracts with customers These amendments relate to the additional indications to be followed to determine the obligations of performance of a contract, at the moment of recognition of the revenue of an intellectual property licence, to the review of the indicators for the classification of the principal versus agent relationship, and to the new regimes intended to simplify the transition.

- IFRS 9 (new) – Financial instruments IFRS 9 replaces the requirements of IAS 39, concerning: (i) classification and measurement of financial assets and liabilities; (ii) recognition of impairment of receivables (through the expected-loss model); and (iii) requirements for the recognition and classification of hedge accounting.

- IFRS 2 (Amendment) – Classification and measurement of share-based payment transactions. This amendment clarifies the basis of measurement for cash-settled share-based payment transactions and the accounting of modifications at the level of share-based payments that alter their classification from cash-settled to equity-settled. Additionally, it introduces an exception to the principles of IFRS 2, which comes to require that a share-base payments plan be treated as if it were fully equity settled, when the employer is required to withhold an amount of tax from the employee and pay that amount to the tax authority.

- IAS 40 (Amendment) – Transfers of investment property. This amendment clarifies that the assets may only be transferred from and to the investment property category where there is evidence of the change of use. Just the change of the management’s intent of is not enough to effect the transfer.

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

- IFRIC 22 (new) – Transactions in foreign currencies and advance consideration. It is an interpretation of IAS 21, The effects of changes in foreign exchange rates, and refers to the determination of the "transaction date" when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The “transaction date” determines the exchange rate to be used to convert foreign-currency transactions.

The adoption of the standards and interpretations referred to above had an impact mainly in terms of the disclosures and the presentation of the financial statements.
In the wake of the standards and interpretations referred to above the following impacts were identified:

- the adoption and amendment of IFRS 15 had no impact on the Bank's business in that they are essentially financial;
- the adoption of the amendments to IFRS 2 had no impact because the long-term share-based incentive plan qualifies as equity-settled;
- the impacts of the adoption if IFRS 9 are shown in the following note;
- the other amendments had no impact on the financial statements in than they are not applicable or there were no transactions during the year.

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

- IFRS 16 (new) – Leases This new standard replaces IAS 17, with an impact on the accounting by lessees who are now required to recognise a future lease liability reflecting payments of the lease and an a "right of use" asset for all lease contracts, except certain short-term leases and low-value assets. The definition of a lease contract was also altered, and is based on the “right to control the use of an identified asset”. With regard to the transitional regime, the new standard may be applied retrospectively or may be followed in a modified retrospective approach.

- IFRS 9 (Amendment), Prepayment features with negative compensation. This amendment introduces the possibility to classify financial assets with pre-payment conditions with negative compensation, at amortised cost, provided specific conditions are complied with, rather than being classified at fair value through profit or loss.

- IFRIC 23 (new) – Uncertainty over income tax treatment. It is an interpretation of IAS 12 – Income taxes, referring to the recognition and measurement requirements to be applied when there are uncertainties as to the acceptance of a particular tax treatment by the tax authority in respect of income tax. In case of uncertainty regarding the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities in light of IAS 12, and not of IAS 37 – Provisions, contingent liabilities and contingent assets, based on the expected amount or the most likely amount. Application of IFRIC 23 can be retrospective or modified retrospective.

- IAS 19 (Amendment), Defined-benefit plan amendment, curtailment or settlement This amendment to IAS 19 requires that an entity: (i) use updated assumptions to determine the current-service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and (ii) recognise in profit or loss for the period as part of past-service cost, or as a gain or loss on settlement, any reduction of the coverage surplus, even if that coverage surplus was not previously recognised because of the impact of the asset ceiling. The impact on the asset ceiling is always recorded in Other Comprehensive Income and cannot be recycled for net income of the period.

- IAS 28 (Amendment) – Long-term investments in associates and joint ventures. This amendment clarifies that long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9, being subject to the impairment model of estimated losses, prior to any impairment test on the investment as a whole.

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

- IAS 1 and IAS 8 (Amendment), Definition of material. This amendment introduces modification to the concept of material. It includes clarification on the reference to unclear information, corresponding to situations where its effect is similar to omitting or distorting such information, in the overall context of the financial statements; and also clarification regarding the term 'main users of financial statements', which are defined as 'current and future investors, lenders and creditors' who rely on financial statements to gain a significant part of the information they need.

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

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

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

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.

As for the effects of the application of IFRS 16 and as regards the transitional arrangements, the Bank will adopt a modified retrospective approach by adjusting the opening balance on the first day of application (January 1, 2019). During 2018, the Bank started a project centred on the analysis of all lease contracts entered into. The main type of contracts identified that require estimation of an asset for right of use and a liability for lease entail leases of properties (branches and central services) that are assigned to the business of the Bank. The estimate of the asset for right of use is approximately €38 million.

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

Comparability of information

The Bank adopted IFRS 9 – "Financial Instruments", on January 1, 2018, using the "modified retrospective" transitional regime, which allows the Bank not to restate the comparative figures and record the cumulative effect of the impacts of appreciation of the financial assets and liabilities as a charge to retained earnings as at that date. IFRS 9 introduces new requirements as regards (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of credit impairment on financial assets through an expected-loss model and (iii) hedge accounting. The main changes were:

ASSETS	31-12-2017	Classification	Measure	01-01-2018
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	(842)	-	1,508,902
Other financial assets mandatory at fair value through profit or loss	1,976,263	166,141	(27,971)	2,114,433
Other financial assets at fair value through other comprehensive income	4,990,322	(165,299)	64,328	4,889,351
Financial assets at amortised cost				
Loans and advances to credit institutions	826,367	-	-	826,367
Credit granted and other balances receivable at amortized cost	39,646,179	115,959	(28,142)	39,733,996
Held to maturity investments	108,808	(108,808)	-	-
Hedging derivatives	15,349	-	-	15,349
Investment in associated companies	122,170	-	-	122,170
Investment properties	353,957	-	-	353,957
Other tangible assets	353,520	-	-	353,520
Intangible assets	36,586	-	-	36,586
Tax assets	479,328	(2,217)	28,264	505,375
Technical reserves	22,941	-	-	22,941
Other assets	942,477	-	-	942,477
Non-current assets held for sale	87,269	-	-	87,269
Total Assets	53,168,990	4,934	36,479	53,210,403
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Financial liabilities held for trading	1,527,098	-	-	1,527,098
Other financial liabilities mandatory at fair value through profit or loss	2,430,798			2,430,798
Financial liabilities at amortised cost				
Resources from central banks	3,080,538	-	-	3,080,538
Resources from other credit institutions	4,351,906	-	-	4,351,906
Resources from customers and other debts	31,457,910	-	-	31,457,910
Debt securities	4,543,288	-	-	4,543,288
Hedging derivatives	39,275	-	-	39,275
Provisions	178,273	-	35,062	213,335
Technical provisions	411,816			411,816
Tax liabilities	238,068	-	19,942	258,010
Equity representative instruments	69,026	-	-	69,026
Other liabilities	808,762	-	-	808,762
Total liabilities	49,136,758	-	55,004	49,191,762
Shareholders' equity				
Share capital	1,972,962	-	-	1,972,962
Other equity instruments	600,000	-	-	600,000
Accumulated comprehensive income reserves	(304,565)	12,605	-	(291,960)
Other reseves and retained earnings	1,477,498	(7,671)	(18,525)	1,451,302
(Own shares)	(2,166)	-	-	(2,166)
Net income attributable to the shareholders of ST, SGPS	436,337	-	-	436,337
Prepaid dividends	(150,000)	-	-	(150,000)
Shareholders' equity attributable to shareholders of ST, SGPS	4,030,066	4,934	(18,525)	4,016,475
Non-controlling interests	2,166	-	-	2,166
Total shareholders' equity	4,032,232	4,934	(18,525)	4,018,641
Total liabilities and shareholders' equity	53,168,990	4,934	36,479	53,210,403

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

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

To comply with ECB Regulation 1443/2017 and Bank of Portugal Notice 1/2019, as from the 2018 financial year, the Bank changed the structure of presentation of its financial statements. Were these changes to be applied to the comparative balances for the 2017 financial year, they would have the impacts presented in the following table, which are disclosed throughout these notes to the accounts:

		31-12-2017		
ASSETS	Notes	Reported	Reclassified	Reported reclassified
Balances due from other banks	6 e 10	658,155	(108,569)	549,586
Financial assets at amotised cost				
Credit granted and other receivable balances at amortised cost	6, 10 e 17	39,646,179	165,730	39,811,909
Corrections in asset value from headging operations	43	-	18,408	18,408
Other assets	10 e 17	942,477	(75,569)	866,908
		41,246,811	-	41,246,811
LIABILITIES				
Financial liabilities at amortised cost				
Client resources and other loans	20	31,457,910	(107,159)	31,350,751
Other financial assets	20	-	362,051	362,051
Corrections in liability value from headging operations	43	-	2,913	2,913
Other liabilities	20 e 23	808,762	(257,805)	550,957
		32,266,672	-	32,266,672
Income statements				
Results from fianncial operations				
Sale of other assets	33	42,133	(8,830)	33,303
Impairment on financial assets at amortised cost	21	(38,760)	32,281	(6,479)
Impairment on other assets net of	21	33,005	(32,281)	724
Results from non-current assets held for sale		-	8,830	8,830
		36,378	-	36,378

1.2. Consolidation principles and registration of associate companies

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

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

The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 26).

The acquisition cost is measured at the fair value of the assets given in return, of the liabilities assumed and of the equity interests issued for the purpose. The transaction costs incurred are recorded as expenses in the periods in which the costs are incurred, with the exception of the costs of issuing debt or equity securities, which have to be recognised in accordance with IAS 32 and IAS 39. Identifiable assets acquired and liabilities assumed on acquisition are measured at the fair value determined on the date of acquisition.

In the application of the purchase method, non-controlling interests are measured at fair value or in proportion to the percentage held of the acquired entity's net assets, when they represent effective rights in the entity. When control is acquired through potential rights the non-controlling interests are measured at fair value.

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

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

On the other hand, the Group manages assets held by investment funds whose units are held by third parties. The financial statements of the investment funds are not included in the Group's consolidation perimeter, except when it has control of those funds, especially when it has more than 50% of its units, in which cases those funds are consolidated using the full consolidation method. According to the requirements of IAS 32 and IFRS 10, the amount corresponding to the third-party holding in the investment funds consolidated using the full consolidation method is carried as a liability under Equity instruments. The non-controlling interests of the Novimovest Fund are recognised as a deduction from Other operating income given the nature of the main income earned by the fund.

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

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

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

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

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

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

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

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

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

- The translation of assets and liabilities expressed in foreign currency is made based on the closing exchange rate of the euro on the reporting date;

- Non-monetary assets carried at historical cost, including tangible fixed assets, continue to be carried at the original exchange rate; and

- Income and expenses determined in the different currencies are translated into euros at the average exchange rate of the month in which they are recognised.

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

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

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

b) Foreign currency transactions

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

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

c) Financial instruments

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

- The business model under which financial assets are managed;

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

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

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

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

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

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

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

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenditure with services and commissions

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

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

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

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

Other financial assets at fair value through other comprehensive income

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

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

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

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

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

Financial assets and liabilities held for trading and other financial assets mandatorily at fair value through profit or loss are initially recognised at fair value, the costs associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses arising from subsequent valuation at fair value are recognised in the income statement.

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

When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics. In the price valuation models, the data used correspond to information on market prices.

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

Financial liabilities

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

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

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

Repo Operations

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

Secondary market transactions

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

Hedge accounting

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

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

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

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy, including the following aspects:
  - Identification of the hedging instrument;
  - Identification of the hedged item;
  - Identification of the type of risk hedged; and
  - Definition of the form of measuring the effectiveness of the hedge and subsequent monitoring;

- Initial expectation that the hedge relationship is highly effective ; and

- Over the life of the operation the effectiveness of the hedge lies in the interval between 80% and 125%. The effectiveness of the hedge is tested on each financial reporting date by comparing the change in the fair value of the hedged item relative to the risk that is being hedged, with the change in the fair value of the hedging derivative.

Hedge accounting is only applied from the time when all those requirements have been met. Likewise, if at any time the effectiveness of the hedge no longer lies in the interval between 80% and 125%, hedge accounting is discontinued.

Fair-value hedges

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

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

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

Cash flow hedge

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

In this sense, the 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 Bank remunerated at a floating rate.

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

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

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

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

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

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

Loan impairment

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

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

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

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

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

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

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

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

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

Significant increase of the credit risk

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

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

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

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

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

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

Credit risk parameters

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

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

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

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

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

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

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

Collective analysis

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

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

Individual analysis

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

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

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

Incorporation of forward-looking information

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

d) 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, in monthly instalments, over the period of the estimated useful life of the assets, which corresponds to the period during which the assets are expected to be available for use, as detailed hereunder:

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

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

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

e) Intangible assets

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

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

In 2018 the Group recognised €2,509k of internally-generated intangible assets. In 2017, the Group did not recognise any intangible assets generated internally.

f) Investment properties

Investment properties comprise buildings and land held by Novimovest - Fundo de Investimento

Imobiliário Aberto (Novimovest) to earn income or for capital appreciation or both, and not for use in the provision of goods or services or for management purposes.

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

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

g) Available-for-sale non-current assets

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

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

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

h) Provisions

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

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

i) Employee post-employment benefits

Banco Santander Totta SA

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

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

As from January 1, 2009, employees taken on by the Bank came to be included in Social Security, and are covered by a supplementary defined-contribution pension plan and by the rights acquired under clause 93 of the CBA, published in the Labour and Employment Bulletin (BTE) nº 29 of August 8,

2016. The plan is funded through contributions by employees (1.5%) and by the Bank (1.5%) calculated on the basis of the effective monthly remuneration. For the purpose, each employee can opt for an open pension fund at his or her choice.

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

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

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

In December 2011 a tripartite agreement was concluded between the Ministry of Finance, the Portuguese Banks Association and the Financial Sector Federation (FEBASE) concerning the transfer to Social Security of part of the liabilities to retirees and pensioners who, on December 31, 2011, were covered by the replacement social security regime set out in the CBA.

Following that agreement, Decree-Law 127/2011 of December 31, was also published in 2011, which determined that Social Security was liable, as from January 1, 2012, for the pensions transferred under that decree-law, in the amount corresponding to the pensioning of the remuneration as at December 31,2011, under the terms and conditions laid down in the applicable collective labour regulation instruments of the banking sector, including the amounts relating to the Christmas bonus and the 14th month.

In accordance with that decree-law, the Bank, through its pension fund, is now liable only for the payment:

i) of the updates of the pensions referred to above, as provided for in the applicable collective labour regulation instruments of the banking sector;
ii) the employers' contributions to Social Medical Assistance Services (SAMS) managed by the respective unions, charged on the retirement and survivors' pensions laid down in the applicable collective labour regulation instruments of banking sector;
iii) of the death benefit;
iv) of the survivor pension for children;
v) of the survivor pension for children and surviving spouse, provided that it is in respect of same worker; and
vi) the survivor pension due to the relative of a current pensioner, the conditions of its grant having occurred as from January 1, 2012.

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

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

The Bank's liabilities for retirement with pensions are calculated by external experts (Mercer (Portugal), Limitada, in 2017, on the basis of the Projected Unit Credit method. The discount rate used in actuarial studies is determined based on the market rates of the bonds of companies of high quality in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with maturity similar to the end date of the obligations of the plan. The post-employment benefits of employees also include medical care (SAMS), and the death benefit and the bonus on retirement.

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

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

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

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

Santander Totta Seguros ("Company")

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

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

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

Application of IAS 19

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

In 2011 the Group changed the accounting policy for recognition of actuarial gains and losses, no longer adopting the corridor method, and coming to recognise actuarial gains and losses directly in

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

equity (Other comprehensive income), as provided for in the revised version of IAS 19.
On the other hand, as from January 1, 2013, following the revision of IAS 19 – Employee benefits, the Group came to carry the following components under Staff costs of the income statement:

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

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

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

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

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

j) Corporation tax

The Company and Group companies located in Portugal are subject to the tax system established in the Corporation Tax Code (IRC).

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

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

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

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

In this way, the changes mentioned above imply that the tax rate used by the Bank in determining and recording deferred taxes was 31% (29% in 2017).

Tax losses generated as from and including 2014 may be used in the twelve subsequent taxation periods, being reduced to five taxation periods or reporting period for tax losses generated from

2017. However, the deduction of losses to be carried out each year may not exceed 70% of the respective taxable income, and the remainder (30%) may be used by the end of the reporting period.

Following the publication of Bank of Portugal Notice nº 5/2015, entities that presented their financial statements in keeping with the Adjusted Accounting Standards (NCA) issued by the Bank of Portugal came to apply the International Financial Reporting Standards as adopted in the European Union in preparation of their separate financial statements. In this connection, in the Bank's separate financial statements, the customer loan portfolio and the guarantees provided became subject to recording impairment losses calculated in accordance with the requirements laid down in IFRS 9 (in 20189 IAS 39 (in 2017), in the place of recording provisions for specific risks, for general credit risks and for country risk, under the terms previously set out in Bank of Portugal Notice 3/95.

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

Additionally, the regulatory decree includes a transitional rule that provides for the possibility of the positive difference between the amount of provisions for loans constituted on January 1, 2016, under Bank of Portugal Notice nº 3/95 and the impairment losses recorded on that same date in respect of the same loans being considered in the determination of the 2016 taxable profit only in so far as it exceeds the tax losses generated in taxation periods started on or after January 1, 2012, and not used. The Bank elected to apply the transitional rule.

Regulatory Decree nº 11/2017 of December 28 came to extend to 2017 the same the tax regime of 2016 and Regulatory Decree nº 15/2018 of December 28 came extend the same tax regime to 2018.

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS) in 2017. Under this regime, the 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 Gamma (in 2018) controlled companies.

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

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

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

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

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

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

Banking sector contribution

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

a) Liabilities determined and approved by taxpayers less the Tier 1 and Tier 2 capital and deposits covered by the Deposit Guarantee Fund. From the liabilities so determined the following are deducted:

  - Items that in accordance with the applicable accounting standards are recognised as own funds;
  - Liabilities associated with the recognition of liabilities for defined-benefit plans;
  - Liabilities for provisions;
  - Liabilities arising from revaluation of derivative financial instruments;
  - Deferred income revenues, without consideration of those in respect of borrowing operations;
  - Liabilities for assets not derecognised in securitisation operations.

b) The notional value of off-balance sheet derivative financial instruments determined by the taxpayers, with the exception of hedging derivative financial instruments or whose position at risk is mutually offset.

The rates applicable to the tax bases defined in subparagraphs a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment introduced by Order-in 165-A/2016, of June 14, to article 5 of Order-in-Council 121/2011 of March 30.

k) Technical provisions

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

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

- Provision for unearned premiums and deferred acquisition costs

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

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

- Mathematical provision for life business

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

- Provision for rate commitments

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

- Provisions for claims

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

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

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

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

- Provision for profit-sharing to be attributed

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

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

- Provision for allocated profit sharing

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

- Technical provisions for reinsurance ceded

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

- Provision for risks in progress

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

- Liabilities adequacy test

  Under IFRS 4, Santander Totta Seguros assesses on each financial reporting date whether its liabilities for insurance contract liabilities are adequate, using estimates of the present value of future cash flows in accordance with the terms of the contracts. If this assessment, called liabilities adequacy test, shows that the amount of its liabilities for insurance contracts is inadequate in the light of the estimated future cash flows, the entire insufficiency is recognised as a loss in the income statement.

l) Adjustments of receipts pending collection

These aim to adjust the amount of receipts pending collection to their estimated realisable value in accordance with Circular 9/2008 of November 27, of the Insurance and Pension Funds Supervisory Authority.

m) Recognition of income and expenses - insurance

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

Investment contracts with no discretionary component in the profit sharing, marketed by Santander Totta Seguros, are carried in the consolidated financial statements under the terms of IAS 39, as Customer funds and other loans.

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

n) Long-term share incentive plans

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

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

The description of the long-term incentive plans on options on shares in Banco Santander SA, that are in force is included in Note 42.

o) Treasury shares

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

p) Cash & cash equivalents

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

1.4. Acquisition and Merger of Banco Popular Portugal

Framework

Following the decision of the Single Resolution Council with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of BAPOP.

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

For the purpose, on September 22, 2017, the Bank submitted to the Bank of Portugal and to the ECB a request of non-opposition to the acquisition of a qualifying holding of 100% of the share capital and voting rights of BAPOP.

The acquisition by the Bank is justified in the light of the strategic project of the Santander Group, based on a financial group segmented into in subsidiaries endowed with autonomy in each of the major geographies in which it carries on its business, the aim being that this acquisition be seen to be an instrumental step to allow an immediate and subsequent merger by incorporation of BAPOP into Bank.

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

The Bank acquired from BAPOP the 513,000,000 shares representing the whole of the share capital for a consideration of €554,000k.

Impact of the Acquisition and Merger

The result determined on the acquisition of BAPOP was negative in the amount of €8,411k, determined on the basis of the estimated fair value of the assets acquired and liabilities assumed or in accordance with international financial reporting standards when, for some assets and liabilities, the measurement principle is not that provided for in IFRS 3 – Business Combinations.

The Group applied IAS 19 – Employee benefits to the assets acquired and liabilities assumed related with employee benefits and IAS 12 – Income taxes to the assets acquired and liabilities assumed related with taxes.

Under the terms of IFRS 3, the Bank has a maximum period of one year from the date of acquisition to obtain missing information and possibly correct retrospectively the value of the assets acquired and liabilities assumed and, therefore, the result determined at the time of the purchase.

The methodology used by the Bank in determining the fair value of the main assets and liabilities acquired by Bank can be summarised as follows:

- With regard to Cash and deposits at central banks and Cash and cash equivalents at other credit institutions, taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.

- With regard Placements at 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 Customer resources and other loans it was considered for the customers' demand deposits that the fair value was equal to the carrying amount. For the remaining customer deposits, the average rates of deposits contracted by Bank customers were used.

- With regard to public debt securities carried under Available-for-sale financial assets the prices available in active markets were considered.

- With regard to public debt securities carried under Investments held to maturity, they were reclassified to the Available-for-sale financial assets portfolio and valued at the prices available in active markets.

- With regard to properties received as payment in kind, the available valuations were reviewed and the Bank's criteria for hard to sell properties were applied.

Subsequent to the acquisition of BAPOP the Bank implemented the merger operation through the total transfer of BAPOP's assets and liabilities in keeping with the amounts detailed in its accounting records as of the date of acquisition on December 27, 2017.

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

We present below the reconciliation between the balance sheet on the date of acquisition and subsequent merger and the fair value of assets and liabilities acquired by the Bank:

	Balance before acquisition and subsequent merger				
	Amount before provisions, impairment and depreciation	Provisions, impairment and depreciation	Net amount	Fair value	Adjusted value
Cash and deposits at central banks	212,193	-	212,193	-	212,193
Balances due from other banks	70,870	-	70,870	-	70,870
Financial assets held for trading	21,506	-	21,506	-	21,506
Available-for-sale financial assets	281,749	-	281,749	558,852	840,601
Loans and advances to credit institutions	60,497	-	60,497	-	60,497
Loans and advances to customers	6,107,711	398,320	5,709,391	(263,417)	5,445,974
Held to maturity investments	519,495	-	519,495	(519,495)	-
Other tangible assets	112,987	55,598	57,389	-	57,389
Intangible assets	6,328	4,692	1,636	-	1,636
Investments in associated companies	31,081	3,680	27,401	(6,615)	20,786
Current tax assets	10,425	-	10,425	47,088	57,513
Deferred tax assets	87,499	-	87,499	64,951	152,450
Other assets					
Assets received by credit recoverieas	224,707	33,574	191,133	(72,000)	119,133
Other assets	134,449	423	134,026		134,026
Total Assets	**7,881,497**	**496,287**	**7,385,210**	**(190,636)**	**7,194,574**
Liabilities					
Financial liabilities held for trading	20,758	-	20,758	-	20,758
Resources of other credit institutions	2,542,713	-	2,542,713	-	2,542,713
Resources of customers	3,954,233	-	3,954,233	-	3,954,233
Debt securities	1,832	-	1,832	-	1,832
Hedging derivatives	3,536	-	3,536	-	3,536
Provisions	9,706	-	9,706	-	9,706
Current tax liabilities	2,999	-	2,999	-	2,999
Other liabilities	87,208	-	87,208	26,000	113,208
Total Liabilities	**6,622,985**	-	**6,622,985**	**26,000**	**6,648,985**
Capital					
Share capital	513,000	-	513,000	-	513,000
Share premium account	10,109	-	10,109	-	10,109
Revaluation reserves	(43,285)	-	(43,285)	-	(43,285)
Other reserves and retained earnings	305,052	-	305,052	-	305,052
Net income	(22,651)	-	(22,651)	-	(22,651)
Popular integration	-	-	-	(216,636)	(216,636)
Total capital	**762,225**	-	**762,225**	**(216,636)**	**545,589**
Total Liabilities + Capital	**7,385,210**	-	**7,385,210**	**(190,636)**	**7,194,574**
Purchase value					**(554,000)**
Merger impact					**(8,411)**

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

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

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

Employee post-employment benefits

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

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

Valuation of financial instruments not traded on active markets

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

Fair value

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

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

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

- For financial instruments transacted on active markets, closing price on the reporting date;

- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:

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

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

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

Amortised cost:

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

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

Determination of impairment losses

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

Taxes

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

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

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

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

Determination of the outcome of legal proceedings in progress

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

Determination of liabilities for insurance contracts

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

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

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at December 31, 2018, of the liabilities to which it is bound.

Reinsurance ceded

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Business Banking:

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

Insurance Management:

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

Corporate Activities:

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

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

The breakdown of the income statement by operating segment as at December 31, 2018 & 2017, is as follows:

	31-12-2018					
	Global Corporate Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	87,991	513,924	117,642	2,009	144,712	866,278
Income from equity instruments	-	-	-	179	1,495	1,674
Financial margin	**87,991**	**513,924**	**117,642**	**2,188**	**146,206**	**867,952**
Net commissions	47,007	313,883	28,498	(3,809)	(13,182)	372,398
Other results from banking activity	-	3,420	-	764	(18,374)	(14,190)
Insurance activity	-	-	-	19,780	-	19,780
Commercial margin	**134,998**	**831,227**	**146,141**	**18,923**	**114,651**	**1,245,940**
Results from financial operations	13,732	4,433	1,631	16,786	(42,504)	(5,923)
Net income from banking activities	**148,730**	**835,660**	**147,771**	**35,709**	**72,146**	**1,240,017**
Operating costs	(24,147)	(498,580)	(38,368)	(14,794)	(3,332)	(579,221)
Depreciation and amortization	(2,786)	(37,554)	(837)	(670)	(0)	(41,846)
Net operating income	**121,797**	**299,527**	**108,567**	**20,246**	**68,814**	**618,950**
Impairment and provisions, net of reversals	6,208	(22,483)	1,987	580	(249,755)	(263,463)
Equity method	-	-	-	7,344	7,224	14,568
Income before taxes	**128,005**	**277,044**	**110,553**	**28,169**	**(173,716)**	**370,055**
Taxes	(39,681)	(82,776)	(34,272)	(2,453)	289,079	129,897
Non-controlling interests	-	-	-	-	12	12
Net income for the period	**88,323**	**194,268**	**76,282**	**25,716**	**115,375**	**499,964**

	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)
Equity method	-	-	-	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 interests	-	-	-	-	(193)	(193)
Net income for the period	**78,650**	**186,100**	**76,426**	**2,283**	**92,878**	**436,337**

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

As at December 31, 2018 & 2017, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Group's Management for decision-making, is as follows:

	31-12-2018					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Loans and advances to customers						
Mortgage loans	-	19,462,199	-	-	-	19,462,199
Consumer loans	-	1,634,821	-	-	-	1,634,821
Other loans	3,643,962	6,121,874	8,734,270	-	-	18,500,106
Total allocated assets	**3,643,962**	**27,218,894**	**8,734,270**	**-**	**-**	**39,597,126**
Non-allocated assets						15,442,013
Total Assets						**55,039,139**
Liabilities						
Resources of customers and other debts	1,852,262	26,217,509	5,312,733	-	-	33,382,504
Debt securities	-	-	-	-	4,322,597	4,322,597
	1,852,262	**26,217,509**	**5,312,733**	**-**	**4,322,597**	**37,705,101**
Non-allocated liabilities						13,162,300
Total Liabilities						**50,867,401**
Guarantees and sureties (Note 27)	**303,378**	**541,721**	**722,322**	**-**	**-**	**1,567,422**

	31-12-2017					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities [1]	Total
	Corporate Investment Banking	Banca de Retalho	Banca de Empresas	Gestão de Seguros	Atividades Corporativas [1]	Total
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**
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**
Non-allocated liabilities						13,143,295
Total Liabilities						**49,136,758**
Guarantees and sureties (Note 27)	**205,506**	**425,552**	**718,156**	**-**	**368,389**	**1,717,603**

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

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

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

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

	Direct Participation (%)		Effective Participation (%)		Total Assets (net)		Shareholder's Equity		Net income for the year	
Company	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017
SANTANDER TOTTA, SGPS,S.A.	Headquarters	Headquarters	100.00	100.00	3,900,018	3,730,898	3,866,379	3,659,916	629,671	447,754
BANCO SANTANDER TOTTA, S.A.	99.96	99.96	99.96	99.96	55,173,578	52,850,084	3,404,774	3,510,488	475,535	695,630
TOTTA IRELAND, PLC (2)	-	-	99.96	99.96	491,050	449,882	460,759	449,743	2,790	812
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.96	239,145	122,175	25,662	116,184	(4,092)	1,819
TAXAGEST,SGPS,SA	1.00	1.00	99.96	99.96	55,740	55,745	55,739	55,742	(3)	(4)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	79.67	79.48	356,122	367,737	344,366	336,915	8,685	7,840
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.96	7,130	7,049	6,807	6,870	62	96
HIPOTOTTA NO. 1 PLC	-	-	-	-	-	142	-	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	700,965	786,999	-3,481	(4,492)	1,011	1,294
HIPOTOTTA NO. 5 PLC	-	-	-	-	679,746	755,365	-7,007	(4,329)	(2,678)	361
HIPOTOTTA NO. 4 FTC	-	-	-	-	632,736	720,237	633,160	721,331	2,196	1,615
HIPOTOTTA NO. 5 FTC	-	-	-	-	612,496	685,863	610,576	684,664	2,451	3,395
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	80,717	97,900	40	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	62,624	75,393	60,737	73,008	127	304
Operações de Securitização geridas pela GAMMA, STC	-	-	99.96	99.96	3,591,682	1,800,914	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.79	25.80	n.d.	11,273	n.d.	7,431	n.d.	252
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.85	347,331	347,928	107,282	102,658	20,234	24,309
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	25.76	105,824	143,683	100,304	98,294	2,010	3,887
BANIF INTERNACIONAL BANK, LTD	-	-	99.96	99.96	596	656	96	60	36	2,218
PRIMESTAR SERVICING, S.A. (3)	-	-	79.96	80.00	1,539	17,075	1,269	2,480	(169)	(1,392)
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	4,177,813	3,054,308	110,874	89,632	17,757	5,100
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	98,531	91,633	31,114	24,967	12,273	6,239
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	33,137	21,304	16,580	13,895	2,714	(87)
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (3)	-	-	-	15.93	-	984,565	-	108,669	-	7,963
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	-	-	100.00	-	20,455	-	9,364	-	217	-

The financial statements of some subsidiaries, associates and jointly-controlled entities are subject to approval by the respective governing bodies. However, the Group's Board of Directors is of the conviction that there will be no changes with significant impact on the Group’s equity and consolidated profit.

n.d. – not available

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

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

Company	Activity	Head office	Consolidation Method
Santander Totta, SGPS, S.A.	Holding Company	Portugal	Headquarters
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Full
TOTTA IRELAND, PLC (2)	Investment management	Ireland	Full
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
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	Portugal	Equity
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real estate fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans fund	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real estate fund	Portugal	Equity
PRIMESTAR SERVICING, S.A. (3)	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
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (3)	Insurance	Portugal	-
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Full

(1) As at December 31, 2017, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k. They were reimbursed in September 2018 reimbursed.

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

(3) The holdings in these companies were included in the assets acquired by the Bank in December 2017 following the acquisition and merger of operation of BAPOP described in Note 1.4.

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

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

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

As at December 31, 2018 &2017, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	31-12-2018			31-12-2017		
	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	2,313	4,385	6,698	2,415	1,461	3,876
Available-for-sale financial assets	64,272	21,226	85,498	65,562	12,518	78,080
Other tangible assets	45	-	45	88	-	88
Other intangible assets	7,158	4,361	11,519	7,614	4,636	12,250
Technical reserves for reinsurance ceded	14,822	649	15,471	14,256	288	14,544
Other debtors for insurance and other transactions	9,896	2,373	12,269	1,680	1,761	3,441
Assets - taxes and levies	-	88	88	-	465	465
Accruals and deferrals	12	55	67	8	175	183
Other assets	13	-	13	10	-	10
	98,531	33,137	131,668	91,633	21,304	112,937
Technical reserves	48,802	8,380	57,182	48,748	4,895	53,643
Other financial liabilities	8,000	-	8,000	9,713	-	9,713
Other creditors for insurance and	-					
other transactions	5,795	5,802	11,597	5,439	1,344	6,783
Liabilities - taxes and levies	3,092	1,412	4,504	1,180	132	1,312
Accruals and deferrals	1,728	963	2,691	1,585	1,037	2,622
Share Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	837	86	923	1,133	121	1,254
Deferred tax reserves	(218)	(21)	(239)	(283)	(27)	(310)
Other reserves	10,722	5,069	15,791	10,098	5,070	15,168
Retained earnings	-	1,232	1,232	281	1,319	1,600
Net income for the year	12,273	2,714	14,987	6,239	(87)	6,152
	98,531	33,137	131,668	91,633	21,304	112,937

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

	31-12-2018	31-12-2017
Securities portfolio	3,379	3,210
Real estate portfolio	297,625	353,957
Accounts receivable	8,221	9,759
Cash and banks	46,844	479
Accruals and deferrals	54	332
	356,123	367,737
Fund capital	344,366	336,915
Adjustments and provisions	4,917	5,208
Accounts payable	4,540	23,186
Accruals and deferrals	2,300	2,428
	356,123	367,737

As at December 31, 2018 & 2017, the consolidated net income includes a profit of €6,928k and €6,231k, respectively, attributable to the Novimovest Fund.

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

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Cash	287,671	288,203
Demand deposits at Central Banks:		
European Central Bank	1,368,061	751,352
	1,655,732	1,039,555

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

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Balances due from domestic banks		
Demand deposits	195,767	6,548
Cheques for collection	-	106,065
Balances due from foreign banks		
Demand deposits	655,131	543,038
Cheques for collection	-	2,504
	850,898	658,155

As at December 31, 2017, the Cheques pending collection sub-headings are in respect of cheques drawn by third parties on other credit institutions, which, in general, are cleared within the business days next following. As at December 31, 2018, these items came to be carried under Loans and advances and other balances receivable at amortised cost as per Note 10. As at December 31, 2017, the balance of these subheadings amounted to €108,569k as detailed in Note 1.2.

As at December 31, 2018 & 2017, Balances with credit institutions abroad – Current accounts included a current account in the amounts of €66,131k and €78,870k, respectively, which can be used to fulfil certain obligations vis-à-vis third parties.

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

7. FINANCIAL ASSETS HELD FOR TRADING

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Financial assets held for trading		
Derivatives with positive fair value	1,201,295	1,505,691
Securities - Participating units	3,379	3,525
Securities - Shares	-	528
	1,204,674	1,509,744
Financial liabilities held for trading		
Derivatives with negative fair value	1,239,713	1,527,098

As at December 31, 2018 & 2017, the following derivatives are recorded:

	31-12-2018			31-12-2017		
	Asset	Liabilitie	Net (Note 11)	Asset	Liabilitie	Net (Note 11)
Forwards	2,157	1,817	340	7,344	7,254	90
Swaps						
Cross Currency Swaps	692	688	4	-	-	-
Currency swaps	7	7,055	(7,048)	161	4,988	(4,827)
Interest rate swaps	1,115,664	1,143,613	(27,949)	1,379,148	1,398,396	(19,248)
Equity swaps	2,868	7,170	(4,302)	7,792	4,584	3,208
Options						
Foreign exchange options	1,877	1,846	31	2,405	2,362	43
Interest rate options	-	-	-	154	154	
Equity options	2,186	2,216	(30)	10,950	12,247	(1,297)
Caps & Floors	75,844	75,308	536	97,737	97,113	624
	1,201,295	1,239,713	(38,418)	1,505,691	1,527,098	(21,407)

As at December 31, 2018, the assets and liabilities headings relating to Derivative financial instruments are reduced by the amounts of approximately €15,550k and €22,716k of Credit Value Adjustments and Debit Value Adjustments, respectively (€25,000k and €30,594k as at December 31, 2017, respectively), in accordance with the method described in Note 43.

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

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

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

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

The composition of this heading is as follows:

	31-12-2018	31-12-2017
Debt instruments		
Issued by residents		
Treasury Bonds	1,160,936	935,358
Subordianted debt	56,755	-
Unsubordinated debt	125,232	77,152
Issued by non-residents		
Foreign public issuers	296,928	81,777
Other residents	674,332	665,775
Equity instruments		
Issued by residents	279,185	2,530
Issued by non-residents	460,442	213,671
	3,053,810	1,976,263

Interest and the results of the appreciation of these financial assets at fair value were reflected in the income statement under Results of assets and liabilities at fair value through profit or loss (Note 33).

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

	31-12-2018					31-12-2017			
	"Unit link" products		Other products			"Unit link" products		Other products	
Description	Capital	Interest receivable	Capital	Interest receivable	Fair Value	Capital	Interest receivable	Capital	Fair Value
Debt instruments									
Issued by residents									
Treasury Bonds	1,142,510	18,426	-	-	1,160,936	917,012	18,346	-	935,358
Subordianted debt	-	-	56,745	10	56,755	-	-	-	-
Unsubordinated debt	123,032	2,200	-	-	125,232	75,491	1,661	-	77,152
Issued by non-residents									
Foreign public issuers	294,558	2,370	-	-	296,928	80,884	893	-	81,777
Unsubordinated debt	660,955	13,377	-	-	674,332	652,809	12,966	-	665,775
Equity instruments									
Issued by residents	102,629	-	176,556	-	279,185	1,957	-	573	2,530
Issued by non-residents	458,547	-	1,895	-	460,442	213,671	-	-	213,671
	2,782,231	36,373	235,196	10	3,053,810	1,941,824	33,866	573	1,976,263

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

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

The breakdown of this heading is as follows:

	31-12-2018							
			Fair Value Reserve					
	Acquisition cost	Interest receivable	Positive reserve	Negative reserve	Total	IFRS 9	Impairment (Note 21)	Book value
Debt Instruments								
Issued by residents								
Treasury bonds	4,535,206	83,915	395,533	(100)	395,433	-	-	5,014,554
Other residents								
Unsubordinated debt	70,937	1,564	225	(72)	153	-	(3)	72,651
Issued by non-residents								
Foreign public issuers	742,006	5,383	23,917	(1,914)	22,003	-	-	769,392
Other non-residents	57,296	476	506	(244)	262	-	-	58,034
	5,405,445	91,338	420,181	(2,330)	417,851	-	(3)	5,914,631
Equity instruments								
Issued by residents								
Measured at fair value	13,835	-	581	-	581	64,328	-	78,744
Issued by non-residents								-
Measured at fair value	1,695	-	-	-	-	-		1,695
	15,530	-	581	-	581	64,328	-	80,439
	5,420,975	91,338	420,762	(2,330)	418,432	64,328	(3)	5,995,070

	31-12-2017						
			Fair Value Reserve				
	Acquisition cost	Interest receivable	Positive reserve	Negative reserve	Total	Impairment (Note 21)	Book value
Debt Instruments							
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 historic value	85,061	-	-	-	-	(35,026)	50,035
Issued by non-residents							
Measured at fair value	1,429	-	-	-	-	-	1,429
Measured at historic value	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

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

Treasury Bonds headings had the following characteristics:

	31-12-2018				31-12-2017				
Descrição	Acquisition cost	Interest receivable	Gains/losses on hedging operations	Book value	Acquisition cost	Interest receivable	Recorded in reserves	Impairment	Book value
Treasury bonds - Portugal									
Maturing in 1 year	3,179	82	18	3,279	1,650	40	6	-	1,695
Maturing between one and three years	18,718	267	542	19,527	8,036	197	207	-	8,440
Maturing between three and five years	72,834	503	3,301	76,638	6,338	134	591	-	7,063
Maturing between five and ten years	4,203,814	76,035	382,434	4,662,283	3,101,044	74,596	323,073	-	3,498,713
Maturing over ten years	236,661	7,028	9,138	252,827	233,912	6,870	1,073	-	241,855
Other	-	-	-	-	484	4	-	(90)	398
	4,535,206	83,915	395,433	5,014,554	3,351,464	81,841	324,950	(90)	3,758,165
Treasury bonds - Spain									
Maturing in 1 year	17,252	239	332	17,823	16,426	366	228	-	17,020
Maturing between one and three years	37,049	769	1,277	39,095	32,057	535	1,956	-	34,548
Maturing between three and five years	71,781	1,464	1,317	74,562	45,670	970	1,086	-	47,726
Maturing between five and ten years	451,780	2,267	8,838	462,885	378,268	2,047	2,044	-	382,359
Maturing over ten years	10,024	210	245	10,479	43,446	420	179	-	44,045
	587,886	4,949	12,009	604,844	515,867	4,338	5,493	-	525,698
Treasury bonds - Other countries									
Maturing in 1 year	33,289	1	1,247	34,537	644	2	3	-	649
Maturing between one and three years	17,506	49	263	17,818	34,975	4	3,275	-	38,254
Maturing between three and five years	45,904	251	1,355	47,510	18,287	163	269	-	18,719
Maturing between five and ten years	44,912	121	1,845	46,878	50,675	187	5,862	-	56,724
Maturing over ten years	12,509	12	5,284	17,805	141,445	1,083	5,769	-	148,297
	154,120	434	9,994	164,548	246,026	1,439	15,178	-	262,643
	5,277,212	89,298	417,436	5,783,946	4,113,357	87,618	345,621	(90)	4,546,506

As at December 31, 2018 & 2017, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €311,387 and €94,669k respectively, used as collateral in financing operations (Note 20)

As at December 31, 2018 & 2017, Debt instruments – Issued by other residents included, among others, the following securities:

	31-12-2018					31-12-2017				
Description	Acquisition cost	Interest receivable	Recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Recorded in reserves	Impairment	Book value
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	-	-	-	-	-	199,827	7,144	295	-	207,265
CGD 3% 2014/2019	50,000	1,442	29	(3)	51,468	49,991	1,442	1,611	-	53,044
Altri / Celbi tx var 06-03-2024	701	5	(8)	-	698	-	-	-	-	-
BCP 0.75 31-05-2022	2,091	9	32	-	2,132	-	-	-	-	-
Celulose Beira Industria Tx Var 22-02-2024	450	4	-	-	454	-	-	-	-	-
Celulose Beira Industria Tx Var 14-07-2027	695	7	(9)	-	693	-	-	-	-	-
Brisa Concessao Rodov Sa 1,875 30-04-2025	199	3	5	-	207	-	-	-	-	-
Cp Comboios De Portugal 4,17 16-10-2019	258	2	-	-	260	-	-	-	-	-
Caixa Geral De Depositos 1 27-01-2022	3,636	33	44	-	3,713	-	-	-	-	-
Refer-Rede Ferroviaria 4,25 13-12-2021	1,301	2	22	-	1,325	-	-	-	-	-
Galp Energia Sgps Sa 1 15-02-2023	994	9	(35)	-	968	-	-	-	-	-
Galp Gas Natural Distrib 1,375 19-09-2023	1,996	8	(11)	-	1,993	-	-	-	-	-
Hovione Farmaciencia Sa Tx Var 02-10-2023	609	4	(8)	-	605	-	-	-	-	-
Jose De Mello Saude Tx Var 09-06-2019	251	1	-	-	252	-	-	-	-	-
Jose De Mello Saude Tx Var 17-05-2021	286	1	1	-	288	-	-	-	-	-
Jose De Mello Saude 4 28-09-2023	700	7	8	-	715	-	-	-	-	-
Parpublica 3,75 05-07-2021	716	13	42	-	771	-	-	-	-	-
Saudacor Sa Tx Var 20-12-2019	907	1	-	-	908	-	-	-	-	-
Saudacor Sa Tx Var 20-06-2022	800	1	13	-	814	-	-	-	-	-
Sprhi Sa Tx Var 29-09-2021	735	7	14	-	756	-	-	-	-	-
Parpublica 3,567 22-09-2020	376	4	15	-	395	-	-	-	-	-
OB.HEFESTO STC SA SERIE-1 CL-R	3,100	-	-	-	3,100	-	-	-	-	-
Other	136	1	(1)	-	136	230	-	-	(230)	-
	70,937	1,564	153	(3)	72,651	250,048	8,586	1,906	(230)	260,310
Subordinated debt										
CXGD Float 06/49	-	-	-	-	-	45,780	9	(8,520)	-	37,269
CXGD Float 49-15	-	-	-	-	-	14,533	2	(1,596)	-	12,940
BPSM/97 - TOPS - OB. PERP. SUB	-	-	-	-	-	2,825	3	-	(2,827)	-
	-	-	-	-	-	63,138	14	(10,116)	(2,827)	50,209

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

As at December 31, 2018 & 2017, Debt instruments – Other non-resident issuers included the following securities:

	31-12-2018				31-12-2017			
Description	Acquisition cost	Interest receivable	Recorded in reserves	Book value	Acquisition cost	Interest receivable	Recorded in reserves	Book value
BBVA 3.75% 17/1/18	-	-	-	-	1,302	47	-	1,349
Santan Consumer Finance 0.875 % 24-01-2022	7,524	61	(5)	7,580	-	-	-	-
Adif Alta Velocidad 1,875 22-09-2022	5,297	26	74	5,397	-	-	-	-
Edp Finance Bv 1,125 12-02-2024	3,006	30	(1)	3,035	-	-	-	-
Santan Consumer Finance 1 26-05-2021	2,125	13	3	2,141	-	-	-	-
Banco Bilbao Vizcaya Arg 0,75 11-09-2022	1,994	5	(26)	1,973	-	-	-	-
Ren Finance Bv 1,75 01-06-2023	1,905	19	57	1,981	-	-	-	-
Criteria Caixa Sa 1,5 410-05-2023	1,899	18	(41)	1,876	-	-	-	-
Critéria Caixa Sa 1.625 21-04-2022	1,815	20	(8)	1,827	-	-	-	-
Nykredit 0.,75 14-07-2021	1,508	5	-	1,513	-	-	-	-
Banco Bilbao Vizcaya Arg 0,625 17-01-2022	1,499	9	5	1,513	-	-	-	-
Banco Bilbao Vizcaya Arg 1 20-01-2021	1,424	13	(3)	1,434	-	-	-	-
Edp Finance Bv 4,875 14-09-2020	1,351	18	(1)	1,368	-	-	-	-
Banco De Sabadell 0,875 05-03-2023	1,195	9	(54)	1,150	-	-	-	-
Adif Alta Velocidad 3,5 27-05-2024	1,102	21	36	1,159	-	-	-	-
Cassa Depositi Prestiti 2,75 31-05-2021	1,095	17	4	1,116	-	-	-	-
Adif Alta Velocidad 0,8 05-07-2023	1,091	4	19	1,114	-	-	-	-
Volkswagen Leasing Gmbh 2,375 06-09-2022	1,059	8	(23)	1,044	-	-	-	-
State Grid Europe Develo 1,5 26-01-2022	999	14	24	1,037	-	-	-	-
Aurizon Network Pty Ltd 2 18-09-2024	995	6	29	1,030	-	-	-	-
Bharti Airtel International 3,375 20-05-2021	952	20	3	975	-	-	-	-
Dexia Credit Local 0,625 03-02-2024	898	5	17	920	-	-	-	-
Achmea Hypotheekbank Nv 2,75 18-02-2021	876	20	18	914	-	-	-	-
Caixabank Sa 1,125 17-05-2024	799	6	(16)	789	-	-	-	-
Spp Distribucia As 2,625 23-06-2021	714	10	21	745	-	-	-	-
Santander Consumer Bank 0,75 17-10-2022	700	1	(8)	693	-	-	-	-
Dvb Bank Se 1,25 22-04-2020	699	6	7	712	-	-	-	-
Cassa Depositi Prestiti 0 75 21-11-2022	699	1	(26)	674	-	-	-	-
Cellnex Telecom 3,125 27-07-2022	643	8	(7)	644	-	-	-	-
Edp Finance Bv 1,875 29-09-2023	638	3	10	651	-	-	-	-
Ep Energy As 5,875 01-11-2019	612	6	14	632	-	-	-	-
Mylan Nv 1,25 23-11-2020	605	1	(1)	605	-	-	-	-
Cores 1,5 27-11-2022	599	1	28	628	-	-	-	-
Intesa Sanpaolo Spa 0,5 02-02-2020	597	1	(3)	595	-	-	-	-
Ren Finance Bv 2,5 12-02-2025	525	11	3	539	-	-	-	-
SANTAN 4% 7/4/20	512	15	14	541	-	-	-	-
Pko Fin Ab (Pko Bank Pl) 2,324 23-01-2019	500	11	-	511	-	-	-	-
British Sky Broadcasting 1,875 24-11-2023	500	1	22	523	-	-	-	-
Other	6,345	33	77	6,455	1,296	27	27	1,350
	57,296	476	262	58,034	2,598	74	27	2,699

As at December 31, 2018 & 2017, Capital instruments included, the following securities:

	31-12-2018				31-12-2017			
Description	Acquisition cost	Recorded in reserves	IFRS 9	Book value	Acquisition cost	Recorded in reserves	Impairment	Book value
SIBS - SGPS, S.A.	3,985	-	64,328	68,313	3,985	-	-	3,985
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3,218	-	-	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. - PS	3,218	-	-	3,218	3,749	-	(531)	3,218
VISA INC series C	1,431	-	-	1,431	1,429	-	-	1,429
NORGARANTE - SOC. GARANTIA MUTUA S.A.	1,296			1,296	-	-	-	-
PORTUGAL CAPITAL VENTURES - SOC. DE CAP. DE RISCO, SA	850	-	-	850	1,065	-	(214)	851
LISGARANTE - SOC. GARANTIA MUTUA S.A.	517			517	-	-	-	-
GARVAL - SOC.DE GARANTIA MUTUA S	287	27	-	314	201	19	-	220
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	491	-	765	274	491	-	765
FUNDO SOLUCAO ARRENDAMENTO	-	-	-	-	40,366	(105)	-	40,261
AQUARIUS, FCR	-	-	-	-	19,753	-	-	19,753
ARRENDAMENTO MAIS -FIIFAH	-	-	-	-	14,431	-	-	14,431
UNICAMPOS-FEI IMOBILIARIO FECHADO	-	-	-	-	1,500	14	-	1,514
FCR PORTUGAL VENTURES VALOR 2	-	-	-	-	3,836	171	(3,099)	909
FII FECHADO GEF II	-	-	-	-	391	16	-	406
FUNDO RECUPERAÇÃO FCR	-	-	-	-	30,086	-	(12,715)	17,371
Fundo Fechado de Investimento Imobiliário - Imorent	-		-	-	18,850		(4,000)	14,850
BANIF PROPERTY	-	-	-	-	15,350	-	(10,000)	5,350
Securities with 100% impairment	-	-	-	-	28,391	-	(28,391)	-
Other	454	63	-	517	3,459	74	(1,466)	2,067
	15,530	581	64,328	80,439	190,865	680	(60,947)	130,598

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

The appreciation of the holding in SIBS was determined on the basis of valuations resulting from a market consultation for a potential transaction of a minority holding of the subsidiary.

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

	31-12-2018				31-12-2017			
	Acquisition cost	Interest receivable	Negative Reserve	Book value	Acquisition cost	Interest receivable	Negative Reserve	Book value
Debt instruments								
. Between 0% and 25%	130,609	703	(2,330)	128,982	83,736	142	(10,220)	73,658
Equity instruments								
. Between 0% and 25%	-	-	-	-	40,463	-	(118)	40,345
. Between 25% and 50%	-	-	-	-	19	-	(9)	10
	-	-	-	-	40,482	-	(127)	40,355
	130,609	703	(2,330)	128,982	124,218	142	(10,347)	114,013

10. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2018	31-12-2017
Loans and advances to other domestic banks		
Deposits	102,218	200,100
Loans	87,354	121,627
Other applications	-	260
Interest receivable	497	3,219
	190,069	325,206
Loans and advances to other foreign banks		
Very short-term loans and advances	66,292	78,897
Deposits	270,562	275,006
Loans	-	748
Other applications	148,180	146,395
Interest receivable	12	115
	485,046	501,161
	675,115	826,367
Impairment losses (Note 21)	(84)	-
	675,031	826,367

As at December 31, 2018 & 2017, Placements at credit institutions abroad – Other investments includes margin accounts of €147, 927 and €145,501k , respectively.

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

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

	31-12-2018	31-12-2017
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	208,795	253,651
Loans	9,326,549	9,599,810
Current account loans	1,126,534	1,337,239
Overdrafts	138,330	147,793
Factoring	1,506,932	1,528,015
Finance leasing	1,158,855	1,158,310
Other credits	43,384	90,151
To individuals		
Mortgage loans	14,514,864	15,636,395
Consumer credit and other loans	2,148,876	2,305,899
Foreign loans		
To corporate clients		
Loans	394,738	273,386
Current account loans	10,002	8,366
Overdrafts	646	78
Factoring	65,353	50,832
Finance leasing	3,708	4,650
Other loans	7,254	55,817
To individuals		
Mortgage loans	437,347	469,823
Consumer credit and other loans	64,694	45,685
	31,156,861	32,965,900
Securitized loans		
Non-subordinated debt securities	4,081,130	4,280,415
Non-derecognized securitized assets - individuals - mortagage loans	4,419,095	2,835,628
Overdue loans and interest		
Up to 90 days	23,768	45,451
More than 90 days	599,360	1,187,846
	623,128	1,233,297
	40,280,214	41,315,240
Interest receivable		
Unsecuritized loans	75,366	87,805
Securitized loans	16,463	15,263
Non-derecognized securitized assets	3,138	1,462
Hedge adjsutments		18,408
Deferred expenses	86,999	73,742
Cheques for collection	75,423	
Debtors	297,961	
Commissions associated with amortized cost (net)	(128,952)	(124,876)
	426,398	71,804
	40,706,612	41,387,044
Impairment of loans and advances to customers (Note 21)	(1,109,486)	(1,740,865)
	39,597,126	39,646,179

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

As at December 31, 2018, this heading came to recognise the cheques pending collection and the various debtors were reclassified under Deposits at other credit institutions (Note 6) and Other assets (Note 17), respectively. Additionally, the corrections to the value of hedged assets were reclassified to a specific account of the balance sheet (see Note 43). As at December 31, 2017, the balances of these headings amounted to €165,730k as detailed in Note 1.2.

In the periods ended December 31, 2018 & 2017, portfolios of loans granted to individuals and companies were sold, with a carrying amount of €723,987k and €526,119k, respectively. As a result of these transactions net gains were recorded in 2018 and 2017 in the amounts of (€12,480k) and €31,512k, respectively (Note 33).

As at December 31, 2018 & 2017, Domestic loans – To individuals - Residential included loans assigned to the autonomous assets of the mortgage loans issued by the Bank and by the former BAPOP amounting to €8,937,341k and €9,980,181k, respectively (Note 20).

Movements under impairments of loans & advances to customers during 2018 and 2017 are presented in note 21.

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

	31-12-2018	31-12-2017
Up to three months	23,767	45,451
Between three and six months	28,287	26,243
Between six months and one year	61,971	220,723
Between one year and three years	312,347	381,315
More than three years	196,756	559,565
	623,128	1,233,297

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

	Gross value	Impairments	Coverage
Stage 1	36,709,012	(79,592)	0.22%
Stage 2	1,962,197	(96,651)	4.93%
Stage 3	2,035,403	(933,243)	45.85%
	40,706,612	(1,109,486)	

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

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	31-12-2018			31-12-2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	10,079	(67,509)	(57,430)	14,620	(34,412)	(19,792)
Equity swaps	20	(1,714)	(1,694)	636	(2,184)	(1,548)
Auto-callable options	-	-	-	93	(492)	(399)
Cash flow hedge						
interest rate swaps	63,365	(332)	63,033	-	(2,187)	(2,187)
Forward sales	-	(21,001)	(21,001)	-	-	-
	73,464	(90,556)	(17,092)	15,349	(39,275)	(23,926)

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

	31-12-2018								
		Notional amounts						Notional amounts	
Type of financial instrument	Book value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	More than 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	340	183,469	118,303	10,622	32,524	136	345,054	171,021	174,033
Sold		183,335	118,190	10,600	32,503	136	344,764	171,619	173,145
Currency swaps									
Purchased	(7,048)	744,584	-	400	-	-	744,984	1,301	743,683
Sold		750,876	-	417	-	-	751,293	749,943	1,350
Interest rate swaps	(27,949)	41,837	1,881,966	263,484	2,562,893	21,339,402	26,089,582	26,052,761	36,821
Cross currency swaps									
Purchased	4	7,631					7,631	7,631	-
Sold		7,631					7,631	7,631	-
Equity swaps	(4,302)	138,295	-	-	-	378,934	517,229	517,229	-
Currency options									
Purchased	31	52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold		52,276	50,603	101,607	5,240	-	209,726	-	209,726
Equity options									
Purchased	(30)	64,728	49,450	90,693	146,926	-	351,797	351,797	-
Sold		64,728	49,450	90,693	146,926	-	351,797	351,797	-
Caps & Floors	536	257,600	773,410	440,105	265,011	889,194	2,625,320	2,625,320	-
	(38,418)	2,549,266	3,091,974	1,110,228	3,197,263	22,607,802	32,556,533	31,008,050	1,548,483
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(5,795)	-	-	-	-	80,000	80,000	80,000	-
Liabilities and loans	(51,635)	-	19,078	58,152	804,385	2,504,626	3,386,241	3,200,390	185,851
Equity swaps	(1,694)	26,619	16,136	30,126	35,565	-	108,446	140	108,306
Cash flow hedge							-		-
Interest rate swaps									
Cash flow	63,033	56,746	192,081	1,102,594	9,000,000	-	10,351,421	10,351,421	-
Forwards sale	(21,001)	377,402	-	558,511			935,913	935,913	-
	(17,092)	460,767	227,295	1,749,383	9,839,950	2,584,626	14,862,021	14,567,864	294,157

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

	31-12-2017								
		Notional amounts						Notional amounts	
Type of financial instrument	Book value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	More than 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	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	31,235,465	1,313,386
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(3,536)	50,000	-	30,000	-	-	80,000	80,000	-
Liabilities and loans	(16,256)	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

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

The Group trades derivatives, particularly in the form of exchange-rate or interest rate contracts or a combination of both. These transactions are carried out on OTC (over-the-counter) markets. Over-the-counter derivatives trading is usually based on a standard bilateral contract, which encompasses the set of operations on derivatives existing between the parties. In the case of inter-professionals relations, a Master Agreement of the ISDA – International Swaps and Derivatives Association. In the case of relations with customers, a contract of the Bank.

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

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

In accordance with IFRS 9, parts of operations, commonly known as "embedded derivatives" are also separated and carried as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

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

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

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

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

12. INVESTMENTS IN ASSOCIATED COMPANIES

The composition of this heading is as follows:

	31-12-2018		31-12-2017	
	Effective Participation(%)	Book Value	Effective Participation(%)	Book Value
Domestic				
AEGON Santander Portugal Não Vida	49.00	16,268	49.00	14,952
AEGON Santander Portugal Vida	49.00	33,627	49.00	30,616
Benim - Sociedade Imobiliária, S.A.	25.81	1,918	25.79	1,853
EUROVIDA - Companhia de Seguros de Vida		-	15.00	22,579
Fundo de Investimento Imobiliário Lusimovest	25.77	25,847	25.77	25,329
Unicre - Instituição Financeira de Crédito, S.A.	21.86	35,634	21.86	32,373
		113,294		127,702
Impairment of investments in associates (Note 21)				
EUROVIDA - Companhia de Seguros de Vida		-		(3,679)
Benim - Sociedade Imobiliária, S.A.		(1,918)		(1,853)
		(1,918)		(5,532)
		111,376		122,170

The holding in Benim – Sociedade Imobiliária, SA, was indirectly held by the Bank through Totta Urbe – Empresa de Administração e Construções, SA (Totta Urbe). In September 2018 the Bank acquired this investment for its portfolio.

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

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

13. INVESTMENT PROPERTIES

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Properties held by Novimovest Fund	297,625	353,957

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

As at December 31, 2018 & 2017, the properties held by the Novimovest Fund balance were as follows:

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

	31-12-2018	31-12-2017
Land		
Urbanized	14,643	15,023
Non-urbanized	1,141	1,109
Finished constructions		
Rented	222,946	260,872
Not rented	41,070	60,198
Other construction projects	17,825	16,755
	297,625	353,957

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

	31-12-2018	31-12-2017
Rents (Note 35)	15,252	15,586
Condominium expenses	(1,166)	(1,219)
Maintenance and repair expenses	(12)	(878)
Insurances	(197)	(231)
	13,877	13,259

Movement under Investment properties in 2018 and 2017 was as follows:

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

	2017				
	Balances at 31-12-2016	Increases	Fair value valuation	Sales	Balances at 31-12-2017
Properties held by Novimovest Fund	378,374	-	(6,914)	(17,503)	353,957

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under Other operating results – Gains / Losses on investment properties (Note 35).

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

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

	Level 3	
	31-12-2018	31-12-2017
Investment properties	297,625	353,957

In accordance with the requirements of IFRS 13, a summary is presented hereunder, for the investment properties of greater value in the Group's portfolio as at December 31, 2018 & 2017, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

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

Property description	Use	Amount in 31-12.2018	Amount in 31-12-2017	Valuation tecnique	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Leased out	34,447	34,398	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lotes 1, 2 e 3					
Plots in Matosinhos	Urbanized	41,694	41,063	Comparative market method / Residual value method	Taxa de capitalização Land value and cost of construction and marketing per m2
Galerias Saldanha Residence					
Shopping center in Lisboa	Leased out	26,365	26,050	Income method / Comparative market method	Lease value per m2 Capitalization rate
Armazém em Perafita					
Warehouse in Matosinhos	Leased out	15,896	15,916	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9					
Offices and store Ponta Delgada	Leased out	11,699	11,941	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide					
Offices in Oeiras	Leased out	11,878	12,262	Income method / Comparative market method income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 e G2					
Golf courses in Loulé	Leased out	12,128	12,240	income method / Cost method	Lease value per m2 Capitalization rate
Logistics park SPC Warehouses 1 and 4	Leased out (SPC 1)	-	10,312	Income method / Comparative market method	Lease value per m2
Alfena - Valongo Terrenos					
Plots in Valongo	Non-urbanized	10,576	9,661	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		164,683	173,843		

If there is an increase of the amount of rent per m^2 or an increase of the occupancy rate or a decrease of the capitalisation rate, the fair value of the investment properties will be increased. On the other hand, in the event of an increase of construction or marketing costs, an increase of the capitalisation rate, a decrease in the value of rent per square metre or a decrease in occupancy rate, the fair value of the investment properties will be decreased.

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during the periods ended December 31, 2018 & 2017, can be presented as follows.

	31-12-2018																		
										Transfers									
										From/to other assets		Between tabgible/intangible assets							
	31-12-2017			Eurovida Merger			Write-offs and sales							Depreciation		31-12-2018			
	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Gross amount	Amortizações Acumuladas	in the period	Impairment reversals	Gross amount	Accumulated depreciation	Impairment	Net amount
			(Note 21)												(Note 21)			(Note 21)	
Tangible assets																			
Properties																			
Properties for own use	471,696	168,907	6,281	-	-	34,449	43,704	26,643	135	(26,270)	(8,353)	(4,026)	(1,076)	8,710	-	432,145	141,545	6,416	284,184
Leasehold expenditure	161,641	154,846	-	-	-	8	136,158	136,158	-	(1,201)	(879)	4,020	1,076	2,259	-	28,310	21,144	-	7,166
Other real estate	307	11	20	-	-	-	-	(9)	(20)	(141)	-	-	-	58	-	166	78	-	88
	633,644	323,764	6,301	-	-	34,457	179,862	162,792	115	(27,612)	(9,232)	(6)	-	11,027	-	460,621	162,767	6,416	291,438
Equipment																			
Furniture and fixtures	28,684	23,189	-	141	141	2,389	19,963	19,961	-	-	-	-	(39)	1,105	-	11,251	4,435	-	6,816
Machinery and tools	6,973	5,921	-	15	15	233	5,555	5,555	-	-	-	245	319	279	-	1,911	979	-	932
Computer hardware	107,865	97,161	-	282	279	2,618	40,731	40,731	-	-	-	-	(16)	4,176	-	70,034	60,869	-	9,165
Indoor facilities	36,830	19,794	-	26	21	8,808	10,867	10,850	-	(35)	(17)	(7)	(36)	3,047	-	34,755	11,959	-	22,796
Vehicles	19,973	8,897	-	-	-	3,672	5,349	3,841	-	-	-	-	-	2,132	-	18,296	7,188	-	11,108
Security equipment	19,511	18,185	-	-	-	241	13,657	13,657	-	-	-	-	-	441	-	6,095	4,969	-	1,126
Other equipment	7,821	6,626	-	-	-	444	5,529	5,528	-	-	-	(276)	(258)	273	-	2,460	1,113	-	1,347
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	227,666	179,773	-	464	456	18,405	101,651	100,123	-	(35)	(17)	(38)	(30)	11,453	-	144,811	91,512	-	53,299
Other tangible assets																			
Leased equipment	281	281	-	-	-	-	281	281	-	-	-	-	-	-	-	-	-	-	-
Work of art	2,048	-	-	3	-	12	-	-	-	-	-	-	-	-	-	2,063	-	-	2,063
Other	3,463	3,463	-	-	-	-	3,455	3,455	-	-	-	43	30	-	-	51	38	-	13
	5,792	3,744	-	3	-	12	3,736	3,736	-	-	-	43	30	-	-	2,114	38	-	2,076
	867,102	507,281	6,301	467	456	52,874	285,249	266,651	115	(27,647)	(9,249)	(1)	-	22,480	-	607,546	254,317	6,416	346,813
Intangible assets																			
Software purchased	446,378	413,221	-	2,280	2,185	10,836	388,947	388,861		-	-	2,273	-	19,294	-	72,820	45,839	-	26,981
Unfiniched intangible assets	213	-	-	-	-	2,578	26	-		-	-	(2,273)	-	-	-	492	-	-	492
Business tranfers	3,345	3,345	-	-	-	-	-	-		-	-	1,040	475	72	-	4,385	3,892	-	493
Other	1,040	475	-	-	-	-	-	-		-	-	(1,040)	(475)	-		-	-	-	-
Consolidation differences	2,651	-	-	-	-	-	-	-		-	-	-	-	-	-	2,651	-	-	2,651
	453,627	417,041	-	2,280	2,185	13,414	388,973	388,861	-	-	-	-	-	19,366	-	80,348	49,731	-	30,617

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

	31-12-2017																			
										Transfers										
										From/to other assets		Between tangible/intangible assets								
	31-12-2016			BAPOP merger				Write-offs and sales						Depreciation			31-12-2017			
	Gross amount	Accumulated depreciation	Impairment (Note 21)	Gross amount	Accumulated depreciation	Impairment	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Allocations to Impairment (Note 21)	Impairment reversals (Note 21)	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net amount
Tangible assets																				
Properties																				
Properties for own use	402,251	145,610	3,871	79,645	21,816	2,411	6,779	282	151	(16,786)	(5,767)	89	-	7,399	380	(381)	471,696	168,907	6,281	296,508
Leasehold expenditure	148,941	141,295	-	11,985	11,114	-	807	151	154	59	40	-	-	2,551	-	-	161,641	154,846	-	6,795
Other real estate	1,307	148	20	-	-	-	-	1,000	141	-	-	-	-	4	-	-	307	11	20	276
Unfinished tangible assets																				
Property for own use	88	-	-	-	-	-	1	-	-	-	-	(89)	-	-	-	-	-	-	-	-
	552,587	287,053	3,891	91,630	32,930	2,411	7,587	1,433	446	(16,727)	(5,727)	-	-	9,954	380	(381)	633,644	323,764	6,301	303,579
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	-	593	1	1	-	-	4	-	246	-	-	7,561	6,370	-	1,191
Unfinished tangible assets	-	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	195,150	153,377	-	21,208	20,257	-	16,363	4,665	3,799	(390)	(194)	-	-	10,132	-	-	227,666	179,773	-	47,893
Other tangible assets																				
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of art	1,826	-	-	149	-	-	73	-	-	-	-	-	-	-	-	-	2,048	-	-	2,048
Other	3,464	3,464	-	-	-	-	-	1	1	-	-	-	-	-	-	-	3,463	3,463	-	-
	5,571	3,745	-	149	-	-	73	1	1	-	-	-	-	-	-	-	5,792	3,744	-	2,048
	753,308	444,175	3,891	112,987	53,187	2,411	24,023	6,099	4,246	(17,117)	(5,921)	-	-	20,086	380	(381)	867,102	507,281	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
Unfiniched intangible assets	2,894	-	-	-	-	-	222	-	-	-	-	(2,903)	-	-	-	-	213	-	-	213
Business tranfers	3,345	3,345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,345	3,345	-	-
Other	-	-	-	1,040	475	-	-	-	-	-	-	-	-	-	-	-	1,040	475	-	565
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

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

15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

The breakdown of these headings is as follows:

	31-12-2018	31-12-2017
Current tax assets	34,909	19,783
Deferred tax assets	648,824	459545
	683,733	479,328
Current tax liabilities	10,310	73,801
Deferred tax liabilities	243,959	164,267
	254,269	238,068
Deferred taxes	404,865	295,278

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

	31-12-2018	31-12-2017
Current taxes	(10,227)	(139,733)
Deferred taxes	140,124	(14,494)
	129,897	(154,227)

Movement under deferred tax assets and liabilities during the periods ended December 31, 2018 & 2017, can be presented as follows.

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

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

	Balance at 31-12-2016	Other comprehensive income	Income statement	BAPOP merger	Balance at 31-12-2017
Provisions/Impairment temporarily not accepted for tax purposes:					
Deferred tax assets	172,184	-	(16,010)	133,919	290,093
Deferred tax liabilities	(5,088)	-	(310)	-	(5,398)
Revaluation of tangible assets:					
Deferred tax assets	2,140	-	148	-	2,288
Deferred tax liabilities	(3,148)	-	2	(45)	(3,191)
Tax losses carried forward	3,686	-	(2,238)	-	1,448
Pensions:					
Actuarial deviations	83,578	-	(11,615)	-	71,963
Early retirement pensions	21,078	-	6,746	-	27,824
Long service bonuses	-	-	-	516	516
Transfer of pension liabilities to the Social Security	4,536	-	(11)	188	4,713
Insurance activity:					
Fair value of insurance liabilities - Shadow reserve	4,678	273	-	-	4,951
Fair value of insurance liabilities - Other	(156)	-	18	-	(138)
Other financial assets at fair value through other comprehensive income	35,882	(137,185)	-	6,812	(94,491)
Cash flow hedging derivatives	5,128	(819)	-	-	4,309
Securitization operations	(33,052)	-	10,798	-	(22,254)
Incorporation and digital restructuring costs	7,317	-	(1,839)	8,060	13,538
Other	(710)	-	(183)	-	(893)
	298,053	(137,731)	(14,494)	149,450	295,278

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

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

The Bank was subject to a tax inspection up to and including 2015. As a result of the inspection, it was subject to an additional IRC assessment related with the autonomous taxation and with sundry corrections to the tax loss determined that year. In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections to the taxable income covered several matters, including, *inter alia*, adjustments to tax recognition of actuarial deviations and adjustments relating to uses of non-performing loans. Some of these corrections are merely temporary.

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

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

Of the Bank's tax losses €51,655k can be used up until 2026 and €167,481k up until 2027.

The Santander Totta Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). This new regime 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 and Gama (in 2018).

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

16. TECHNICAL RESERVES

The breakdown of these headings is as follows:

	31-12-2018			31-12-2017		
	Amount determined	Deferred acquisition costs	Book value	Amount determined	Deferred acquisition costs	Book value
Mathematical reserve for direct insurance:						
Santander Totta Seguros (life)						
- PPR/E Garanteed	388,925	-	388,925	332,548	-	332,548
- PPR/E Maxinveste	11,147	-	11,147	12,298	-	12,298
- Temporary individual	12,227	(14)	12,213	560	(77)	483
- Social Security System	8,708	-	8,708	7,994	-	7,994
- Genesis Plan	2,089	-	2,089	2,570	-	2,570
- Outher Products	39,228	-	39,228	4,184	-	4,184
- Super Investiment + Other Financ.	202,263		202,263	-	-	-
	664,587	(14)	664,573	360,154	(77)	360,077
Unearned premiums reserve for direct insurance:						
- Temporary Individual/Group	3,244	-	3,244	3,468	-	3,468
Reserve for rate commitment	6,580	-	6,580	-	-	-
Claims reserve for direct insurance - life	36,440	-	36,440	26,863	-	26,863
Claims reserve for direct insurance - non-life	740	-	740	-	-	-
	37,180	-	37,180	26,863	-	26,863
Reserve for profit sharing attributable for direct insurance:						
- Temporary Individual/Group	2,609	-	2,609	191	-	191
- Social Security System	96	-	96	101	-	101
- Genesis Plan	37	-	37	48	-	48
- Super Investiment + Other Financ.	282	-	282	-	-	-
- PPR/E Garanteed	107	-	107	1	-	1
	3,131	-	3,131	341	-	341
Reserve for profit sharing attributable for direct insurance:						
- PPR/E Garanteed	13,065	-	13,065	15,675	-	15,675
- PPR/E Maxinveste	2,008	-	2,008	2,430	-	2,430
- Genesis Plan	289	-	289	354	-	354
- Other Products	10,104	-	10,104	2,608	-	2,608
	25,466	-	25,466	21,067	-	21,067
Total reserves for profit sharing	28,597	-	28,597	21,408	-	21,408
Unearned premiums reserve for direct insurance:	3,041	(358)	2,683	-	-	-
Total technical reserves for direct insurance	743,229	(372)	742,857	411,893	(77)	411,816
Mathematical reserve for reinsurance ceded	(11,034)	-	(11,034)	(446)	-	(446)
Reserves for profit sharing in ceded insurance	(1,979)	-	(1,979)	-	-	-
Unearned premiums reserve for reinsurance ceded	(3,949)	-	(3,949)	(3,431)	-	(3,431)
Claims reserve for reinsurance ceded	(23,403)	-	(23,403)	(19,064)	-	(19,064)
Total technical reserves for reinsurance ceded	(40,365)	-	(40,365)	(22,941)	-	(22,941)

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

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

17. OTHERS ASSETS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Debtors and other applications	-	118,124
Debtors for loan interest subsidies receivable	5,672	4,222
Shareholders' loans	-	734
Promises and other assets received as settlement of defaulting assets received as settlement of defaulted loans	356,659	397,886
Liabilities with pensions and other benefits		
BST Pension Fund	-	37,417
London branch Pension Fund	-	(6,729)
Banif Pension Fund	-	(31,936)
BAPOP Pension Fund	-	2,383
Gold, other precious metals, coins and medals	3,145	3,236
Other available funds	447	269
Other income receivables	18,010	16,450
Deferred costs	2,864	7,519
Other	55,445	593,632
	442,242	1,143,207
Impairment losses (Note 21):		
Debtors and other applications	(149)	(7,783)
Promises and other assets received as settlement of defaulting assets received as settlement of defaulted loans	(109,334)	(157,441)
Shareholders' loans	-	(693)
Other assets and regularization accounts	-	(34,813)
	(109,483)	(200,730)
	332,759	942,477

As at December 31, 2018, the associated debtor headings at amortised cost, with the respective impairments, were reclassified under Loans and advances and receivables at amortised cost" (Note 10).

As at December 31, 2018 & 2017, Other includes loan/borrowing operations pending settlement as detailed below:

	31-12-2018		31-12-2017	
	Other assets	Other liabilities (Note 23)	Other assets	Other liabilities (Note 23)
Interest receivable from swap contracts established with Portuguese public sector entities	-	-	394,152	-
Cheques, values in transit and other transactions to be settled	29,309	(58,888)	35,229	(73,354)
Balances to be settled in ATM's	2,720	-	2,967	-
Tranfers within SEPA	-	(117,895)	83,994	(211,271)
Other	23,416	(26,919)	77,350	(50,385)
	55,445	(203,702)	593,692	(335,010)

Amounts receivable on swaps contracted with Portuguese public sector entities were received in January 2018.

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

Movement under payment in kind promises, auctions and other assets received as payment in kind during 2018 and 2017 was as follows:

	December 31, 2017						Transfers				December 31, 2018		
	Gross amount	Impairment	Net amount	Increases	Sales	Utilization	Capital	Impairment	Allocation to impairment	Provision reversal	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting													
Properties received as settlement of defaulting	261,866	(116,109)	145,757	*9,348*	*(141,194)*	*56,142*	*(20,700)*	*5,441*	*(3,194)*	*5,565*	109,320	(52,155)	*57,165*
Promises	12,315	(37)	12,278	987	(1,867)	-	-	-	(6)	-	11,435	(43)	*11,392*
Public sales	57,170	(4,135)	53,035	39,113	(48,153)	-	1,690	-	(23,347)	30	49,820	(27,452)	*22,368*
Other property	20,691	(6,095)	14,596	248,225	(127,639)	298	(1,858)	(4,711)	(1,601)	7,941	139,419	(4,168)	*135,251*
Liquidation assets	1,783	(1,783)	-	1,924	(584)	-	(1,231)	-	(730)	621	1,892	(1,892)	-
Own properties for sale	44,061	(29,282)	14,779	4,495	(18,920)	12,014	15,137	-	(6,647)	291	44,773	(23,624)	*21,149*
	397,886	(157,441)	240,445	304,092	(338,357)	68,454	(6,962)	730	(35,525)	14,448	356,659	(109,334)	247,325

	December 31, 2016						Transfers				BAPOP Merger		December 31, 2017		
	Gross amount	Impairment	Net amount	Increases	Sales	Utilization	Capital	Impairment	Allocation to impairment	Impairment reversal	Capital	Impairment	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting															
Properties received as settlement of defaulting	72,893	(29,330)	43,563	-	-	-	(28,754)	15,350	-	-	217,727	(102,129)	261,866	(116,109)	145,757
Promises	3,254	(224)	*3,030*	2,399	(4,589)	-	-	-	(18)	205	11,251	-	*12,315*	*(37)*	*12,278*
Public sales	19,593	(3,976)	*15,617*	35,508	(41,629)	-	3,772	-	(663)	504	39,926	-	*57,170*	*(4,135)*	*53,035*
Other 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	(17,558)	15,731	(13,059)	5,484	286,109	(105,803)	397,886	(157,441)	240,445

18. NON-CURRENT ASSETS HELD FOR SALE

The composition of this heading is as follows:

	31-12-2018	31-12-2017
Properties received as settlement of defaulting	46,277	128,551
Equipment	1,913	1574
	48,190	130,125
Impairment (Note 21)	(18,168)	(42,856)
	30,022	87,269

Movement under Non-current assets held for sale as at during the periods ended December 31, 2018 & 2017 was as follows:

	2018										
	31-12-2017				Transfers	Impairment (Note 21)			31-12-2018		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Gross amount	Increases	Reversals	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Properties:											
Received as settlement of defaulting	128,551	(41,575)	22,075	(126,690)	22,341	(18,654)	9,862	33,768	46,277	(16,599)	29,678
Equipment	1,574	(1,281)	486	(147)	-	(425)	85	52	1,913	(1,569)	344
	130,125	(42,856)	22,561	(126,837)	22,341	(19,079)	9,947	33,820	48,190	(18,168)	30,022

	2017										
	31-12-2016				Transfers	Impairment (Note 21)			31-12-2017		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Gross amount	Increases	Reversals	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Properties:											
Received as settlement of defaulting	138,310	(49,667)	54,268	(92,781)	28,754	(23,493)	17,302	14,283	128,551	(41,575)	86,976
Property for own use	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

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

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

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

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

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

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

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

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

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

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

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

	31-12-2018	31-12-2017
Liabilities for life insurance where the risk rests with the policyholder	3,175,960	2,430,798

20. FINANCIAL LIABILITIES AMORTISED COST

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

	31-12-2018	31-12-2017
Resources from the European Central Bank		
Deposits	3,045,472	3,076,000
Deposits from other Central Banks		
Deposits	4,568	4,538
	3,050,040	3,080,538

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

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

	31-12-2018	31-12-2017
Resources of domestic credit institutions		
Deposits	192,207	271,047
Other resources	792	23
Interests payable	6	22
Deferred income revenues	44	-
	193,049	271,092
Resources of foreign credit institution		
Sale operations with repurchase agreement	1,957,342	2,710,621
Consigned resources	900,000	950,000
Deposits	376,488	378,798
Other resources	35,995	40,686
Very short-term resources	76,856	-
Interests payable	181	709
	3,346,862	4,080,814
	3,539,911	4,351,906

As at December 31, 2018 & 2017, Amounts owed to credit institutions abroad – Repo operations, is broken down by type of asset underlying the repo operations:

	31-12-2018			
Type of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	311,387	(46)	(28)	311,313
Bonds issued by the group in the context of securitization operations and repurchased by BST	721,177	-	-	721,177
Covered bonds issued and reacquired by BST	924,930	(62)	(16)	924,852
	1,957,494	(108)	(44)	1,957,342

	31-12-2017			
Type of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	94,669	(11)	5	94,663
Non-subordinated Bonds issued by domestic credit institutions	43,497	-	-	43,497
Bonds issued by the group in the context of securitization operations and repurchased by BST	997,298	47	(8)	997,337
Covered bonds issued and reacquired by BST	1,575,134	(32)	22	1,575,124
	2,710,598	4	19	2,710,621

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

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

	31-12-2018	31-12-2017
Term deposits	16,363,723	15,351,255
Demand deposits	15,136,872	12,829,663
Structured deposits	968,480	1,935,634
Savings deposits	875,550	1,180,229
Other	-	20,612
	33,344,625	31,317,393
Cheques and orders payable	-	104,246
Interests payable	15,243	18,131
Financial insurance products without profit sharing	22,636	21,053
Hedge Adjustments	-	(2,913)
	37,879	140,517
	33,382,504	31,457,910

As at December 31, 2018, the amounts of cheques and orders payable were reclassified to the "Other financial liabilities subheading. Value adjustments for hedging operations were also reclassified to a special balance sheet heading Value adjustments of liabilities inserted into hedging operations liabilities. As at December 31, 2017, the balance of these headings amounted to €107,159k as detailed in Note 1.2.

The debt securities sub-heading comprises the following:

	31-12-2018	31-12-2017
Debt securities		
Covered bonds		
Issued	7,700,000	7,700,000
Repurchased	(4,200,000)	(4,200,000)
Interest payable and other costs	(11,222)	(14,137)
Bonds issued in securitization operations		
Issued	4,898,563	3,249,292
Repurchased	(4,010,288)	(2,155,135)
Interest payable and other costs	(62,904)	(71,536)
Cash Bonds		
Issued	-	1,072
Interest payable and other costs	-	29
	4,314,149	4,509,585
EMTN Programme and others - Issued		
Issued	711	25,744
Interest payable and other costs	2	224
	713	25,968
Other subordinated liabilities		
Issued	296,139	296,139
Repurchased	(288,540)	(288,540)
Interest payable	136	136
	7,735	7,735
	4,322,597	4,543,288

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

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

The conditions of the mortgage bonds, of the bonds issued within the scope of securitisation, of cash bonds and of other subordinated liabilities are presented in Annexes I and II, respectively.
Between May 2008 and December 2018, BST undertook twenty-three covered-bond issues under the €12.5 billion Covered Bonds Programme. As at December 31, 2018 & 2017, covered bonds had autonomous assets and liabilities comprising:

	31-12-2018	31-12-2017
Loans and advances to customers (Note 10)	8,937,841	9,980,181
Interests on loans	7,220	8,151
Commissions	(46,134)	(45,258)
Deferred expenses	2,518	2,130
Derivatives	(65,587)	(105,205)
	8,835,858	9,839,999

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

	Bonds in circulation		EMTN Programme
	Issued	Repurchased	Issued
Balance 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)
Balance at December 31, 2017	7,701,072	(4,200,000)	25,744
. Issues repaid	(1,072)	-	(25,033)
Balance at December 31, 2018	7,700,000	(4,200,000)	711

Movements under bonds issued under securitization transactions during the years 2018 and 2017 were as follows:

	Bonds	
	Issued	Reacquired
Balance 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)
Balance at December 31, 2017	3,249,292	(2,155,135)
Issued	2,266,000	-
Repurchased	(616,729)	584,189
Reacquired		
. Hipototta 13	-	(2,266,000)
. Hipototta 4 e 5	-	(172,842)
. Azor mortgages B	-	(500)
	1,649,271	(1,855,153)
Balance at December 31, 2018	4,898,563	(4,010,288)

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

The debt Other financial liabilities sub-heading comprises the following:

	31-12-2018	31-12-2017
Cheques and orders payable	56,413	
Creditors and other resources		
Creditors through operations with futures	3,140	
Adminsitrative public sector	32,519	
Creditors through factoring contracts	50,442	
Other	57,822	
	200,336	-

As at December 31, 2018, the subheading Other financial liabilities included cheques and payment orders reclassified from the Customer funds and other loans subheading and included balances of sundry creditors reclassified from Other liabilities (see Note 23). As at December 31, 2017, the balances of these headings amounted to €362,051k as detailed in Note 1.2.

21. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during 2018 and 2017 was as follows:

	2018							
	Balance at 31-12-2017	IFRS 9	EUROVIDA merger	Increases	Reversals	Utilization	Other	Balance at 31-12-2018
Provisions for tax contingencies	17,525	-	167	711	(248)	(690)	-	17,465
Provision for pensions and other charges	39,931	-	-	148,819	-	(60,863)	1,684	129,571
Impairment and provisions for guarantees								
and other sureties given	24,022	35,062	-	6,688	(12,612)	-	-	53,160
Other provisions	96,795	-	1,500	200,469	(93,175)	(26,109)	(81,684)	97,796
	178,273	35,062	1,667	356,687	(106,035)	(87,662)	(80,000)	297,992

	2017					
	Balance at 31-12-2016	BAPOP merger	Increases	Reversals	Utilization	Balance at 31-12-2017
Provisions 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

	2018							
	Balance at 31-12-2017	IFRS 9	Eurovida merger	Impairment losses	Reversals of impairment losses	Utilization	Balance at 31-12-2018	Recovery of past due loans
Impairment losses (Note 10)	1,740,865	28,142	-	967,019	(955,020)	(671,436)	1,109,570	9,176
Impairment losses in other financial assets								
at fair value through other comprehensive income (Note 9)	64,094	-	-	3,709	(3,797)	(64,003)	3	-
Impairment of investments in associates (Note 12)	5,532	-	-	1,918	(1,853)	(3,679)	1,918	-
	1,810,491	28,142	-	972,646	(960,670)	(739,118)	1,111,491	9,176
Impairment losses in non-financial assets								
Non-current assets held for sale (Note 18)	42,856	-	-	19,079	(9,947)	(33,820)	18,168	-
Intangible assets (Note 14)	6,301	-	-	4,689	(4,044)	(800)	6,146	-
Other assets (Note 17)	200,730	-	792	35,525	(14,184)	(113,380)	109,483	-
	249,887	-	792	59,293	(28,175)	(148,000)	133,797	-

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

	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 10)							
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							
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 12)	1,500	3,679	353	-	-	5,532	-
	63,815	6,133	415	(247)	(490)	69,626	-
Impairment losses in non-financial assets							
Non-current assets held for sale (Note 18)	53,697	-	24,018	(20,055)	(14,804)	42,856	-
Intangible assets (Note 14)	3,891	2,411	380	-	(381)	6,301	-
Other assets (Note 17)	140,101	105,997	24,459	(61,807)	(8,020)	200,730	-
	197,689	108,408	48,857	(81,862)	(23,205)	249,887	-

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

	31-12-2018	31-12-2017
Restructuring plan	103,166	15,811
Retirement bonus BAPOP	1,684	-
Supplementary pension plan of the Board of Directors (Note 41)	24,721	24,120
	129,571	39,931

22. EQUITY INSTRUMENTS

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

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

23. OTHER LIABILITIES

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Creditors and other resources	-	253,596
Personnel costs		
Vacation and vacation subsidies	39,758	38,507
Other variable remuneration	29,692	28,350
Other personnel costs	1,208	8,697
Other	182,370	138,688
Liabilities with pensions (Note 39)		
Bank responsabilities	972,776	-
Fair value of the Bank Pension Fund	(979,892)	-
Responsabilities-London branch	44,509	-
Fair value of London branch Pension Fund	(38,891)	-
Responsabilities former Banif	133,084	-
Fair value of former Banif Pension Fund	(100,641)	-
Responsabilities-BAPOP	163,111	-
Fair value of BAPOP Pension Fund	(163,475)	-
Other deferred income	3,396	5,914
Liability operations to be settled (Note 17)	203,702	335,010
	490,707	808,762

Subheadings with zero balance as at December 31, 2018, have been reclassified to Other financial liabilities (Note 23). As at December 31, 2017, the balance of these subheadings amounted to €257,805k as detailed in Note 1.2.

24. SHARE CAPITAL

As at December 31, 2018 & 2017, the share capital of Santander Totta, SGPS, SA, was represented by 197,296,207,958 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	31-12-2018		
	Number of shares	Participation (%)	Amount
Santander Group	196,996,017,344	99.85%	1,969,960
Other	194,248,356	0.10%	1,943
Own shares	105,942,258	0.05%	1,059
	197,296,207,958	100.00%	1,972,962

	31-12-2017		
	Number of shares	Participation (%)	Amount
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

During 2018 and 2017, the Bank acquired 5,760,940 and 1,920,420 Treasury shares for the amounts of €118k and €41k, respectively.

During 2017 the Company distributed dividends in the amount of €224,031k (net amount of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.0011 per share.

During 2018 the Company distributed dividends in the amount of €243,165k (net amount of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00123 per share.

Additionally, in December 2018 and 2017, the Company distributed an interim dividend in the amount of €100 million and €150 million, respectively.

<u>Other capital instruments</u>

On December 30, 2015, the Company issued "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). The issuance of this instrument was carried out following the redemption of the TAF preference shares and after approval by the European Central Bank.

On June 20, 2016, the Company made a second issue of "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). The issuance of this instrument was carried out following the redemption of the BST Porto Rico preference shares and after approval by the European Central Bank.

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

Accumulated comprehensive income reserves

As at December 31, 2018 & 2017, the breakdown of the accumulated comprehensive income reserves is as follows:

	31-12-2018	31-12-2017
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Other financial assets at fair value through other comprehensive income	409.740	337.974
Financial assets held to maturity	-	(7.148)
Available-for-sale financial assets of companies under equity method	2.119	1.583
Cash-flow hedging instruments	31.922	(13.895)
Eurovida merger		
Reserves resulting from the valuation of the portfolio at fair value through other comprehensive income	8.002	-
Valuation of insurance liabilities (shadow reserve)	(8.002)	-
Valuation of insurance liabilities (shadow reserve)	(17.744)	(21.067)
Actuarial gains and losses		
Pension Fund of BST	(685.863)	(658.042)
Pension Fund of the Lond branch of BST	(12.109)	(13.400)
Pension fund of Former Banif	(8.515)	(8.004)
Pension fund of BAPOP	(753)	-
Actuarial gains and losses of companies under the equity method	(3.034)	(2.048)
	(284.237)	(384.047)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Other financial assets at fair value through other comprehensive income	(124.097)	(103.332)
Financial assets held to maturity	-	2.073
Available-for-sale financial assets of companies under equity method	(542)	(399)
Cash-flow hedging instruments	(9.896)	4.307
Valuation of insurance liabilities (shadow reserve)	4.210	4.951
Tax impact of actuarial gains and losses	181.610	174.662
Tax impact from the change in accounting policies of companies under the equity method	942	367
Relating to the revaluation of tangible assets	(3.147)	(3.147)
	49.080	79.482
	(235.157)	(304.565)

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

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

During 1998, under Decree-Law 31/98 of February 11, the Bank revalued its tangible fixed assets, increasing their value, net of accumulated depreciation, by approximately €23,245k, which was recorded in revaluation reserves. The net amount resulting from revaluation carried out can only be used for share capital increases or to cover losses, as and when that are used (amortised) or the assets to which they relate are sold. In 2018 this reserve was transferred to Other reserves.

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

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

	31-12-2018	31-12-2017
Legal reserve	257,087	212,312
Merger reserve	640,575	640,575
Consolidated reserve		
Companies consolidated under the full method	672,308	703,484
Companies consolidated under the equity method	9,817	7,289
Retained earnings	(145,411)	(86,162)
	1,434,376	1,477,498

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company sets aside a legal reserve until it equals the share to capital or sum of the free reserves formed and retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated loses or to increase the share capital.

Merger reserve

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

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

25. NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF ST SGPS

In 2018 and 2017, the determination of the consolidated profit can be summarised as follows:

	2018		2017	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of ST SGPS (individual basis)	629,671	629,671	447,754	447,754
Net income of other Group companies:				
Banco Santander Totta, S.A.	475,535	475,325	705,497	705,184
Totta Ireland, Plc.	9,902	9,898	105,195	105,148
Unicre, Instituição Financeira de Crédito, S.A.	20,234	4,421	24,309	5,224
Santander Totta Seguros, S.A.	17,757	17,757	5,100	5,100
Totta Urbe, Empresa de Administração e Construções, S.A.	(4,092)	(4,090)	1,819	1,818
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	12,273	6,014	6,239	3,057
Novimovest - Fundo de Investimento Imobiliário Aberto	8,685	6,928	7,840	6,231
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	2,714	1,330	(87)	(43)
Taxagest, S.A.	(3)	(3)	(4)	(4)
Banif International Bank, LTD	36	36	2,218	2,217
Lusimovest Fundo de Investimento Imobiliário	2,010	518	3,887	1,001
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	63	63	96	96
Primestar servicing	(169)	(135)	-	-
Popular Seguros	217	217	-	-
		518,279		835,029
Elimination of dividends:				
Banco Santander Totta, S.A.		(618,324)		(348,486)
Totta Ireland PLC		-		(107,586)
Unicre - Instituição Financeira de Crédito, S.A.		(3,452)		(4,169)
Santander Totta Seguros, S.A.		-		(79,000)
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(2,889)		(2,695)
		(624,665)		(541,936)
Adjustments related with securitization operations		(15,166)		(127,638)
Annulment of provisions for securities and intragroup shareholdings		(4,185)		(14,890)
Adjustments related to the dissolution of Santotta		-		(167,728)
Other		(3,970)		5,746
		(23,321)		(304,510)
		499,964		436,337

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

	31-12-2018	31-12-2017
Consolidated net income attributable to the shareholders of ST, SGPS	499,964	436,337
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	101,850,324	98,576,841
Weighted average number of ordinary shares outstanding	197,194,357,634	197,197,631,117
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euros)	0.0025	0.0022

Basic earnings per share are the same as diluted earnings per share since there are no contingently issuable common shares, including options, warrants or equivalent financial instruments as of the reporting date.

26. NON-CONTROLLING INTERESTS

In 2018 and 2017 the value of non-controlling interests in the balance sheet and income statement corresponds to the proportion of the holdings of third-parties in the Bank’s share capital.

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

27. OFF-BALANCE-SHEET ACCOUNTS

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

	31-12-2018	31-12-2017
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,567,422	1,717,603
Documentary credits	388,488	347,498
Contingent assets:		
Bank of Portugal	166,024	176,242
Deposit Guarantee Fund	88,059	85,814
Investor Indemnity System	8,903	6,601
Assets pledged as guarantees in monetary policy operations	10,227,930	7,810,863
	12 446 826	10 144 621
Commitments		
Credit lines		
Revocable	5,229,923	5,077,633
Irrevocable	1,035,032	1,352,174
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,954	9,401
Credit lines	-	87,221
Other revocable commitments	216	215
	6 342 094	6 595 613
Liabilities for services rendered		
Deposit and custodial services	27,348,561	27,857,381
Amounts received for collection	172,451	220,568
Other amounts	33,685	136,972
	27 554 697	28 214 921

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

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was created in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by Ministry of Finance Order-in-Council, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as a cost for the period to which they relate.

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid amounts accumulated as at December 31, 2018 and 2017, for which this commitment was entered into amounts to €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2018 and 2017, the Bank paid 100% of the annual contribution in the amounts of €44k and €21k, respectively (Note 35).

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

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as cost. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2018 & 2017, these liabilities amounted to €7,954k and €9.401k, respectively.

28. INTEREST INCOME

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Interest on cash and deposits		
In credit institutions	820	101
Interests on applications		
In domestic credit institutions	2,853	2,931
In foreign credit institutions	3,334	8,778
Interest on loans and advances to customers		
Domestic loans	621,080	518,955
Foreign loans	15,913	12,856
Other loans and receivables (commercial paper)	78,999	77,610
Securitized assets not derecognized	40,894	25,470
Income from comissions received associated to amortized cost	61,623	42,490
Interest on overdue loans and advances	8,075	10,909
Interest and similar income on other financial assets		
Other financial assets at fair value through other comprehensive income	114,908	116,186
Held to maturity investments	-	6,468
Other financial assets at fair value through profit or loss	1,380	1,156
Hedging Derivatives	245,244	231,282
Other interests and similar income	32,444	4,018
	1,227,567	1,059,210

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

29. INTEREST CHARGE

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Interest on resources from the Bank of Portugal		
Resources from Bank of Portugal	61	4,740
Resources from other credit institutions	3	4
Interest on resources from other Credit institutions		
Domestic	289	297
Foreing	3,851	2,030
Customer deposits		
Deposits		
Residents	52,268	56,401
Non-residents	5,357	5,010
Other resources	-	220
Interests on debt securities		
Bonds	45,993	37,968
Other liabilities on debt securities	89	660
Interest on subordinated liabilities		
Subordianted liabilities	570	634
Interests from hedging derivatives	239,220	241,662
Other interests	13,588	12,656
	361,289	362,282

30. INCOME FROM EQUITY INSTRUMENTS

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

	31-12-2018	31-12-2017
SIBS – Sociedade Interbancária de Serviços, S.A.	1,159	2,799
Unicampos-Fundo Especial de Invest. Imobiliário Fechado	109	92
Other	406	20
	1,674	2,911

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

31. INCOME FROM SERVICES & COMMISSION

The composition of this heading is as follows:

	31-12-2018	31-12-2017
On guarantees given		
Guarantees and sureties	16,244	15,792
Documentary credits	3,360	2,734
On commitments to third parties		
Revocable commitments	837	1,810
Irrevocable credit lines	377	42
For banking services provided		
Card transactions	89,486	82,173
Demand deposits	65,720	52,069
Credit operations	51,540	46,574
Annuities	27,256	23,602
Real estate and mutual fund management	26,983	20,858
Asset management and collection	12,470	11,192
Cheques	9,303	10,633
Deposit and custody services	5,031	3,948
Other banking services rendered	12,009	1,800
On operations carried out on behalf of third parties		
On securities	16,260	16,488
Other	614	254
Other commission received		
Insurance	98,443	96,974
Other	16,960	11,311
	452,893	398,254

32. CHARGES WITH SERVICES & COMMISSION

The composition of this heading is as follows:

	31-12-2018	31-12-2017
On guarantees received		
Guarantees and sureties	3,101	3,785
On banking services rendered by third parties		
Customer transactions	49,108	45,063
Credit operations	15,030	9,101
Asset management and collection	4,321	3,032
Other banking services rendered	2,045	2,001
On operations carried out by third parties		
Securities	2,819	1,912
Other operations carried out by third parties	2,107	1,772
Other commissions paid	1,964	478
	80,495	67,144

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

33. GAINS/LOSSES ON FINANCIAL ASSETS

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

	31-12-2018	31-12-2017
Financial assets held for trading		
Equity instruments	228	94
Derivative instruments		
Swaps		
Currency swaps	(512)	(279)
Interest rate swaps	(2,714)	(31,486)
Equity swaps	(1,505)	(8,417)
Options		
Currency swaps	98	193
Equity swaps	4,807	13,291
Other	(3,162)	14,867
	(2,760)	(11,737)
Other financial assets and liabilities mandatory at fair value through profit or loss		
Debt instruments	6,553	(9)
Equity instruments	(33,657)	(119)
	(27,104)	(128)
Hedging derivatives		
Swaps		
Interest rate swaps	(38,407)	5,291
Equity swaps	525	2,990
Autocallable options	135	463
Value adjustments of hedge assets and liabilities	37,734	(8,821)
	(13)	(77)
	(29,877)	(11,942)

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

	31-12-2018			31-12-2017		
	Gains	Losses	Net	Gains	Losses	Net
Debt instrumentos						
National public issuers	25,529	(119)	25,410	81,800	-	81,800
Foreign public issuers	775	-	775	-	-	-
Other	-	-	-	-	(26)	(26)
Equity instruments	593	(4)	589	164	(23)	141
	26,897	(123)	26,774	81,964	(49)	81,915

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

The currency revaluation sub-heading comprises the following:

	31-12-2018	31-12-2017
Gains on the revaluation of the foreign exchange position	206,177	393,257
Losses on the revaluation of the foreign exchange position	(196,653)	(384,880)
	9,524	8,377

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

	31-12-2018	31-12-2017
Gains on the sale of loans and advances to customers (Note 10)	43,511	33,524
Gains on non-current assets held for sale		10,286
Gains on other tangible assets	2,268	3,240
Gains on the sale of investments in subsidiaries and associates	106	-
Other gains on non-financial operations	1,175	427
	47,060	47,477
Losses on the sale of loans and advances to customers (Note 10)	(55,991)	(2,012)
Losses on non-current assets held for sale		(1,456)
Losses on other tangible assets	(2,167)	(1,155)
Other losses on financial operations	(1,246)	(721)
	(59,404)	(5,344)
	(12,344)	42,133

As at December 31, 2018, the gains/losses on non-current assets held for sale were reclassified to a special heading of the income statement Results of non-current assets held for sale.

34. GROSS MARGIN OF THE INSURANCE BUSINESS

The composition of the gross margin of insurance is as follows:

	31/12/2018	31/12/2017
Commissions and profit sharing on reinsurance ceded	30,023	28,124
Gross written premiums net of reinsurance	64,172	101,190
Costs with claims net of reinsurance	(48,508)	(21,960)
Change in technical reserves net of reinsurance	(46,110)	(110,529)
Interests and net income of assets allocated to technical reserves	11,327	7,059
Net gains of assets allocated to technical reserves	978	-
Charges for services and commissions associated with technical reserves	(2,879)	(67)
	9,003	3,817
Gross margin on life insurance where the investment risk rests with the policyholder	10,777	7,150

Technical provisions include liabilities for insurance contracts and financial liabilities for investment contracts with discretionary profit-sharing.

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

Financial liabilities for investment contracts without discretionary profit-sharing are not considered when determining the gross margin of the insurance business.

In 2018 and 2017, the breakdown of Gross premiums written net of reinsurance was as follows:

	2018	2017
Retirement Savings Plan/Education	66,525	126,043
Temporary Individual/Group	67,708	54,910
Deferred capital insurances	6,108	-
Traditional products	196	219
Non-life	7,997	-
Other products	2,980	-
	151,514	181,172
Reinsurance ceded	(87,342)	(79,982)
	64,172	101,190

In 2018 and 2017, the breakdown of Cost of claims net of reinsurance was as follows:

	2018		
	Amounts paid	Change in the claims reserve	Total
- Temporary Individual/Group	19,973	(2,764)	17,209
- PPR/E Garantido	20,805	320	21,125
- PPR/E Maxinveste	1,555	350	1,905
- Genesis Plan	582	105	687
- Other products	18,700	116	18,816
- Non-life	4,061	740	4,801
	65,676	(1,133)	64,543
Reinsurance ceded	(16,919)	884	(16,035)
	48,757	(249)	48,508

	2017		
	Amounts paid	Change in the claims reserve	Total
- Temporary Individual/Group	20,146	1,150	21,296
- PPR/E Garantido	17,394	402	17,796
- PPR/E Maxinveste	2,199	(6)	2,193
- Genesis 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

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

In 2017 and 2018, movement under Change of technical provisions net of reinsurance was as follows:

Change in the unearned premiums reserve	
Balance at December 31, 2016	31
Change in the unearned premiums reserve, net of reinsurance	6
Balance at December 31, 2017 (Note 16)	37
Inclusion of Eurovida and Popular Seguros in the consolidating perimeter	2,144
Change in the unearned premiums reserve, net of reinsurance	(1,600)
Deferred acquisition costs	124
Balance at December 31, 2018 (Note 16)	705
Change in the mathematical reserve	
Balance at December 31, 2016	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 16)	359,631
Mathematical reserve, net of reinsurance, former Eurovida	254,269
Change in the mathematical reserve, net of reinsurance in 2018	44,992
Transfer to reserve for profit sharing attributed	1,195
Deferred acquisition costs	32
Balance at December 31, 2018 (Note 16)	660,119
Change in the reserve for profit sharing attributed	
Balance at December 31, 2016	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 16)	341
Reserve for Eurovida's profit sharing	2,796
Profit sharing paid out in 2018	(321)
Transfer to the mathematical reserve	(2,527)
Profit sharing attributed in 20178	2,562
Attributable transfer	280
Balance at December 31, 2018 (Note 16)	3,131
Change in the reserve for profit sharing attributable	
Balance at December 31, 2016	19,908
Change in shareholders' equity in 2017	1,159
Balance at December 31, 2017 (Note 16 & 24)	21,067
Reserve for Eurovida's profit sharing	8,002
Attributable reserve transfer	(280)
Change in shareholders' equity in 2018	(3,323)
Balance at December 31, 2018 (Note 16 & 24)	25,466

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

35. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Other operating income		
Rental of APT	19,654	20,109
Rents earned	16,031	15,660
Unrealized gains on investment properties	3,787	3,452
Income from services rendered	2,792	3,108
Reimbursement of expenses	2,710	2,729
Other	13,347	2,959
	58,321	48,017
Other operating expenses		
Contributions to the Resolution Fund	(22,220)	(19,352)
Subscriptions and donations	(7,445)	(7,734)
Charges related to transactions made by customers	(6,239)	(7,234)
Expenses with APT	(14,430)	(16,934)
Unrealized losses on investment properties	(4,975)	(5,163)
Other taxation		
Indirect taxes	(3,202)	(1,433)
Direct taxes	(2,793)	(1,890)
Contributions to the Deposit Guarantee Fund (Note 27)	(44)	(21)
Other charges and operating expenses	(11,163)	(2,979)
	(72,511)	(62,740)
	(14,190)	(14,723)

As at December 31, 2018 & 2017, Rents earned includes the amounts of €15,252k and €15,586k, respectively, in respect of the rents received by the Novimovest Real Estate Fund (13).

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

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

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

36. STAFF COSTS

The composition of this heading is as follows:

	31-12-2018	31-12-2017
Remuneration		
Management and supervisory boards (Note 41)	9,549	9,231
Employees	233,480	207,320
Stock plan (Note 42)	332	299
Other variable remuneration	35,632	24,043
	278,993	240,893
Mandatory social charges		
Charges on remuneration	63,384	57,163
Pensions and other benefits (Note 39)	6,375	6,222
Other mandatory social charges	1,301	931
	71,060	64,316
Other staff costs		
Staff assignments	1,388	569
Supplementary pension plan (Note 39)	307	583
Other	5,461	4,853
	7,156	6,005
	357,209	311,214

37. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	31-12-2018	31-12-2017
External supplies:		
Water, electricity and fuel	10,607	8,508
Consumable materials	2,122	1,981
Other	382	363
External services:		
Specialized services	86,429	67,400
Maintenance of software and hardware	47,532	40,787
Communications	15,006	11,997
Maintenance and repairs	7,510	4,165
Advertising and publishing	13,458	11,507
Rents and hires	15,358	13,631
Travel, lodging and entertainment expenses	6,244	5,692
Transportation	4,660	3,665
Staff training	1,659	2,145
Insurance	1,831	1,292
Other	9,214	5,931
	222,012	179,064

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

38. RESULTS OF ASSOCIATES

The composition of this heading is as follows:

	31-12-2018	31-12-2017
AEGON Santander Portugal Não Vida	1,330	-
AEGON Santander Portugal Vida	6,014	3,015
Atlantes Finance 6	-	51
Benim - Sociedade Imobiliária, S.A	-	(2)
Lusimovest - Fundo de Investimento Imobiliário	518	1,002
Unicre - Instituição Financeira de Crédito	6,605	5,226
Other	101	-
	14,568	9,292

39. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services of the Bank in respect of employees in service and those already retired, actuarial studies were conducted by (Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

BST's liabilities for retirement pensions, health care and death benefits as at December 31, 2018, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

	2018	2017	2016	2015	2014
Estimate of responsibilities for past services:					
Pensions					
Current employees	264,141	289,518	314,119	303,523	308,223
Pensioners	38,877	34,059	31,526	26,928	26,343
Retired and early retired staff	509,295	475,916	424,970	399,942	415,679
	812,313	799,493	770,615	730,393	750,245
Healthcare system (SAMS)	148,351	147,942	147,207	151,544	151,903
Death subsidy	5,076	5,132	6,372	5,759	5,543
Retirenment bonus	7,036	6,802	8,082	-	-
	972,776	959,369	932,276	887,696	907,691
Coverage of responsibilities					
Net assets of the fund	979,892	996,786	932,465	914,204	910,580
Excess financing amount / (not financed)	7,116	37,417	189	26,508	2,889
Actuarial and financial deviations generated in the year					
Change in assumptions	2,958	-	30,579	-	37,912
Experience adjustments					
Other actuarial (gains) / losses	(4,872)	(4,319)	23,815	(9,857)	6,580
Financial (gains) / losses	29,753	(32,933)	2,050	(17,675)	1,111
	24,881	(37,252)	25,865	(27,532)	7,691
	27,839	(37,252)	56,444	(27,532)	45,603

In 2011 a tripartite agreement was concluded between the Ministry of Finance, the Portuguese Banks Association and the Financial Sector Federation (FEBASE), within the scope of which the Bank transferred to Social Security the liabilities to retirees and pensioners who, on December 31, 2011, were covered by the replacement Social Security regime set out in the collective bargaining agreement (CBA) in force in the banking sector. As a result, the assets of the Bank's Pension Fund were transferred in that part corresponding to those liabilities. In accordance with the provisions of Decree-Law 127/2011, of December 31, the amount of the pension liabilities transferred to the State was determined taking into account the following assumptions:

Mortality table male population	TV 73/77 less 1 year
Mortality table female population	TV 88/90
Technical actuarial rate (discount rate)	4%

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

The amount of the liabilities transferred to Social Security determined on the basis of the above assumptions was €456,111k.

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at December 31, 2018 & 2017, were as follows:

	2018	2017
Mortality Table		
. Women	TV 88/90 (-1)	TV 88/90
. Men	TV 88/90	TV 88/90
Rate of return on pension fund assets	2.10%	2.00%
Technical actuarial rate (discount rate)	2.10%	2.00%
Salary growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Inflation rate	0.75%	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years, though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

Movement under liabilities for past services during the years ended December 31, 2018 and 2017, can be detailed as follows with regard to the Bank pension plan:

	31-12-2018	31-12-2017
Liabilities at the beginning of the period	959,369	932,276
Cost of current services	4,075	4,536
Interest cost	18,418	17,912
Actuarial (gains)/losses	(1,914)	(4,319)
Early retirement	39,021	51,367
Amounts paid	(48,637)	(44,873)
Employee contributions	2,444	2,470
	-----------	-----------
Liabilities at the end of the period	972,776	959,369
	======	=======

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the years ended December 31, 2018 & 2017, the breakdown of pension costs is as follows (Note 36):

	2018	2017
Cost of current services	4,075	4,536
Interest cost	18,418	17,912
Return on assets calculated with the discount rate	(18,418)	(17,912)
	---------	---------
Defined-benefit plan	4,075	4,536
Defined-contribution plan	722	1,132
Ex-BAPOP plan	1,255	-
London Branch plan	323	554
	-------	-------
	6,375	6,222
	====	====

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

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

Movement under actuarial deviations during 2018 & 2017 was as follows:

Balance at December 31, 2016	695,584
Actuarial gains on pensions generated	(1,437)
Financial gains on pensions generated	(27,281)
Actuarial gains on healthcare, death benefit and retirement bonus	(2,882)
Financial gains on healthcare, death benefit and retirement bonus	(5,651)

Balance at December 31, 2017	658,333
Actuarial gains on pensions generated	(2,389)
Financial losses on pensions generated	24,699
Actuarial losses on healthcare, death benefit and premium on retirement	475
Financial losses on healthcare, death benefit and retirement bonus	5,054

Balance at December 31, 2018	686,172
	======

Actuarial deviations with pensions in 2018 and 2017 are detailed as follows:

	2018	2017
Change in actuarial assumptions	2,619	-
Change of the salary scale		
with impact on pensions and salaries	(1,708)	8,922
Changes in the population	(630)	(8,156)
Mortality deviations		
. For departures	(5,757)	(5,111)
. For permanence	1,789	2,432
For survivors' and orphans' pensions	4,949	2,489
Shift of early retirees to pensioners	(3,651)	(2,013)
	---------	----------
	(2.389)	(1.437)
	=====	======

Estimated salary and pension growths take into account the country's current situation and the consequent perspectives of smaller increases in the future, or even maintenance of current values.

Actuarial deviations with health care, death benefit and retirement bonus in 2018 and 2017 can be detailed as follows:

	2018	2017
Change in actuarial assumptions	339	-
Salary and level changes	88	612
Other	48	(3,494)
	---------	----------
	475	(2.882)
	====	====

In 2019 BST expects make a contribution of €7,234k to its defined-benefit plan.

The average duration of pension liabilities of the Bank's employees is 15 years, including those in active service and pensioners.

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

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at December 31, 2018 & 2017, the number of participants of the Fund was as follows:

	2018	2017
Employees in service[(1)]	4,582	4,789
Pensioners	1,175	1,123
Retirees and early retirees	5,689	5,561
	---------	----------
	11,446	11,473
	=====	=====

(1) Of whom 340 and 274 employees belong to the defined-contribution plan on December 31, 2018 and 2017, respectively.

The main demographic changes during 2018 & 2017 were as follows:

	Current employees			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2016	265	4,838	5,358	1,092
Leavers:				
Current employees	(20)	(35)	-	(6)
Due to mortality	-	(3)	(101)	(29)
Transfers	-	(294)	294	-
Joiners	29	9	10	66
Total number at December 31, 2017	274	4,515	5,561	1,123
Leavers:				
Current employees	(7)	(40)	-	(9)
Due to mortality	-	(6)	(119)	(29)
Transfers	-	(228)	228	-
Net joiners	73	1	19	90
Total number at December 31, 2018	340	4,242	5,689	1,175

Movement occurred in the Bank's Pension Fund during 2018 and 2017 was as follows.

Carrying amount as at December 31, 2016	932,465
Bank's contributions (cash)	55,879
Employee contributions	2,470
Net income of the Fund:	
. Return on assets calculated with the discount rate	17,912
. Return on assets calculated above the discount rate	32,933
Amounts paid	(44,873)

Carrying amount as at December 31, 2017	996,786
Bank's contributions (cash)	40,634
Employee contributions	2,444
Net income of the Fund:	
. Return on assets calculated with the discount rate	18,418
. Income of the Fund below the discount rate	(29,753)
Amounts paid	(48,637)

Carrying amount as at December 31, 2018	979,892
	======

The rates of return of the Pension Fund in 2018 and 2017 amounted to (0.98%) and 5.45%, respectively.

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

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%

As at December 31, 2018 & 2017, the composition of the BST Pension Fund was as follows:

	31-12-208	31-12-2017
Debt instruments:		
Rating A	26,262	22,113
Rating BBB	407,452	313,459
Rating BB	14,055	58,132
Without rating to the issuance and issuer	53,931	104,686
Real estate funds	154,781	160,019
Mutual funds	175,316	186,024
Real estate		
Commercial spaces	21,313	22,059
Land	844	863
Equity instruments:		
Portuguese shares – listed	161	366
Portuguese shares – non-listed	-	-
Foreign shares - listed	34,030	51,642
Derivative financial instruments		
Options listed	2,288	771
	890,433	920,134
Deposits	68,387	55,016
Other	21,072	21,636
	979,892	996,786

As at December 31, 2018 & 2017, the method for the determination of the fair value of the assets and liabilities mentioned above adopted by the Bank's Pension Fund Management Company, as recommended in IFRS 13 (Note 43), was as follows:

	31-12-2018				31-12-2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	447,769	-	53,931	501,700	393,704	-	104,686	498,390
Investment funds	164,181	-	165,916	330,097	155,688	-	190,355	346,043
Equity instruments	34,191	-	-	34,191	52,008	-	-	52,008
Derivative financial instruments	2,288	-	-	2,288	771	-	-	771
Real estate	-	-	22,157	22,157	-	-	22,922	22,922
	648,429	-	242,004	890,433	602,171	-	317,963	920,134

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

As at December 31, 2018 & 2017, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	31-12-2018	31-12-2017
Rented properties	14,841	14,948
Securities (including units in funds managed)	151,881	151,199
	---------	----------
	166,722	166,147
	======	======

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In 2018 and 2017 the premium paid by the Bank amounted to €307k and €583k respectively (Note 36).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

As at December 31, 2018 & 2017, 88 and 95 employees, respectively, were covered by this plan.

<u>Defined benefit pension plan – London Branch</u>

As at December 31, 2018 & 2017, the main assumptions used in the calculation of retirement pension liabilities covering the employees of BST's London Branch were as follows:

	31-12-2018	31-12-2017
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	2.7%	2.4%
Salary growth rate	2.5%	2.4%
Pension growth rate	2.0%	2.0%
Inflation rate	2.5%	2.4%

As at December 31, 2018 & 2017, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	31-12-2018	31-12-2017
Estimated liabilities for past-services	44,509	47,440
Coverage – Pension Fund asset value	38,891	40,711
	--------	-------
Amount not funded – London Branch	(5,618)	(6,729)
	=====	====

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

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2018 and 2017 is as follows:

Liabilities as at December 31, 2016	49,894
Cost of current services	240
Interest cost	1,245
Actuarial gains	(3,182)
Amounts paid	(757)

Liabilities as at December 31, 2017	47,440
Cost of current services	163
Interest cost	1,120
Actuarial gains	(3,327)
Amounts paid	(887)

Liabilities as at December 31, 2018	44,509
	=====

Movement in the Pension Fund of the London Branch in 2018 and 2017 was as follows:

Book value as at December 31, 2016	37,501
Net income of the Fund:	
. Return on assets calculated with the discount rate	931
. Income of the Fund below the discount rate	(414)
Contribution of the Branch	3,450
Amounts paid	(757)

Book value as at December 31, 2017	40,711
Net income of the Fund:	
. Return on assets calculated with the discount rate	960
. Income of the Fund below the discount rate	(2,030)
Contribution of the Branch	137
Amounts paid	(887)

Carrying amount as at December 31, 2018	38,891
	=====

The breakdown of the costs of the defined-benefit plan of the London Branch in 2018 and 2017 is as follows:

	2018	2017
Cost of current service	163	240
Interest cost	1,120	1,245
Return on assets calculated with the discount rate	(960)	(931)
	-----	-----
	323	554
	===	===

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

Movement under actuarial deviations of the London Branch in 2018 and 2017 was as follows:

Balance at December 31, 2016	16,174
Actuarial gains with pensions	(3,182)
Financial losses with pensions	414
Balance at December 31, 2017	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030
Balance at December 31, 2018	12,109

As at December 31, 2018 & 2017, the portfolio of the Pension Fund of the London Branch include the following assets:

	31-12-2018	31-12-2017
Debt instruments	20,908	22,332
Equity instruments	1,773	5,900
Other instruments	16,025	9,102
Deposits	185	3,377
Value of the Fund	38,891	40,711

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

– Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.

– Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.

– Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.

– Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

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

On December 31, 2018 and 2017, a sensitivity analysis performed on a variation of the main financial assumptions referred to those dates led to the following impacts on the current value of the Bank's past-service liabilities (excluding those associated with the London Branch):

	2018		2017	
	(Decrease)/ Increase		(Decrease)/ Increase	
	%	Amount	%	Amount
Change in discount rate:				
Increase of 0.5%	(6.7%)	(65,035)	(6.9%)	(54,871)
Decrease of 0.5%	7.5%	72,998	7.7%	61,806
Change in salary growth rate:				
Increase of 0.5%	5.0%	48,876	5.9%	47,411
Decrease of 0.5%	(4.1%)	(40,070)	(4.8%)	(38,419)
Change of pension growth rate:				
Increase of 0.5%	9.4%	91,311	8.9%	71,401
Decrease of 0.5%	(8.5%)	(82,610)	(8.1%)	(64,842)
Change in mortality rate table:				
More than two years	(6.3%)	(61,300)	(6.4%)	(51,438)
Less than two years	6.3%	61,408	6.5%	51,639

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, retirees, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested of the Insurance and Pension Funds Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by Insurance and Pension Funds Supervisory Authority.

Banif employees were covered by different types of pension plans:

a) The first pension plan, defined-benefit, was subdivided between the Banif population and the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS , the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.

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

b) Defined-benefit pension plan I– former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

d) Pension plan III contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or rescinded by the date of entry into force of the Company Agreement.

The Bank assumed Banif's liabilities in the three pension plans. As at December 31, 2018 & 2017, the population covered is as follows:

	31-12-2018			31-12-2017		
	Subpopulation former Banif	Subpopulation former BBCA	Total	Subpopulation former Banif	Subpopulation former BBCA	Total
Current employees	727	174	901	752	185	937
Retired staff and pensioners	96	161	257	94	156	250
Early retired staff	10	171	181	13	175	188
Former participants with vested rigths	-	69	69	-	81	81
Retired of the defined contribution plan	175	-	175	162	-	162
Total	1,008	575	1,583	1,021	597	1,618

Defined pension contribution plan - covered employees

	31-12-2018	31-12-2017
Plan II	470	500
Plan III	257	272
Total	727	772

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

The breakdown of the estimated liabilities for past services as at December 31, 2018 & 2017, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA subpopulations):

	31-12-2018				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death subsidy	Retirement bonus	Total
Current employees	21,605	6,155	102	846	28,708
Retired staff and pensioners	74,838	7,484	384	-	82,706
Early retired staff	13,821	3,450	-	-	17,271
Former participants with vested rights	3,241	1,158	-	-	4,399
Total liabilities for past services	113,505	18,247	486	846	133,084
Book value of the pension fund					100,641
Insufficient fund					(32,443)

	31-12-2017				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death subsidy	Retirement bonus	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 rights	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)

As at December 31, 2018 & 2017, the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	31-12-2018		31-12-2017	
Asset	Total	Relative weight	Total	Relative weight
Debt instruments	64,385	62.49%	63,879	56.51%
Mutual fund	7,908	7.68%	22,015	19.48%
Real estate fund	1,946	1.89%	3,010	2.66%
Real estate properties	13,744	13.34%	14,680	12.99%
Equity instruments	6,665	6.47%	2,605	2.30%
Deposits	6,111	5.93%	5,426	4.80%
Other	2,266	2.20%	1,422	1.26%
	103,025		113,037	
Assets to be transfered	(2,384)		(2,532)	
	100,641		110,505	

The value of the assets to be transferred corresponds to the amount of the assets of the Pension Fund's portfolio to be allocated to the coverage of the liabilities relating to Banif employees who were not transferred to the Bank.

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

Pension Fund – BAPOP

Following the acquisition/merger of BAPOP on December 27, 2017, the Bank took over its Pension Fund in its entirety. The BAPOP the pension plan is a defined-benefit plan that provides the benefits laid down in the CBA. The Fund also assumes the liabilities for past services of the former employees, in the proportion of the time they have been in the service of BAPOP. This plan also includes a pension plan for the executive members of the board of directors that ensures payment of old-age, disability and survivors' pensions.

As at December 31, 2018 & 2017, the population covered is as follows:

	31-12-2018	31-12-2017
Current employees	929	847
Retired staff and pensioners	138	133
Early retired staff	23	-
Former employees (management)	2	2
Former employees	1,165	1,167
Total	2,257	2,149

The directors' plan does not have participants at this time, the 2 existing directors having left (one without vested rights and the other who became part of the population of former participants (Directors).

The breakdown of the estimated liabilities for past services as at December 31, 2018 & 2017, using the Bank assumptions, is as follows:

	31-12-2018			31-12-2017		
	Pensions	SAMS Healthcare and death subsidy	Total	Pensions	SAMS Healthcare and death subsidy	Total
Current employees	49,183	6,804	55,987	74,492	1,183	75,675
Retired staff and pensioners	57,755	2,529	60,284	54,728	186	54,914
Early retired staff	12,352	663	13,015			
Former employees (management)	2,718	43	2,761	2,720	5	2,725
Former employees	31,064	-	31,064	30,661	-	30,661
Total liabilities for past services	153,072	10,039	163,111	162,601	1,374	163,975
Book value of the pension fund			163,475			166,358
Over financing			364			2,383

As at December 31, 2018 & 2017, the breakdown of the BAPOP Pension Fund's portfolio by asset type is as follows:

	31-12-2018		31-12-2017	
Asset	Total	Relative weight	Total	Relative weight
Debt instruments	83,324	50.97%	87,653	52.69%
Participation units	57,519	35.19%	65,178	39.18%
Deposits	22,632	13.84%	13,527	8.13%
	163,475		166,358	

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

40. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta nº 4 and Hipototta nº 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

The Hipototta Funds (nº 4 and nº 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegator). BST continues manage the loan contracts, delivering to Hipototta Funds (nº 4 and nº 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

As a form of funding, Hipototta Funds (nº 4 and nº 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta (nº 4 and nº 5) PLC delivered all amounts received from BST and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.
As a form of funding, Fundos Hipototta (nº 4 and nº 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at December 31, 2018, bonds issued that are still alive have the following characteristics:

Hipototta nº4 PLC

Issued debt	Amount - Initial	Amount - Current	Rating - Fitch	Redemption date	Early redemption date	Remuneration - Up to early redemption date	Remuneration - After early redemption date
Class A	2,616,040	552,766	A	September 2048	December 2014	Euribor 3 months + 0,12%	Euribor 3 months + 0,24%
Class B	44,240	20,110	A	September 2048	December 2014	Euribor 3 months + 0,19%	Euribor 3 months + 0,40%
Class C	139,720	63,511	BB-	September 2048	December 2014	Euribor 3 months + 0,29%	Euribor 3 months + 0,58%
	2,800,000	636,387					
Class D	14,000	14,000	NR	September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	650,387					

Hipototta nº 5 PLC

Issued debt	Amount - Initial	Amount - Current	Rating - S&P	Rating - Moody´s	Redemption date	Early redemption date	Remuneration - Up to early redemption date	Remuneration - After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 months + 0,05%	Euribor 3 months + 0,10%
Class A2	1,693,000	505,465	A	Aa3	February 2060	February 2014	Euribor 3 months + 0,13%	Euribor 3 months + 0,26%
Class B	26,000	26,000	A	Aa3	February 2060	February 2014	Euribor 3 months + 0,17%	Euribor 3 months + 0,34%
Class C	24,000	24,000	A	A1	February 2060	February 2014	Euribor 3 months + 0,24%	Euribor 3 months + 0,48%
Class D	26,000	26,000	A	Baa2	February 2060	February 2014	Euribor 3 months + 0,50%	Euribor 3 months + 1,00%
Class E	31,000	31,000	BBB-	Ba2	February 2060	February 2014	Euribor 3 months + 1,75%	Euribor 3 months + 3,50%
	2,000,000	612,465						
Class F	10,000	6,125	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	618,590						

The bonds issued by Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

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

The Bank has an option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, BST has call option to repurchase in advance the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta nº 4 class D bonds and the Hipototta n° 5 class F bonds constitute the last liability to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and service fee charged by BST, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta n° 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between BST and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and securitisation vehicles, and between the Bank and the Santander GroupZ&Cintended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Atlantes Mortgage nº 1

Operation carried out in February 2003, in which mortgage-loan contracts were ceded. The loans were sold to a credit securitisation fund called Atlantes Mortgage nº 1 FTC, which issued units subscribed by Atlantes Mortgage nº 1 PLC having its registered office in Ireland. To finance itself, the company Atlantes Mortgage nº 1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitisation operation is managed by Navegator.

Atlantes Mortgage nº 1 PLC

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	462,500	15,207	AA-	A1	January 2036	Euribor 3 months + 0,54%
Class B	22,500	22,500	BBB-	A1	January 2036	Euribor 3 months + 1,3%
Class C	12,500	12,500	BB-	A2	January 2036	Euribor 3 months + 2,6%
Class D	2,500	2,500	B-	Ba2	January 2036	Euribor 3 months + 4,75%
	500,000	52,707				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	515,400	68,107				

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

Azor Mortgage nº 1

Operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, SA) were ceded. The ceded loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	1,136	AA-	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	A	A1	September 2047	Euribor 3 months + 0,76%
Class C	9,000	9,000	BBB-	A3	September 2047	Euribor 3 months + 1,75%
	281,000	29,136				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	39,136				

Atlantes Mortgage nº 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 2, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	125,618	A	AA	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,817	BBB-	A	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,632	BB	BBB+	September 2060	Euribor 3 months + 1,65%
	375,000	145,067				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	161,192				

Azor Mortgage nº 2

Operation carried out in July 2008, when the mortgage loans originated at the former BBCA were ceded to Gamma STC . To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,500	97,696	AA-	A (sf)	December 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,8%
	300,000	140,776				
Classe C	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,750	147,526				

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

Atlantes Mortgage nº 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	558,600	213,544	AA-	AA	August 2061	Euribor 3 months + 0,2%
Class B	41,400	30,625	NR	NR	August 2061	Euribor 3 months + 0,5%
	600,000	244,169				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	301,837				

Atlantes Mortgage nº 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	514,250	242,931	AA-	AA	December 2064	Euribor 3 months + 0,15%
Class B	35,750	26,753	NR	NR	December 2064	Euribor 3 months + 0,3%
	550,000	269,684				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	343,934				

Atlantes Mortgage nº 5

Operation carried out in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 5, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	455,000	201,613	AA-	AA	November 2068	Euribor 3 months + 0,15%
Class B	45,000	35,724	NR	NR	November 2068	Euribor 3 months + 0,3%
	500,000	237,337				
Class C	66,250	63,982	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	301,319				

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

Atlantes Mortgage nº 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 7, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	157,928	AA-	AA	August 2066	Euribor 3 months + 0,15%
Class B	39,700	29,348	NR	NR	August 2066	Euribor 3 months + 0,3%
	397,000	187,276				
Class C	63,550	60,898	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	248,174				

Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

Hipototta 13

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	1,473,766	NR	A (sf)	October 2072	Euribor 3 m + 0,6%
Class B	484,000	484,000	NR	NR	October 2072	Euribor 3 m + 1%
	2,200,000	1,957,766				
Classe C	66,000	60,595	NR	NR	October 2072	Residual income of the securitized portfolio
	2,266,000	2,018,362				

41. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in 2018 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Gamma STC	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Primestar Servicing	Portugal
Taxagest,SGPS,SA	Portugal
Totta Ireland, PLC	Ireland
Totta Seguros - Compª de Seguros De Vida, SA	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
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
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Company's related entities with which it maintained balances or transactions in 2017 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
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 are directly or indirectly controlled by the Group	
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
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.	Spain
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

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

As at December 31, 2018 & 2017, the balances and transactions maintained during these years with related parties were as follows:

	2018		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common control with the Group
Assets:			
Balances due from banks	91,713	-	6,633
Financial assets held for trading	162,071	-	8
Other financial assets mandatorily at fair value through profit or loss	98	-	6,938
Other financial assets at fair value through other comprehensive income	541	-	10,547
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	17	59,126
Hedging derivatives	9,970	-	-
Investments in associated companies	-	111,376	-
Other assets	3,482	4,171	4,757
Liabilities:			
Financial liabilities held for trading	(1,197,394)	-	-
Resources of other credit institutions	(290,308)	-	(21,771)
Resources of customers and other debts	-	(11,448)	(44,900)
Debt securities	(63,824)	-	-
Hedging derivatives	(21,242)	-	(5,795)
Other liabilities	(7,061)	(9,804)	(3,779)
Profit and Loss:			
Interest income	(213,471)	(1,319)	(3,196)
Interest charge	222,404	-	3,416
Income from services and commissions	(408)	(43,064)	(21,206)
Charges with services and commissions	747	-	4,435
Assets and liabilities at fair value through profit or loss	103,600	-	17,247
Exchange revaluation	(1,176)	-	-
Gross margin of life insurance in which the risk is borne by the policy holder	5		(65)
Gross margin in insurance activity	-	-	(82)
General administrative costs	7,061	-	36,494
Impaiment from investments in associated companies	-	65	-
Result from associates and joint ventures	-	(14,467)	-
Other operating results	-	-	7,170
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	78,845
Guarantees received	1	-	162
Commitments to third parties	110,000	29,504	27,893
Currency operations and derivatives	26,406,931	-	82,312
Responsibilities for services rendered	2,004,165	85,689	1,827,723

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

	2017		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common control with the Group
Assets:			
Balances due from banks	29,109	-	43,726
Financial assets held for trading	209,479	-	218
Other financial assets mandatorily at fair value through profit or loss	5,139	-	4,810
Other financial assets at fair value through other comprehensive income	563	-	836
Loans and advances to credit institutions	312,676	50,025	276,225
Credit granted and other balances receivable at amortized cost	-	67,054	51,087
Hedging derivatives	14,755	-	-
Investments in associated companies	-	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)
Profit and Loss:			
Interest income	(120,971)	(274)	(1,249)
Interest charge	125,708	-	9
Income from services and commissions	(228)	(16,676)	(9,368)
Charges with services and commissions	1,932	-	1,590
Assets and liabilities at fair value through profit or loss	(43,504)	-	-
Exchange revaluation	(952)	-	-
Gross margin of life insurance in which the risk is borne by the policy holder	(68)	-	(21)
Gross margin in insurance activity	(2)	-	-
General administrative costs	-	-	22,989
Impaiment from investments in associated companies			
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

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

GOVERNING BODIES

Board of Directors

As at December 31, 2018 & 2017, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €533k and €481k respectively. As at December 31, 2018 & 2017, the fixed and variable remuneration totalled €9,549k and €9,231k respectively (Note 36).

In 2015 a new Long-term Individual Incentive Plan was approved within the framework of the multi-year remuneration, which is described in Note 42. For the members of the Board of Directors, the amount carried under Staff costs in 2018 and 2017 is presented below:

	2018	2017
Long-Term Individual Incentive Plan	119	107
	===	===

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3(i).

The General Meeting of Bank shareholders on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former Totta Board of Directors who came to be executive members (executive committee) of the Bank's Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the remuneration committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years and 75% of the annual gross salary, for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at December 31, 2018 & 2017, liabilities with this plan amounted to €24,721k and €24,120k, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 21).

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

Firm of Chartered Accountants

The fees billed or to be billed by the audit firm and respective firms of the same network in 2018 and 2017, excluding value added tax, were as follows:

	2018			2017		
	Bank	Group	Total	Bank	Group	Total
Audit and statutory audit services [(a)]	122	1,496	1,618	124	1,869	1,993
Other assurance services [(a)]	22	831	853	21	713	734
Fiscal consulting services [(b)]	-	-	-	-	-	-
Other services [(b)]	-	163	163	-	111	111
	144	2,490	2,634	145	2,693	2,838

(a) Corresponds to the amounts contracted for the year, irrespective of their billing date.
(b) Corresponds to the amounts billed during the year.

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

Other reliability assurance services include fees for the following services:

(i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2013;
(ii) Review of the internal control system, as required by Bank of Portugal Notice nº 5/2008;
(iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2018) prepared for the purpose of consolidation of Banco Santander, SA;
(iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
(v) Verification of the information on covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
(vi) Verification of the information on monetary policy operations, as required Bank of Portugal Instruction nº 3/2015;
(vii) Agreed procedures on the information of the loan portfolios included in a securitisation operation; and
(viii) Review of the internal control system for the prevention of money laundering and terrorist financing, as required by Bank of Portugal Notice 2/2018;
(ix) Reliability assurance services required by law on the prudential reporting of Santander Totta Seguros.

Other services includes fees related to the following services:

(i) Issuance of comfort letter for the update of the prospects regarding the covered bonds and EMTN programme;
(ii) Review of the information presented in the 2018 sustainability report;
(iii) Gap analysis on the impacts of the new insurance distribution directive; and
(iv) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

42. INCENTIVE PLANS - SHARES

The Group has an active Long-term Incentive Plan (LTIP) for a restricted number of employees. The implementation of this plan is subject to certain performance metrics of Banco Santander, SA, between 2015 and 2017, as well as meeting the following objectives:

i) Growth of consolidated earnings per share ("EPS") of Banco Santander in the period between 2015 and 2017 and compared to a reference group of 17 entities;

ii) The Santander Group's ROTE in 2017

iii) Employee satisfaction measured by the inclusion or not of the Group Company in the Top 3 of the best bank to work for;

iv) Customer satisfaction measured by the inclusion or not of the Group Company in the Top 3 of the best banks for the customer-satisfaction index

v) Number of tied customers as at December 31, 2017.

As described in Note 1.3(r), the accounting record of the share incentive plans is intended to recognise the right of the Group's employees to these instruments in the income statement for period, under Staff costs, to the extent that they correspond to a consideration for services rendered. The management, coverage and implementation of the plans was ensured by Banco Santander, SA, for all employees covered by the plan worldwide.

As at December 31, 2018 & 2017, the total cost of the Share Incentive Stock Plan for all employees of the Bank covered by it is as follows:

	2018	2017
Long-Term Individual Incentive Plan (Note 36)	332	299
	===	===

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

Availability of the shares is subject to continuation of the employees in the Santander Group .

43. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

BALANCE SHEET

Categories of financial instruments

As at December 31, 2018 & 2017, the carrying amount of financial instruments was as follows:

	31-12-2018				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	1,368,060	287,672	-	1,655,732
Balances due from other banks	-	850,898	-	-	850,898
Financial assets held for trading	1,204,674	-	-	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,053,810	-	-	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,995,073	-	-	(3)	5,995,070
Loans and advances to credit institutions	-	675,115	-	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,281,500	37,349,689	75,423	(1,109,486)	39,597,126
Hedging derivatives	73,464	-	-	-	73,464
	13,608,521	40,243,762	363,095	(1,109,573)	53,105,805
Liabilities					
Financial liabilities held for trading	1,239,713	-	-	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources of central banks	-	3,050,040	-	-	3,050,040
Resources from other credit institutions	-	3,539,911	-	-	3,539,911
Resources of customers and other debts	257,276	33,125,228	-	-	33,382,504
Debt securities	-	4,322,597	-	-	4,322,597
Other liabilities	-	143,923	56,413	-	200,336
Hedging derivatives	90,556	-	-	-	90,556
Technical reserves	-	726,045	-	-	726,045
	4,763,505	44,907,744	56,413	-	49,727,662

	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 mandatory 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					
Financial liabilities held for trading	1,527,098	-	-	-	1,527,098
Resources of central banks	-	3,080,538	-	-	3,080,538
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	-	2,430,798
Resources from 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	-	4,543,288	-	-	4,543,288
Hedging derivatives	39,275	-	-	-	39,275
Technical reserves	-	380,017	-	-	380,017
	5,216,758	42,489,826	104,246	-	47,810,830

The credit extended and other receivables at amortised coast and customer funds and other borrowings headings include financial assets and liabilities to which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

The amount shown in this Note as Technical provisions corresponds to the technical provisions associated with life insurance products with profit-sharing.

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

As at December 31, 2018 & 2017, Other financial liabilities at fair value through profit or loss corresponds to the valuation of the life insurance products marketed by the Group in which the risk lies with the policyholder (Note 19).

Life insurance in which the risk lies with the policyholder corresponds to collective-investment funds, comprising securities or baskets of securities subscribed through the acquisition of units. The securities that make up the collective-investment funds are carried under Other financial assets at fair value through profit or loss, the valuation of which as at December 31, 2018 & 2017 amounts to €2,818,604k and €1,975,690k, respectively (Note 8).

The Group's liabilities towards the holders of units upon maturity of the products are covered by the income of the securities in the portfolio allocated to the said products.

As at December 31, 2018 & 2017, Customer funds and other borrowings includes €22,636k and €21,053k, respectively, in respect of the financial products without profit-sharing (Note 20).

INCOME STATEMENT

In the periods ended on December 31, 2018 & 2017, the breakdown of net gains and losses on financial instruments was a follows:

	31-12-2018					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,060,571	(1,063,330)	(2,759)	-	-	-
Other financial assets mandatory at fair value through profit or loss	246,596	(307,003)	(60,407)	-	-	-
Other financial assets at fair value through other comprehensive income	164,702	(6,379)	158,323	78,914	-	78,914
Cash and deposits at central banks and credit institutions	7,007	-	7,007	-	-	-
Credit granted and other balances receivable at amortized cost	1,910,345	(1,023,479)	886,866	-	-	-
Hedging derivatives	246,991	(278,716)	(31,725)	45,817	-	45,817
Other financial liabilities at fair value through profit or loss	824,109	(778,744)	45,365	-	-	-
Resources of central banks and from credit institutions	-	(4,204)	(4,204)	-	-	-
Resources of customers and other debts	98,079	(58,360)	39,719	-	-	-
Debt securities	1,293	(54,931)	(53,638)	-	-	-
Tecnical reserves	90,965	(89,985)	980	-	-	-
	4,650,658	(3,665,131)	985,527	124,731	-	124,731
Guarantees given	19,604	(3,101)	16,503			
Credit lines	1,214	-	1,214			

	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 mandatory 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
Cash and deposits at central banks and 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 of central banks and from credit institutions	-	(7,071)	(7,071)	-	-	-
Resources of customers and other debts	82,429	(65,621)	16,808	-	-	-
Debt securities	587	(48,308)	(47,721)	-	-	-
Tecnical reserves	129,862	(133,117)	(3,255)	-	-	-
	4,957,785	(4,066,594)	891,191	457,864	-	457,864
Guarantees given	18,526	(3,785)	14,741			
Credit lines	1,852	-	1,852			

The amounts referred to above do not include gains and losses arising from foreign exchange revaluation of the respective financial instruments which, on December 33, 2018 & 2017, corresponded to net gains in the amounts of €9,524k and €8,377k, respectively (Note 33).

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

In the periods ended on December 31, 2018 & 2017, the breakdown of interest and commission income and expenses, determined in accordance with the effective interest-rate method, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	31-12-2018			31-12-2017		
	Income	Expense	Net	Income	Expense	Net
Assets						
Balances due from other banks	820	-	820	101	-	101
Other financial assets at fair value through other comprehensive income	115,350	-	115,350	116,645	-	116,645
Loans and advances to credit institutions	6,187	-	6,187	11,709	-	11,709
Credit granted and other balances receivable at amortized cost	826,584	(21)	826,563	688,290	(28)	688,262
Held to maturity investments	-	-	-	6,468	-	6,468
	948,941	(21)	948,920	823,213	(28)	823,185
Liablities						
Resources of central banks	-	(64)	(64)	-	(4,744)	(4,744)
Resources from other credit institutions	-	(4,140)	(4,140)	-	(2,327)	(2,327)
Resources of customers and other debts	-	(57,686)	(57,686)	-	(61,931)	(61,931)
Debt securities	-	(54,931)	(54,931)	-	(48,308)	(48,308)
	-	(116,821)	(116,821)	-	(117,310)	(117,310)
Guarantees given	19,604	(3,101)	16,503	18,526	(3,785)	19,921
Credit Lines	1,214	-	1,214	1,852	-	749

In the periods ended December 31, 2018 and 2017, the breakdown of commission income and costs, not included in the calculation of the effective interest rate, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	31-12-2018			31-12-2017		
	Income	Expense	Net	Income	Expense	Net
Assets						
Credit granted and other balances receivable al amortized cost	60,095	(17,137)	42,958	55,351	(10,873)	44,478
Liabilities						
Resources of customers and other debts	92,920	(99)	92,821	77,527	(90)	77,437

During 2018 and 2017 the Group recognised financial income in respect of Interest and similar income of non-performing loans, or in situations of impairment, in the amounts of €8,075k and €10,909k, respectively (Note 28).

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

OTHER DISCLOSURES

Hedge accounting

As at December 31, 2018 & 2017, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2018					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,274,106	3,279,651	47,162	3,326,813	3,275,521	(55,942)
Other financial assets at fair value through other comprehensive income	80,000	89,046	4,493	93,539	80,000	(5,795)
Resources of customers and other debts	(256,611)	(257,276)	(2,030)	(259,306)	211,667	2,615
Cash flow hedge:						
Other financial assets at fair value through other comprehensive income	850,000	850,000	-	850,000	935,913	(21,001)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	63,365
Debt securities	351,422	351,422	-	351,422	351,422	(332)
	14,298,917	14,312,843	49,625	14,362,468	14,854,523	(17,090)

	31-12-2017					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Loans and advances to customers	2,961,958	2,967,188	18,408	2,985,596	2,961,934	(26,116)
Available-for-sale financial assets	80,000	92,722	-	92,722	80,000	(3,536)
Resources of customers and other debts	(1,220,094)	(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)

Cash flow hedge

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period are as follows:

	31-12-2018					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	4,802	9,926	21,026	27,279	-	63,033

	31-12-2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	-	-	(761)	(1,426)	-	(2,187)

The gains and losses recognised in the income statements for the periods ended December 31, 2018 & 2017, with fair-value hedge transactions, were as follows:

	31-12-2018			31-12-2017		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	28,754	(28,754)	-	20,379	(20,379)	-
Other financial assets at fair value through other comprehensive income	4,493	(4,493)	-	(30,573)	30,573	-
Resources of customers and other debts	4,487	(4,500)	(13)	1,213	(1,290)	(77)
Debt securities	-	-	-	160	(160)	-
	37,734	(37,747)	(13)	(8,821)	8,744	(77)

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

Fair value of financial instruments

As at December 31, 2018 & 2017, the detail of the financial instruments was as follows:

	31-12-2018		
	Measured at fair value	Not measured at fait value	Total
Assets			
Cash and deposits at central banks	-	1,655,732	1,655,732
Balances due from other banks	-	850,898	850,898
Financial assets held for trading	1,204,674	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,053,810	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,995,070	-	5,995,070
Loans and advances to credit institutions	-	675,031	675,031
Credit granted and other balances receivable at amortized cost	3,279,651	36,317,475	39,597,126
Hedging derivatives	73,464	-	73,464
	13,606,669	39,499,136	53,105,805
Liabilities			
Financial liabilities held for trading	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960		3,175,960
Resources of central banks	-	3,050,040	3,050,040
Resources from other credit institutions	-	3,539,911	3,539,911
Resources of customers and other debts	257,276	33,125,228	33,382,504
Debt securities	-	4,322,597	4,322,597
Other liabilities	-	200,336	200,336
Hedging derivatives	90,556	-	90,556
Technical reserves	-	730,273	730,273
	4,763,505	44,968,385	49,731,890

	31-12-2017		
	Measured at fair value	Not measured at fait 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 mandatory 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			
	-	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 central banks	-	4,351,906	4,351,906
Resources from other credit institutions	1,219,587	30,238,323	31,457,910
Resources of customers and other debts	-	4,543,288	4,543,288
Hedging derivatives	39,275	-	39,275
Technical reserves	-	380,017	380,017
	5,216,758	42,594,072	47,810,830

Financial assets and liabilities for which hedge accounting was applied were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

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

As at December 31, 2018 & 2017, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	31-12-2018				
	Acquisition cost	Accrual	Valuation	Impairment	Net book value
Assets					
Financial assets held for trading	2,500	-	1,202,174	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,020,996	36,383	(3,569)	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,420,975	91,338	482,760	(3)	5,995,070
Credit granted and other balances receivable at amortized cost	3,274,106	7,394	-	(1,849)	3,279,651
Hedging derivatives	-	-	73,464	-	73,464
	11,718,577	135,115	1,754,829	(1,852)	13,606,669
Liabilities					
Financial liabilities held for trading	-	-	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources of customers and other debts	256,610	666	-	-	257,276
Hedging derivatives	-	-	90,556	-	90,556
	3,432,570	666	1,330,269	-	4,763,505

	31-12-2017					
	Acquisition cost	Accrual	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

To determine the fair value of financial instruments, the valuation methods consisted of obtaining prices on active markets or other valuation techniques, in particular through updating future cash flows.

As at December 31, 2018 & 2017, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by measurement methodology:

	31-12-2018			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,201,295	3,379	1,204,674
Other financial assets mandatory at fair value through profit or loss	2,828,988	56,755	168,067	3,053,810
Other financial assets at fair value through other comprehensive income	3,847,585	2,136,791	10,694	5,995,070
Credit granted and other balances receivable at amortized cost	-	3,279,651	-	3,279,651
Hedging derivatives	-	73,464	-	73,464
	6,676,573	6,747,956	182,140	13,606,669
Liabilities				
Financial liabilities held for trading	-	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	-	3,175,960	-	3,175,960
Resources of customers and other debts	-	257,276	-	257,276
Hedging derivatives	-	90,556	-	90,556
	-	4,763,505	-	4,763,505

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

	31-12-2017			
	Metodologia de apuramento do justo valor			
	Listed in 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 mandatory 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

The valuation at fair value of the Bank’s financial assets and liabilities comprises three levels under the terms of IFRS 7 and IFRS 13:

- Level 1 – Financial instruments carried at fair value based on prices published in active markets, comprising mainly public debt, some private debt, some investment funds and equities.

- Level 2 – Financial instruments carried at fair value through the use of prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed on the market, either directly (as prices) or indirectly (derived from prices). This category includes some securities of the portfolio of other financial assets at fair value through other comprehensive income measured as indicative market bids or based on internal valuation models and the whole of the derivative financial hedging and trading instruments. It should be pointed out that the internal valuation models used mainly involve future cash-flow updating models and valuation methods based on the Black-Scholes model for options and structured products. The future cash-flow updating models ("present value method") update the future contractual cash flows using the interest-rate curves of each currency observable on the market, increased by the credit spread of the issuer or of the entity with a similar rating.

The main valuation techniques for derivative financial instruments, are provided hereunder:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate swaps	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Bank calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments of financial assets held for trading and hedging derivatives from a standpoint of aggregate exposure by counterparty. In this, the evolution is simulated of the joint exposure of all derivatives with given counterparty, through stochastic processes. This evolution is grouped into time periods that represent the future positive and negative expected future exposures. An expected loss factor and the discount factor of the respective term are applied to these exposures. The CVA and DVA determined for each counterparty thus result from the sum of the expected losses in each term.

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

Additionally, for the purposes of determination of the Credit Value Adjustments and of the Debit Value Adjustments to the derivative financial instruments, the following inputs were used:

- Counterparties with credit default swaps listed on active markets;

- Counterparties without listed credit default swaps:
  - Prices published on active markets for similar-risk counterparties; or
  - Probability of default determined taking into account the internal rating assigned to the customer (see the credit-risk section of these Notes) x loss given default (specific to project finance customers and 60% for other clients).

- Level 3 – The Bank classifies at this level financial instruments measured through internal models with some inputs that do not correspond to observable market data. In particular, securities not listed on active markets for which the Bank uses extrapolations of market data were classified in this category.

In 2017 and 2018, the movement under financial instruments classified as Level 3 was as follows:

	Financial assets held for trading		Other financial assets mandatory at fair value through profit or loss	Other financial assets mandatory at fair value through comprehensive income	Available-for-sale financial assets	Total
	Securities	Derivatives				
December 31, 2016	3,175	-	5,032	-	32,598	40,805
Acquisitions	530	-	-	-	46,282	46,812
Sales	-	-	-	-	-	-
Liquidation	-	-	(3,434)	-	(354)	(3,788)
Reclassifications	-	-	-	-	-	-
Changes in fair value	35	-	-	-	(108)	(73)
December 31, 2017	3,740	-	1,598	-	78,418	83,756
First implementation of IFRS9	(530)	-	77,614	1,334	(78,418)	-
Acquisitions	-	-	120,249	4,757	-	125,006
Sales	-	-	(897)	(3,993)	-	(4,890)
Liquidation	-	-	-	-	-	-
Reclassifications	-	-	36,624	13,510	-	50,134
Changes in fair value	169	-	(67,121)	(4,914)	-	(71,866)
December 31, 2018	3,379	-	168,067	10,694	-	182,140

The interest-rate curves for the most representative maturities and currencies used in the valuation of the financial instruments were as follows:

	31/12/2018		31/12/2017	
	EUR	USD	EUR	USD
Overnight	-0.25%	2.75%	-0.28%	1.77%
1 month	-0.25%	2.76%	-0.28%	1.77%
3 months	-0.24%	2.76%	-0.27%	1.69%
6 months	-0.24%	2.74%	-0.27%	1.74%
9 months	-0.23%	2.73%	-0.26%	1.82%
1 year	-0.23%	2.73%	-0.25%	1.88%
3 years	-0.07%	2.60%	-0.01%	2.15%
5 years	0.20%	2.61%	0.32%	2.23%
7 years	0.47%	2.66%	0.57%	2.30%
10 years	0.81%	2.75%	0.89%	2.38%

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

As at December 31, 2018 & 2017, the carrying amount and fair value of the financial instruments measured at amortised cost or historical cost was as follows:

	31-12-2018		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,655,732	1,640,368	(15,364)
Balances due from other banks	850,898	850,898	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,317,475	36,331,859	14,384
	39,499,136	39,498,696	(440)
Liabilities			
Resources of central banks	(3,050,040)	(3,038,968)	11,072
Resources from other credit institutions	(3,539,911)	(3,544,557)	(4,646)
Resources of customers and other debts	(33,125,228)	(33,128,761)	(3,533)
Debt securities	(4,322,597)	(4,355,399)	(32,802)
Other liabilities	(200,336)	(200,336)	-
Technical reserves	(730,273)	(730,273)	-
	(44,968,385)	(44,998,294)	(29,909)

	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 from 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	(4,543,288)	(4,833,754)	(288,357)
Technical reserves	(380,017)	(380,017)	-
	(42,594,072)	(42,908,836)	(314,764)

To determine the fair value of financial instruments carried at amortised cost or historical cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

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

As at December 31, 2018 & 2017, details of the valuation methods used to determine the carrying amount of financial instruments recorded at amortised cost or historical cost were as follows:

	31-12-2018			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,640,368	-	1,640,368
Balances due from other banks	-	850,898	-	850,898
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	478,345	35,853,514	36,331,859
	-	3,645,182	35,853,514	39,498,696
Liabilities				
Resources of central banks	-	(3,038,968)	-	(3,038,968)
Resources from other credit institutions	-	(3,544,557)	-	(3,544,557)
Resources of customers and other debts	-	-	(33,128,761)	(33,128,761)
Debt securities	-	(4,355,399)	-	(4,355,399)
Other liabilities	-	-	(200,336)	(200,336)
Technical reserves	-	-	(730,273)	(730,273)
	-	(10,938,924)	(34,059,370)	(44,998,294)

	31-12-2017			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,027,787	-	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 from other credit institutions	-	(4,364,370)	-	(4,364,370)
Resources of customers and other debts	-	-	(30,246,911)	(30,246,911)
Debt securities	-	(4,833,754)	-	(4,833,754)
Technical reserves	-	-	(380,017)	(380,017)
	-	(12,281,908)	(30,626,928)	(42,908,836)

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;

- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted was determined taking into account the average spread of the production of the last quarter of the year;

- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last quarter of the year were used, taking into account the various types;

- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the yearend;

- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

In accordance with IFRS 4, Santander Totta Seguros conducted adequacy tests on the liabilities of insurance contracts with and without profit-sharing, in which it assumes the investment risk and in which the coverage is greater than one year, in order to assess the adequacy of technical provisions set aside.

RISK MANAGEMENT

CREDIT RISK

Banking business and others

Credit risk management at the Bank covers the identification, measurement, integration and evaluation of the various credit exposures and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint and within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, by segmentation of the credit risk in the light of the characteristics of the customers and of the products, and by the scoring systems (applicable to mortgage-loan and consumer-credit operations, credit cards and business) and the rating used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

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

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Insurance Business

Credit risk arises primarily in debt securities where the issuer's risk is represented in the credit spread.

In general, limits are defined in light of the rating of the issue/ issuer of existing liabilities in euros and of the terms for all the portfolios managed by Santander Asset Management, with due regard for Regulatory Standards 11/2010 and 3/2011 issued by the Insurance and Pension Funds Supervisory Authority. It should be noted that for guaranteed- or indicative-rate insurance contracts with regard to non-sovereign debt, the acquisition tends to be authorised of securities (Senior, Lower Tier 2 and Corporate) that have minimum ratings of BBB-, with a stable outlook by the Fitch Ratings (or by S&P or by Moody's if the former is not available).

On the other hand, an upper limit for a particular issuer is set. This limit is set in the light of the degree of knowledge and other conditioning factors relating to the issuer and the market, as well as the investment policy of the portfolios assigned to the products.

The limits may be revised whenever there are events that justify it (for example: alteration of the rating). If there are no events throughout the year justifying a change of limits, they are reviewed only annually.

Final approval of the overall limits and/or those in respect of new issuers is undertaken by the Corporate Risk Committee and complies with diversification and prudential dispersion criteria, a process that is monitored periodically.

In the control of the credit risk, it is important that all assets have a rating and that, in the absence thereof, one can assign a rating level that falls within the approved standards.

The rating consists of classifying an issue of bonds or other debt securities in a risk-notation rating scale, which is intended to reflect a value judgement on the capacity for timely repayment of principal and payment of the interest.

The rating awarded by an agency expresses just its opinion that the higher the rating, the less likelihood of default, though providing no guarantee of any kind. For no rating notation must the likelihood of default be understood as zero, the rating being a measure of the *ex-ante* risk that serves to qualify the creditworthiness of an issuer in relative terms.

The rating used is in respect of the issue, and, whenever an issue has no rating, the following criteria are used:

- For bonds and other debt securities, the default rating is that of the senior debt.
- In the case of vehicles or credit-linked notes, the rating will be taken into account of the collateral or of the issuers referenced via CDS (credit default swap) for the type of debt in question. The rating obtained shall take into account the structure of the asset (pro rata distribution, the lowest reference rating in the case of first-to-default, the rating of the collateral should it be lower than that of the asserts referenced via CDS).
- In the case of deposits it is considered that the implicit rating is that of the senior debt of the entities who take them.
- Should it not be possible to assign a rating the issue is considered unrated.

Additionally, the Senior Credit Default Spreads, for 5-year terms, of the various issuers are periodically monitored in order to track the evolution of the credit risk of the counterparties.

With respect to reinsurers, Santander Totta Seguros primarily works with six: Abbey Life, Genworth, General Cologne Re, Munich Re, RGA Re and Axa Re.

The ratings of the largest reinsurers can be found in the following table:

<u>Ratings of the Reinsurer Groups</u>

Abbey Life Insurance Company Limited	A+
General Cologne Re	AA+
Genworth	BB-
Munich Reinsurance Co.	AA-
RGA Insurance Company	AA-
AXA France Vie / Axa France IARD	AA-

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 9.3, is underlaid by the degree of risk inherent in the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis.

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

In concrete terms, the rating is determined by the analysis of the following factors to which are assigned a rating from 1 (minimum) to 9.3 (maximum), in accordance with the following weighting:

Department	Weighting
. Demand/Market;	20%
. Partners/Management:	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
. Solvency.	15%

The rating is calculated by the analysts, based on information provided by the customer, general information on the sector and external databases. The final rating is introduced in each of the valuation areas in the Bank's information technology system.

In this way, the Group's internal rating system can be described as follows:

Rating 1.0 – 3.9: Customer of high-default probability;
Rating 4.0 – 6.0: Customer of moderate-default probability;
Rating 6.1 – 9.3: Customer of low-default probability;

As at December 31, 2018 & 2016, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	31-12-2018		31-12-2017	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,655,732	1,655,732	1,039,555	1,039,555
Balances due from other banks	850,898	850,898	658,155	658,155
Financial assets held for trading	1,204,674	1,204,674	1,509,744	1,509,744
Other financial assets at fair value through profit or loss	3,053,810	3,053,810	1,976,263	1,976,263
Other financial assets at fair value through other comprehensive income	5,995,070	5,995,070	4,990,322	4,990,322
Loans and advances to credit institutions	675,031	675,031	826,367	826,367
Credit granted and other balances receivable at amortized cost	39,597,126	45,862,081	39,646,179	46,075,986
Hedging derivatives	73,464	73,464	15,349	15,349
Investment in associated companies	111,376	111,376	122,170	122,170
	53,217,181	59,482,136	50,784,104	57,213,911
Guarantees provided	1,955,910	1,955,910	2,065,101	2,065,101

The maximum exposure in Loans granted and other balances receivable at amortised cost as at December 31, 2018, included €1,035,032k and €5,229,923k relating to irrevocable credit lines and revocable credit lines, respectively (€1,352,174k and €5,077,633k as at December 31, 2017, respectively).

In accordance with the requirements set out in Bank of Portugal Instruction nº 4/2018, the Bank began to publish the Non Performing Exposures and the Forborne Exposures.

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

In this sense, as at December 31, 2018 & 2017, the breakdown of performing and non-performing exposures was as follows:

	31-12-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,671,209	(176,243)	0.5%	38,388,823	(246,286)	0.6%
Non-performing exposures						
Loans represented by securities	619	(494)	79.8%	1,613	(318)	19.7%
Households	601,095	(233,314)	38.8%	825,187	(310,259)	37.6%
Corporates	1,433,689	(699,435)	48.8%	2,171,421	(1,184,002)	54.5%
	2,035,403	(933,243)		2,998,221	(1,494,579)	
	40,706,612	(1,109,486)		41,387,044	(1,740,865)	

As at December 31, 2018 & 2017, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2018			31-12-2017		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
Loans represented by securities	619	-	-	1,613	-	-
Households	601,095	319,151	53.1%	825,187	462,708	56.1%
Corporates	1,433,689	381,567	26.6%	2,171,421	546,194	25.2%
	2,035,403	700,718		2,998,221	1,008,902	

Deferred exposures

In accordance with Bank of Portugal Instruction nº 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at December 31, 2018 & 2017, the breakdown of deferred exposures was as follows:

	31-12-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	866,312	(39,221)	4.5%	1,321,740	(83,046)	6.3%
Non-performing exposures						
. Households	378,604	(139,785)	36.9%	469,715	(143,945)	30.6%
. Corporates	1,048,822	(517,521)	49.3%	1,347,323	(771,626)	57.3%
	1,427,426	(657,306)		1,817,037	(915,571)	
	2,293,738	(696,527)		3,138,777	(998,617)	

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014 of January 15, 2015, the Bank now provides information on the encumbered assets.

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

As at December 31, 2018 & 2017, the breakdown of encumbered and unencumbered assets is as follows:

	2018			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks other credit institutions	-	-	2,218,959	-
Equity instruments	-	-	823,445	823,445
Debt securities	2,076,282	2,076,282	10,241,519	10,241,519
Loans and advances to customers in credit institutions	11,553,395	-	24,629,774	-
Ohter assets	-	-	3,495,765	-
	13,629,677	2,076,282	41,409,462	11,064,964

	2017			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks other credit institutions	-	-	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 in credit institutions	13,537,188	-	22,654,943	-
Ohter assets	-	-	5,895,551	-
	15,552,190	2,015,002	37,616,800	7,714,626

As at December 31, 2018 & 2017, liabilities associated with encumbered assets and with collateral received are as follows:

	2018	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	6,732,748	8,503,740
Other	635,000	725,178
	7,367,748	9,228,918

	2017	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	7,709,673	4,001,027
Other	685,000	215,860
	8,394,673	4,216,887

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

As at December 31, 2018 & 2017, the main headings of assets had the following breakdown by external rating (internal rating for credit extended), in keeping with the rating assigned by Standard & Poor's:

	31-12-2018	31-12-2017
Cash and deposits at central banks		
Rating S&P		
AAA+ /AAA /AAA-	1,368,061	751,352
Not subject	287,671	288,203
	1,655,732	1,039,555
Balances due from other banks		
Rating S&P		
AAA+ /AAA /AAA-	180,861	-
AA+ /AA /AA-	173,921	246,901
A+ /A /A-	384,205	245,829
BBB+ / BBB / BBB-	88,300	32,574
No external rating	17,716	24,353
Not subject	5,895	108,498
	850,898	658,155
Other assets mandatory at fair value through profit or loss		
Rating S&P		
AAA+ / AAA / AAA-	4,181	-
AA+ / AA / AA-	7,383	4,729
A+ / A / A-	79,401	74,914
BBB+ / BBB / BBB-	1,952,887	1,469,303
BB+ / BB / BB-	120,432	137,143
B+ / B / B-	74,993	-
CCC+ / CCC / CCC-	12	-
D+ / D / D-	-	41,709
No external rating	74,894	32,264
	2,314,183	1,760,062
Other assets at fair vlue through other comprehensive income		
Rating S&P		
A+ /A /A-	343,720	-
AA+ / AA / AA-	51,399	-
AAA+ / AAA / AAA-	5,355	4,868
BBB+ / BBB / BBB-	5,447,016	4,754,831
BB+ / BB / BB-	644	-
B+ / B / B-	-	50,209
No external rating	66,497	790
	5,914,631	4,810,698
Loans and advances to credit institutions		
Rating S&P		
A+ /A /A-	516,036	708,419
BBB+ / BBB / BBB-	88,146	40,073
BB+ / BB / BB-	-	5,710
No external rating	70,933	72,165
	675,115	826,367
Loans to customers		
Internal Rating		
Low credit risk	25,261,445	19,716,867
Medium credit risk	11,344,107	9,340,858
High credit risk	2,667,778	3,358,527
BAPOP Portfolio	-	6,107,712
No rating	1,433,282	2,863,080
	40,706,612	41,387,044
Held to maturity investments		
Rating S&P		
BBB+ / BBB / BBB-	-	9,364
No external rating	-	99,444
	-	108,808
	52,117,171	50,590,689

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

LIQUIDITY RISK

Banking business and others

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

Insurance Business

Liquidity risk is the risk of the Company having difficulty in obtaining funds in order to meet its commitments. Liquidity risk can be reflected, for example, in the inability to sell a financial asset quickly for an amount close to its fair value.

The monitoring of the liquidity risk is carried out monthly, balance-sheet management limits being defined with respect to sensitivity to parallel interest-rate shifts for the entire portfolio of financial assets and technical liabilities.

Additionally, in order to mitigate the liquidity risk, ratios were established for the maximum concentration of non-liquid assets in accordance with the type of portfolio/ product, which are monitored on a monthly basis.

The main assumptions used in the determination of the forecast cash flows were as follows:

- The forecast cash flows of financial assets and technical liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- The technical assets and financial liabilities associated with unit-linked products are considered payable on demand for the amount of the fair value of these assets and liabilities on each reporting date.

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

As at December 31, 2018 & 2017, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	31-12-2018							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	287,671	-	-	-	1,368,061	-	-	1,655,732
Balances due from other banks	850,898	-	-	-	-	-	-	850,898
Financial assets held for trading	1,204,674	-	-	-	-	-	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	-	6,449	90,278	702,984	341,542	1,143,215	736,527	3,020,995
Other financial assets at fair value through other comprehensive income	2	474,854	624,438	297,375	435,665	4,411,196	82,958	6,326,487
Loans and advances to credit institutions	92,955	4,663	114,770	440,916	28	21,199	-	674,531
Credit granted and other balances receivable at amortized cost	144,638	2,584,761	4,673,292	9,208,935	5,884,763	22,278,643	-	44,775,032
Hedging derivatives	73,464	-	-	-	-	-	-	73,464
Investments in associates	-	-	-	-	-	-	113,294	113,294
	2,654,302	3,070,727	5,502,777	10,650,210	8,030,058	27,854,254	932,779	58,695,107
Liabilities								
Financial liabilities held for trading	1,239,713	-	-	-	-	-	-	1,239,713
Other financial liaibilities at fair value through profit or loss	3,175,960	-	-	-	-	-	-	3,175,960
Resources of central banks	4,517	-	-	3,025,116	-	-	-	3,029,633
Resources of other credit institutions	499,466	1,316,413	575,107	352,944	499,809	300,000	-	3,543,739
Resources of customers and other debts	15,450,485	6,223,706	8,001,085	3,324,819	495,195	13,765	-	33,509,055
Debt securities	-	9,343	818,005	854,633	130,107	2,783,618	-	4,595,706
Hedging derivatives	90,556	-	-	-	-	-	-	90,556
Technical reserves	105,905	441,936	17,835	33,260	26,257	117,664	-	742,857
	20,566,602	7,991,398	9,412,032	7,590,772	1,151,368	3,215,047	-	49,927,219

	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 liaibilities 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	141,408	1,824,664	298,630	2,558,445	-	4,881,678
Hedging derivatives	39,275	-	-	-	-	-	-	39,275
Technical reserves	41,021	171,178	6,908	12,883	10,170	45,575	-	287,735
	17,680,535	7,910,345	8,336,259	9,369,779	1,625,907	3,221,960	-	48,144,785

Determination of the projected cash flow was based on the principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Other financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as other financial assets at fair value through other comprehensive income), other financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of trading assets and liabilities as the transactional value payable on demand;

- Operations relating to credit lines with defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;

- For the subordinated liabilities the date on which the Bank may make early redemption of the bonds that make up this heading was considered;

- The projected flows relating to current accounts have been considered as payable on demand.

- The assets and liabilities associated with unit-linked products of the business of the Group's insurer were considered payable on demand for the amount of the fair value of these assets and liabilities.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The VaR calculated is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions, within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For abnormal market conditions scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of probability of occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate use is made of the basis point value (BPV) – estimated impact in profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the underlying price (delta and gamma), volatility (vega) and time (theta).

Quantitative limits are used for the trading portfolios, which are classified in two groups, in the light of the following objectives:

- Limits intended to control the volume of potential future losses (VaR, equivalent positions and sensitivities); and

- Limits intended to control the volume of effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

With regard to the structural interest-rate risk, they are measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the Bank's equity. Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

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

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that endeavour to identify the potential risk under external market conditions. In parallel, ratios are estimated on the current items of the balance sheet that act as indicators of structural and short-term liquidity requirements.

Interest-rate risk

As at December 31, 2018 & 2017, the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	31-12-2018				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,368,060	287,672	-	1,655,732
Balances due from other banks	-	-	850,898	-	850,898
Financial assets held for trading	-	-	3,379	1,201,295	1,204,674
Other financial assets mandatory at fair value through profit or loss	2123526	900569	29715	0	3,053,810
Other financial assets at fair value through other comprehensive income	5,386,529	95,675	512,866	-	5,995,070
Loans and advances to credit institutions	102310	562642	10079	0	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,074,851	189,561	-	39,597,126
Hedging derivatives	-	-	-	73,464	73,464
	15,945,079	34,001,797	1,884,170	1,274,759	53,105,805
Liabilities					
Financial liabilities held for trading	-	-	-	1,239,713	1,239,713
Other financial assets at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources of central banks	3,050,040	-	-	-	3,050,040
Resources of other credit institutions	153,057	3,386,667	187	-	3,539,911
Resources of customers and other debts	18,146,276	15,172,120	64,108	-	33,382,504
Debt securities	3,500,000	888,986	(66,389)	-	4,322,597
Other liabilities	-	-	200,336	-	200,336
Hedging derivatives	-	-	-	90,556	90,556
Technical reserves	730,273	-	136	-	730,409
	28,755,606	19,447,773	198,378	1,330,269	49,732,026

	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	(77,720)	-	4,543,288
Hedging derivatives	-	-	-	39,275	39,275
Technical reserves	408,348	-	136	-	408,484
	28,047,259	18,183,054	42,611	1,566,373	47,839,297

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

As at December 31, 2018 & 2017, the breakdown of financial instruments by exposure to the interest-rate risk for banking business, per rate interval, is as follows:

	31-12-2018							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	1,368,061	-	-	-	-	287,671	-	1,655,732
Balances due from other banks	-	-	-	-	-	850,898	-	850,898
Financial assets held for trading	-	-	-	-	-	3,379	1,201,295	1,204,674
Other financial assets mandatory at fair value through profit or loss					-	179,879	-	179,879
Other financial assets at fair value through other comprehensive income	1,507	2,190,033	2,466,634	32,669	-	552,213	-	5,243,056
Loans and advances to credit institutions	538,504	136,018	-	-	-	509	-	675,031
Credit granted and other balances receivable at amortized cost	13,117,126	19,105,978	5,616,926	1,368,973	501,497	(113,374)	-	39,597,126
Hedging derivatives	-	-	-	-	-	-	73,464	73,464
	15,025,198	21,432,029	8,083,560	1,401,642	501,497	1,761,175	1,274,759	49,479,860
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,239,713	1,239,713
Resources of central banks	3,074,860	-	-	-	-	(24,820)	-	3,050,040
Resources of other credit institutions	3,436,563	103,057	-	-	-	291	-	3,539,911
Resources of customers and other debts	31,682,158	1,359,174	255,368	85,804	-	-	-	33,382,504
Debt securities	2,539,097	1,773,000	2,500	8,000	-	-	-	4,322,597
Other liabilities	-	-	-	-	-	200,336	-	200,336
Hedging derivatives	-	-	-	-	-	-	90,556	90,556
	40,732,678	3,235,231	257,868	93,804	-	175,807	1,330,269	45,825,657

	31-12-2017							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	751,352	-	-	-	-	288,203	-	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
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
	15,349,271	19,722,297	9,257,609	1,554,713	610,047	2,448,564	1,521,040	50,463,540
Liabilities								
Resources of central banks	3,076,000	-	-	-	-	4,538	-	3,080,538
Financial liabilities held for trading	-	-	-	-	-	-	1,527,098	1,527,098
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
	37,945,686	4,978,576	266,754	193,217	16	49,393	1,566,373	45,000,015

Banking business and others

<u>Financial Instruments – non-trading</u>

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;

- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;

- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;

- For each aggregate defined above the transactions are grouped by repricing/maturity dates;

- The time intervals intended to measure the interest-rate gap are defined;

- For each aggregate, the cash flows are grouped on the basis of the intervals created;

- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and

(Expressed in thousands of euros, except where otherwise stated)

- For each interval total flows of assets and liabilities are calculated and, by difference between them, the interest-rate risk gap of each interval.

The interest-rate gap allows an approximation of the sensitivity of the asset value and of the net interest income in the light of market-rate variations. This approach uses the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;

- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and

- It does not consider the different elasticities between the various products.

From the perspective of variation of the asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps and an increase of value in the negative gaps. interest-rate reductions have an opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;

- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;

- Indices – the indices defined contractually are considered and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and

- Characteristics of New Business (term, repricing, volumes, spread , index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at December 31, 2018 & 2017, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2018		31-12-2017	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	577	54,845	395	30,772
Other financial assets mandatory at fair value through profit or loss	(321,428)	331,587	(332,156)	355,694
Loans and advances to credit institutions	(313)	702	(1,430)	409
Credit granted and other balances receivable at amortized cost	(742,445)	690,663	(627,247)	578,901
	(1,063,609)	1,077,797	(960,438)	965,776
Hedging derivatives	(9,444)	(159,348)	169,730	(199,210)
Liabilities				
Resources of central banks	(49,154)	15,495	(80,016)	37,533
Resources of other credit institutions	(9,095)	19,820	(14,387)	24,449
Resources of customers and other debts	(816,694)	650,259	(745,179)	648,659
Debt securities	(156,317)	143,262	(188,792)	185,101
	(1,031,260)	828,836	(1,028,374)	895,742

(Expressed in thousands of euros, except where otherwise stated)

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.

- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).

- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.

The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and

- Market date time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all interactions between the market factors, their volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using revaluation forms, nonlinear implicit effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the values of the VaR.

As at December 31, 2018 & 2017, the VaR associated with the interest-rate risk corresponded to:

	31-12-2018	31-12-2017
VaR Percentile 99%	-	(1)
VaR Weighted Percentile 99%	-	(1)

Insurance Business

As at December 31, 2018 & 2017, the sensitivity of the equity value of the financial instruments linked to insurance products (except unit-inked products) to positive and negative variations of 100 basis points (bps) corresponds to:

	31-12-2018	31-12-2017
+100 bps	78	97
-100 bps	(78)	(97)

(Expressed in thousands of euros, except where otherwise stated)

The sensitivity of the equity value associated with insurance products whose investment risk is borne by the policyholder is considered immaterial, due to the symmetrical behaviour of the assets and liabilities associated with these products.

Exchange-rate Risk

The profile defined for the exchange-risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury area, so the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.

As at December 31, 2018 & 2017, the detail of the financial instruments was as follows per currency:

	31-12-2018				31-12-2017			
	Euros	US Dollars	Other currencies	Total	Euros	US Dollars	Other currencies	Total
Assets								
Cash and deposits at central banks	1,648,954	2,785	3,993	1,655,732	1,033,619	1,960	3,976	1,039,555
Balances due from other banks	421,812	277,247	151,839	850,898	373,489	163,024	121,642	658,155
Financial assets held for trading	1,203,143	1,518	13	1,204,674	1,507,438	2,103	203	1,509,744
Other financial assets mandatory at fair value through profit or loss	2,941,480	112,214	116	3,053,810	1,976,263	-	-	1,976,263
Other financial assets at fair value through other comprehensive income	5,995,070	-	-	5,995,070	4,990,322	-	-	4,990,322
Loans and advances to credit institutions	608,706	17	66,308	675,031	726,613	78,897	20,857	826,367
Credit granted and other balances receivable at amortized cost	38,950,547	614,968	31,611	39,597,126	39,197,851	41,745	406,583	39,646,179
Held-to-maturity investments	-	-	-	-	108,808	-	-	108,808
Hedging derivatives	67,718	5,746	-	73,464	10,995	4,354	-	15,349
	51,837,430	1,014,495	253,880	53,105,805	49,925,398	292,083	553,261	50,770,742
Liabilities								
Financial liabilities held for trading	1,238,192	1,520	1	1,239,713	1,524,814	2,094	190	1,527,098
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	3,175,960	2,430,798	-	-	2,430,798
Resources of central banks	3,050,040	-	-	3,050,040	3,080,538	-	-	3,080,538
Resources of other credit institutions	3,411,073	128,496	342	3,539,911	4,272,653	29,603	49,650	4,351,906
Resources of customers and other debts	31,795,339	1,331,114	256,051	33,382,504	30,005,892	419,792	1,032,226	31,457,910
Debt securities	4,322,597	-	-	4,322,597	4,518,273	-	25,015	4,543,288
Other liabilities	200,336	-	-	200,336	-	-	-	-
Hedging derivatives	88,714	1,728	114	90,556	37,495	1,765	15	39,275
Technical reserves	730,273	-	-	730,273	408,348	-	-	408,348
	48,012,524	1,462,858	256,508	49,731,890	46,278,811	453,254	1,107,096	47,839,161

As at December 31, 2018 & 2017, the VaR associated with the exchange-rate risk in respect of the Group's banking business corresponded to:

	31-12-2018	31-12-2017
VaR Percentile 99%	(3)	(7)
VaR Weighted Percentile 99%	(3)	(4)

Financial assets and liabilities associated with the insurance business are mostly denominated in euros, the exchange rate risk being immaterial.

Asset price risk

As at December 31, 2018 & 2017, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

(Expressed in thousands of euros, except where otherwise stated)

Offsetting financial assets and liabilities

As at December 31, 2018 & 2017, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

	31-12-2018			
		Amounts related not offset in the financial statements		
Counterpart	Financial assets/liabilities as presented in the financial statements	Financial instruments	Collateral in cash received as guarantee	Net Amount
Financial institutions	(859)	-	28,250	27,391
Group Companies	(1,312,470)	-	413,409	(899,061)
	(1,313,329)	-	441,659	(871,670)

	31-12-2017			
		Montantes relacionados não compensados nas demonstrações financeiras		
Contraparte	Ativos/Passivos financeiros apresentados nas demonstrações financeiras	Instrumentos financeiros	Colateral em cash recebido como garantia	Valor Líquido
Instituições Financeiras	600	-	(620)	(20)
Empresas do Grupo	(1,279,832)	-	296,570	(983,262)
	(1,279,232)	-	295,950	(983,282)

As at December 31, 2018 & 2017, the value repo transactions, by type of counterparty, is as follows:

	31-12-2018			
		Amounts related not offset in the financial statements		
Counterpart	Financial assets/liabilities as presented in the financial statements	Financial instruments	Collateral in cash received as guarantee	Net amount
Financial institutions	(1,957,342)	1,957,494	25,700	25,852
	(1,957,342)	1,957,494	25,700	25,852

	31-12-2017			
		Amounts related not offset in the financial statements		
Counterpart	Financial assets/liabilities as presented in the financial statements	Financial instruments	Collateral in cash received as guarantee	Net amount
Financial institutions	(2,710,621)	2,710,598	24,402	24,379
	(2,710,621)	2,710,598	24,402	24,379

(Expressed in thousands of euros, except where otherwise stated)

44. SHARE CAPITAL MANAGEMENT

The Group seeks high financial soundness embodied in maintaining a capital adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets.

The profit distribution policy is conditional on the maintenance of capital levels that allow the Group to sustain the performance of its operations within its risk policy.

The Group uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for leasing, factoring, manual operations and 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.

In June 2012, the Group began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

As from January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier 1, CET1), in particular through additional deductions and higher weighting in the calculation of the positions at risk.

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as of December 31, 2018 and 2017 (both in BIS III - Phasing in):

Amounts in million Euro

	dez 18	dez 17
	BIS III Phasing In	BIS III Phasing In
A - BASE OWN FUNDS (TIER I)	3,447	3,695
Share Capital (includes addicional instruments elegible as Tier I)	2,571	2,571
Reserves and Retained earnings (excluding Non-controlling interests)	1,191	1,257
Non-controlling interests	-	-
Deduction to base own funds	(315)	(132)
B - COMPLEMENTARY OWN FUNDS (TIER II)	22	12
Perpetual subordinated liabilities	12	12
Non-controlling interests	0	0
Other elements/deductions to complementary own funds	10	0
C - DEDUCTIONS TO OWN FUNDS	0	0
D - TOTATOTAL OWN FUNDS (A+B+C)	3,469	3,707
E - ASSETS WEIGHTED BY RISK	20,052	21,935
CAPITAL RATIOS	dez 18	dez 17
TIER I (A/E)	17.2%	16.8%
CORE CAPITAL (CET1)	14.2%	14.2%
TIER II (B/E)	0.1%	0.1%
CAPITAL ADEQUACY RATIO (D/E)	17.3%	16.9%
LEVERAGE RATIO	6.5%	

45. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012 of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the resolution measures implemented by the Bank of Portugal, in the capacity of national resolution authority, and to perform all other functions conferred by law within the scope of implementation of such measures.

The Bank, like the majority of financial institutions operating in Portugal, is one of the institutions taking part in the resolution fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal essentially on the basis of the amount of their liabilities. In 2018, the periodic contribution made by the Bank amounted to €7,554k, based on a contribution rate of 0.0459%.

Resolution measure applied to Banco Espírito Santo, SA

As part of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, SA ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital the Resolution Fund, as sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered each year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as are impairments, or their reversal, recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, on May 24, 2018, the Resolution Fund made a payment of €791,695k to Novo Banco in respect of the 2017 accounts, having used for the purpose its own financial resources resulting from the contributions paid up, directly or indirectly, by the banking sector, complemented by a State loan of €430 million under the framework agreement between the Portuguese State and the Resolution Fund. According to information provided by Novo Banco, as of December 31, 2017, the net value of the assets falling within the perimeter of the contingent capitalisation mechanism amounted to approximately €5.4 billion.

According to the 2018 results recently released by Novo Banco, the amount claimed of the Resolution Fund in 2019, under this mechanism, will be €1,149 million.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of €3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, SA

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, SA ("Banif") was "at risk of or was in a situation of insolvency" and began a process of urgent resolution of the institution in the form of partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta SA ("Santander Totta") of the rights and obligations constituting assets, liabilities, off-balance sheet items and assets under Banif management, for €150 million.

The greater part of the assets that were not sold was transferred to an asset-management vehicle called Oitante, SA ("Oitante"), created specifically for the purpose, which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of €746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved a public support estimated at €2,255 million which aimed to cover future contingencies, of which €489 million was financed by the Resolution Fund and €1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State in the amount of €163,120k by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to fall from €489 million to €353 million.

To date the findings are not yet known of the independent evaluation exercise conducted to estimate the credit recovery level for each class of creditors in the hypothetical scenario of normal insolvency proceedings of Banif as of December 20, 2015. As mentioned above for BES, if it is found that creditors entail a larger loss than would hypothetically be the case if Banif had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for the Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used, these consolidated financial statements reflect the Board of Directors’ expectation that no special contributions or any other type of extraordinary contributions will be required to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank’s consolidated financial statements of the Bank.

46. COMPETITION AUTHORITY

In 2012 administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

The Competition Authority decreed confidentiality of the investigations of the administrative-offence proceedings, taking into account the interests of the investigation and the rights of procedural subjects, which would be incompatible with publicity of the proceedings.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the statement of objections issued by the AdC regarding the administrative-offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

The Bank, which strongly refutes all the theories of the AdC, presented its written defence to the aforementioned statement of objections by the deadline for response, September 27, 2017, this defence having been complemented later by a hearing on December 18, 2017. Recently, the deadline for the fact-finding of the proceedings in question was extended by the AdC until December 31 2019.

The communication of a statement of objections does not constitute a final decision regarding the proceedings in question, the addressee being entitled to exercise its rights of defence. Following this, the AdC will take a decision.

The AdC may issue a final condemnation decision leading to the application of a fine within the limits of the law, which determines a maximum limit equivalent to 10% of the annual turnover of the infringing company in the year next before the decision. As such a decision may be challenged, that is, the party in question may request a judicial review for the relevant courts of appeal to appraise the legality of the decision.

The Bank will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

47. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Company's Board of Directors, there was no event subsequent to December 31, 2018, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the Reporting Period.

48. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on April 9, 2019.

49. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT DECEMBER 31, 2018 (NOTE 20)

(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
Covered bonds											
Hipotecária XIII - 1ª	EUR	750,000	-	750,000	(2,776)	-	747,224	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	722	-	750,722	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	(2,190)	-	997,810	0.88%	April 25, 2017	April 25, 2024	Fixed Rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(6,978)	-	993,022	1.25%	September 26, 2017	September 26, 2027	Fixed Rate
		7,700,000	**4,200,000**	**3,500,000**	**(11,222)**	**-**	**3,488,778**				
Bonds issued on securitization operations											
Hipototta 4 - Classe A - Notes	EUR	552,766	404,510	148,256	(486)	-	147,770	Variável	December 9, 2005	December 30, 2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Classe B - Notes	EUR	20,110	20,110	-	-	-	-	Variável	December 9, 2005	December 30, 2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Classe C - Notes	EUR	63,511	63,511	-	-	-	-	Variável	December 9, 2005	December 30, 2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Classe D - Notes	EUR	14,000	14,000	-	-	-	-	Variável	December 9, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipototta 5 - Classe A2 - Notes	EUR	505,465	356,602	148,863	(205)	-	148,658	Variável	March 22, 2007	February 28, 2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	-	Variável	March 22, 2007	February 28, 2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	-	Variável	March 16, 2007	February 28, 2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	-	Variável	March 22, 2007	February 28, 2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	-	Variável	March 22, 2007	February 28, 2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Classe F - Notes	EUR	6,125	6,125	-	-	-	-	Variável	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
						-					

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT DECEMBER 31, 2018 (NOTE 20)

(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
Atlantes Mortgage PLC - classe A	EUR	15,207	2,492	12,715	6	-	12,721	Variável	February 13, 2003	January 17, 2036	Euribor 3m+0.54%;
Atlantes Mortgage PLC - classe B	EUR	22,500	-	22,500	47	-	22,547	Variável	February 13, 2003	January 17, 2036	Euribor 3m+1.30%;
Atlantes Mortgage PLC - classe C	EUR	12,500	-	12,500	60	-	12,560	Variável	February 13, 2003	January 17, 2036	Euribor 3m+2.60%;
Atlantes Mortgage PLC - classe D	EUR	2,500	-	2,500	23	-	2,523	Variável	February 13, 2003	January 17, 2036	Euribor 3m+4.75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	-	Variável	February 13, 2003	January 17, 2036	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	1,135	233	902	-	-	902	Variável	November 25, 2004	September 20, 2047	Euribor 3m + 0.30%
Azor Mortgage PLC classe B	EUR	19,000	1,000	18,000	167	-	18,167	Variável	November 25, 2004	September 20, 2047	Euribor 3m + 0.76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	208	-	6,708	Variável	November 25, 2004	September 20, 2047	Euribor 3m + 1.75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	-	Variável	November 25, 2004	September 20, 2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	125,618	-	125,618	(16,663)	-	108,955	Variável	March 5, 2008	September 18, 2060	Euribor 3m + 0.33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	-	Variável	March 5, 2008	September 18, 2060	Euribor 3m + 0.95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	-	Variável	March 5, 2008	September 18, 2060	Euribor 3m + 1.65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	-	Variável	March 5, 2008	September 18, 2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	97,696	97,696	-	-	-	-	Variável	July 24, 2008	December 14, 2065	Euribor 3m + 0.30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	-	Variável	July 24, 2008	December 14, 2065	Euribor 3m + 0.8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	-	Variável	July 24, 2008	December 14, 2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	213,544	66,554	146,990	(11,888)	-	135,102	Variável	October 30, 2008	August 20, 2061	Euribor 3m + 0.20%
Atlantes Mortgage PLC serie 3 - B	EUR	30,625	30,625	-	-	-	-	Variável	October 30, 2008	August 20, 2061	Euribor 3m + 0.50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	-	Variável	October 30, 2008	August 20, 2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	242,931	-	242,931	(34,173)	-	208,758	Variável	February 16, 2009	December 30, 2064	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 4 - B	EUR	26,753	26,753	-	-	-	-	Variável	February 16, 2009	December 30, 2064	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	-	Variável	February 16, 2009	December 30, 2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	201,613	201,613	-	-	-	-	Variável	December 21, 2009	November 23, 2068	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 5 - B	EUR	35,724	35,724	-	-	-	-	Variável	December 21, 2009	November 23, 2068	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 5 - C	EUR	63,982	63,982	-	-	-	-	Variável	December 21, 2009	November 23, 2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	157,929	157,929	-	-	-	-	Variável	November 19, 2010	August 23, 2066	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 7 - B	EUR	29,348	29,348	-	-	-	-	Variável	November 19, 2010	August 23, 2066	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 7 - C	EUR	60,898	60,898	-	-	-	-	Variável	November 19, 2010	August 23, 2066	Residual return generated by securitized portfolio
Hipototta nº13 Classe A	EUR	1,473,766	1,473,766	-	-	-	-	Variável	January 9, 2018	October 23, 2072	Euribor 3m + 0.6%
Hipototta nº13 Classe B	EUR	484,000	484,000	-	-	-	-	Variável	January 9, 2018	October 23, 2072	Euribor 3m + 1%
Hipototta nº13 Classe C	EUR	60,595	60,595	-	-	-	-	Variável	January 9, 2018	October 23, 2072	Residual return generated by securitized portfolio
		4,898,563	**4,010,288**	**888,275**	**(62,904)**	**-**	**825,371**				
Other											
Euro medium Term Note-37ª	EUR	212	-	212	-	-	212	0.75%	August 9, 2016	August 9, 2019	Fixed Rate
Euro medium Term Note-38ª	EUR	499	-	499	2	-	501	0.75%	September 29, 2016	September 29, 2019	Fixed Rate
		711	**-**	**711**	**2**	**-**	**713**				
		12,599,274	**8,210,288**	**4,388,986**	**(74,124)**	**-**	**4,314,862**				

SANTANDER TOTTA - SGPS, S.A.

SUBORDINATED LIABILITIES AT DECEMBER 31, 2017 (NOTE 20)

(Amounts expressed in thousands of Euros – tEuros)

		Amount of the issue			Accrual			Total			
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet	Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from:
Subordinated Perpetual Bonds Totta 2000	EUR	270,447	270,447	-	112	112	-	-	1.51%	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	October 6, 2026
		296,139	**288,540**	**7,599**	**344**	**208**	**136**	**7,735**			

Consolidated Reports and Opinions

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 2018 (which shows total assets of Euros 55.039.139 thousand and total shareholders' equity of Euros 4.171.738 thousand including a net profit of Euros 499.964 thousand), the consolidated statement of income, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Santander Totta, SGPS, S.A. as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	*Summary of the Audit Approach*
Impairment losses on credit granted and other balances receivable at amortized cost *Measurement and disclosures related to impairment losses on credit granted and other balances receivable at amortized cost presented in notes 1.3 c), 2, 10, 21 and 43 attached to the consolidated financial statements of the Group*	
The significant expression of credit granted and other balances receivable at amortized cost and associated impairment losses, which require a set of complex assumptions and judgments from the Group's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit. As at 31 December 2018, the gross amount of credit granted and other balances receivable at amortized cost amounted to Euros 40.706.612 thousand and the corresponding impairment losses recognized at that date amounted to Euros 1.109.486 thousand. The implementation of IFRS 9 - Financial Instruments ("IFRS 9") on 1 January 2018 by the Group implied the introduction of a set of new requirements with impact on the measurement and recognition of impairment of credit on financial assets, calculated by means of an expected losses model to the detriment of the model of losses incurred under IAS 39. The impacts on the Group's consolidated financial statements arising from the adoption of this new standard were estimated with reference to 1 January 2018, based on the information available at that date and the assumption of a set of assumptions, which are presented in notes 1.1 and 1.3 c) attached to the consolidated financial statements of the Group. Impairment losses on credit granted and other balances receivable at amortized cost are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a	The audit procedures developed included the identification, understanding and evaluation of key controls established by the Group with respect to the approval, recording and monitoring of credit risk granted to customers as well as key Group controls underlying the timely identification, recording and correct measurement of impairment losses. In the specific scope of the implementation of IFRS 9 on 1 January 2018, we followed the action plan developed by the Group and developed among others the following procedures: • Meetings with management and with those principally responsible for the action plan in order to understand and follow the schedule, scope and depth of the work to be carried out by the different areas of the Group; • Understanding of the Group's governance process, namely regarding the controls implemented on the review and approval of the main assumptions, judgments and future economic perspectives used in the models defined for the measurement of impairment losses; • Reading and analysing the methodological documents for the adoption of IFRS 9 prepared by the Group and reviewing its adherence to the principles of said standard; and • Review of the effects identified by the Group arising from the adoption of IFRS 9 with impact on the Group's net equity position as at 1 January 2018.

Key Audit Matter	*Summary of the Audit Approach*
collective analysis. This process is summarized as follows: • For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Group and the possible existence of signs of default, the Group performs an individual impairment measurement analysis ("IIA") only for exposures classified as stage 3, in which the amount of impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral, less the costs inherent to its recovery and sale. • For exposures not covered by the individual analysis, the Group developed collective analysis models to calculate expected impairment losses, in light of the requirements of IFRS 9, namely the classification of exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context, but also to incorporate a perspective of future economic evolution, these models use forward looking prospective information such as (i) the GDP growth rate; (ii) the unemployment rate; (iii) the evolution of the interest rate; and / or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence.	On a sample basis, we analysed a group of clients within the Group's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Group in the individual analysis of impairment measurement; (ii) obtain our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Group in its methodology. For a sample of exposures classified in stage 3, representative of the credit population subject to individual analysis by the Group as at 31 December 2018, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm the registration of them in favour of the Group; (iv) to analyse the evaluations of collaterals that were available; (v) to examine the criteria for classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) a critical analysis of the discounted cash flows underlying the calculation of impairment; (viii) to assess the evolution of exposures; and (ix) understand the views of the Group's officers regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Group, in order to assess the existence of possible divergences. For the portfolio whose impairment is assessed through the collective analysis model, a set of specific

Key Audit Matter	*Summary of the Audit Approach*
In this context, changes in the assumptions or methodologies used by the Group in the analysis and quantification of impairment losses of the credit granted and other balances receivable at amortized cost, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses recognized in the Group's consolidated financial statements as at 31 December 2018.	procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historic performance and recoveries of the Group's loan portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the backtesting exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Group's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loan portfolio, with reference to 31 December 2018. Our auditing procedures also included a review of the disclosures for credit granted and other balances receivable at amortized cost, as well as the related impairment losses, in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Provisions and contingent liabilities *Measurement and disclosures related to provisions and contingent liabilities presented in notes 1.3.h), 2, 21 and 46 attached to the Group's consolidated financial statements* As at 31 December 2018, the balance of the liability caption "Provisions" amounted to Euros 297.992 thousand and is intended to cover various liabilities, including post-employment benefits specific to certain Group management, restructuring plans, tax risks, legal proceedings in progress and other specific risks arising from the Group's activity, as well as situations associated with the acquisition, in 2015, of a significant part of Banif's activity. The determination of these provisions implies that the Group's management uses complex estimates	The audit procedures we have developed in this area included the understanding and evaluation of the key processes and controls established by the Group with respect to the approval, registration and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted management in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, due to the relevance of the judgments required of the management, (i) we have examined in

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and judgments as to the probability of materialization and quantification of the amounts of liabilities that may result from the litigation and contingencies to which the Group is a party and, to that extent, this was considered a key matter for the purposes of our audit.	detail the litigation in progress; (ii) we confirmed the existence of contingencies and litigation and their procedural status with the Group's external legal counsel, and (iii) we reviewed the most significant provisions obtaining additional audit evidence, when deemed necessary. We evaluated management's assessment of the nature and status of existing litigation proceedings and the corresponding provisions, where applicable, and discussed with the legal counsel of the Group the basis 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 lawyers who accompany each case. We have also analysed the information available on the developments that occurred after 31 December 2018 on the most relevant litigation. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Financing of the Resolution Fund *Disclosures related to the Resolution Fund presented in notes 35 and 45 attached to the Group's consolidated financial statements* The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, SA ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, SA ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: • effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would	In the scope of our audit, we performed, among others, the following procedures: • confirmation to the Group that there were no changes to the contractual terms of the loan agreements entered into between the Banks and the Resolution Fund, as well as the amendments thereto signed in August 2016 and February 2017; • monitoring of changes of greater significance to the simplified model of cash flow projections of the Resolution Fund presented by the Group when renegotiating loans obtained by the Resolution Fund; • follow-up of the relevant communications on the liabilities and contingent liabilities

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if it had entered into liquidation; • legal proceedings against the Resolution Fund; • negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; • contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels; and • guarantee given to the obligations issued by the Oitante, and this guarantee is counter-guaranteed by the Portuguese State. The contingent capitalization mechanism was first activated by Novo Banco in the amount of Euros 791.695 thousand related to audited accounts with reference to 31 December 2017, which resulted in the contraction of a loan in the amount of Euros 430.000 thousand from the Portuguese State. According to the results of the 2018 fiscal year, recently announced by Novo Banco, the amount claimed in 2019 to the Resolution Fund, under this mechanism, will amount to Euros 1.149.000 thousand. At the beginning of 2017, the Resolution Fund publicly announced the contractual review of the financing it contracted with the Portuguese State and the participating banks to adjust and match the terms and conditions associated with such financing, in particular the extension of the repayment term, to enable the Resolution Fund to fully meet its obligations on the basis of its regular revenues, ie without charge, to the banks participating in the Resolution Fund, special contributions or any other extraordinary contribution. The evaluation of this capacity, and consequently of the risk of impairment of the financing granted by the Group to the Resolution Fund, was based on a set of assumptions and estimates whose future evolution requires continuous monitoring.	assumed by the Resolution Fund and / or Portuguese State; • analysis of the public communication of the Resolution Fund of 28 March 2018 and of 1 March 2019, regarding the payment to be made by the Resolution Fund to Novo Banco under the contingent capitalization mechanism established in Novo Banco; • reading the latest reports and accounts available from the Resolution Fund and Novo Banco; • analysis of the evolution of the Group's exposures to the Resolution Fund as well as an understanding of the Group's views on the economic and financial situation of the Resolution Fund and the predictability of expected cash flows from its regular revenues; and • holding meetings with the Group's management body to monitor available information on: (i) the outcome of legal actions in progress related to such resolution measures; and (ii) the contingent capitalization mechanism associated with the sale of Novo Banco to Lone Star and the liabilities assumed by the Resolution Fund under this transaction. Our audit procedures also included the revision of the disclosures on provisions and contingent liabilities in the notes to the consolidated financial statements of the Group, taking into account applicable and current accounting standards.

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In these circumstances, the possibility that banks participating in the Resolution Fund will be called upon to make extraordinary contributions to the Resolution Fund is a concern for the Group and for the banking sector in general, and to this extent the future evolution of this issue requires an attentive follow-up on our part, and therefore this was considered a key matter for the purposes of our audit.	
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 i), 2 and 39 attached to the Group's consolidated financial statements* At 31 December 2018, the liabilities for past services of the Group in relation to its pensioners, employees and directors amounted to Euros 1.313.480 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those provided for in the Acordo Coletivo de Trabalho ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and the population of managers, employees and pensioners, and the current and future behavior of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on net liabilities as well as assets held to meet these liabilities, and this issue was	The audit procedures developed included the identification and understanding of the key controls instituted by the Group to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund. The audit work included meetings with the Group and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain. A conformity review was performed to: (i) the employee information history used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, independently for a sample of assets. Finally, we have developed the detailed analysis of the actuarial study prepared with reference to 31

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considered a key matter for the purposes of our audit.	December 2018, based on the results of the procedures referred to above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the consolidated financial statements of the Group, taking into account applicable and current accounting standards.
Fair value of financial instruments not quoted in an active market *Measurement and disclosures related to the fair value of financial instruments not listed on an active market presented in notes 1.3 c), 2, 7, 8, 9, 11 and 43 attached to the Group's consolidated financial statements* Due to its relevance in the context of the Group's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market was a relevant matter for the purposes of our audit. At 31 December 2018, the balance sheet balances of financial instruments of levels 2 and 3 of the fair value hierarchy or subject to value adjustments by hedge accounting amounts to Euros 6.930.096 thousand of assets and Euros 4.763.505 thousand of liabilities. The implementation of IFRS 9 - Financial Instruments ("IFRS 9") on 1 January 2018 by the Group implied the introduction of a set of new requirements with an impact on the classification of financial assets essentially resulting from (i) the business model under which financial assets are managed; and (ii) the characteristics of contractual cash flows of debt financial instruments (representing solely payments of principal and interest). The impacts on the Group's consolidated financial statements arising from the adoption of this new standard were estimated by reference to 1 January 2018, based on the information available at that date and assuming a set of assumptions, which are presented in notes 1.1 and 1.3 c) attached to the consolidated financial statements of the Group.	The audit procedures we have developed included the identification, understanding and evaluation of key controls established by the Group to identify, quantify and monitor market risk as well as the key controls underlying fair value measurement methodologies. In the specific scope of the implementation of IFRS 9 on 1 January 2018, we followed the action plan developed by the Group and, among others, we developed the following procedures: • Meetings with those principally responsible for the action plan in order to understand and follow the schedule, scope and depth of the work to be carried out by the different areas of the Group; • Understanding of the Group's governance process, namely regarding the controls implemented on the review and approval of the main assumptions and judgments used in the definition of the Group's business models and in the analysis of the characteristics of the contractual cash flows of the debt financial instruments; • Analysis of the methodological documents for adoption of IFRS 9 prepared by the Group and review of its adherence to the principles of said standard; • Review, on a sampling basis, of the combined application of the tests to the characteristics of the contractual flows of the financial assets and the business models of the Group, based on the

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As at 31 December 2018, financial instruments not listed in an active market are composed of (i) debt financial instruments whose business model is "hold to collect and sale" or trading, (ii) derivatives classified as trading or hedging; (iii) equity instruments, (iv) assets and liabilities subject to value adjustments by accounting for hedge accounting, namely the customer loan portfolio, customer funds and other loans and liabilities represented by securities, and v) other financial liabilities measured at fair value (fair value option). For financial instruments classified in levels 2 and 3 of the fair value hierarchy, and when no observable market data are available, the Group establishes fair value using estimates, namely through the use of valuation models based on techniques of cash flows, and which usually involve a high degree of judgment of the management body in the definition of the assumptions and inputs to be used. Regarding derivative financial instruments, the Group recognizes adjustments to own credit risk and to counterparties that are not fully collateralized (DVA - Debit Value Adjustments and CVA - Credit Value Adjustments), which are estimated based on in projections of potential future exposures or in the amount that would have been received or paid to settle the contract on the date in question, considering the current market conditions, as well as the credit quality of the intervening entities, which is estimated based on quotations published in markets assets when available or, in its absence, internally determined by the Group through its internal risk rating model. In this context, changes in the assumptions used in the measurement techniques used by the management body may give rise to material impacts in the determination of the fair value of the instruments recognized in the consolidated financial statements of the Group.	analysis of the available supporting documentation; and • Review of the effects identified by the Group arising from the adoption of IFRS 9 with impact on the Group's net equity position as at 1 January 2018. For a sample of instruments the measurement of which consisted substantially of unobservable data, our procedures also included an assessment of whether the models developed by the Group and the data and assumptions used are adequate, comparing the data observable with the information collected from external and independent sources, whenever available. We also reviewed the methodology and data used by the management body to determine the adjustments to own credit risk and counterparty risk recorded for exposures with uncollateralized derivative instruments in their totality and for other liabilities measured at fair value, and compared the observable data against market information collected from external and independent sources, whenever available. Our audit procedures also included the review of disclosures about financial instruments not listed on an active market, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Risk of insufficiency of assets to cover assumed liabilities *Measurement and disclosures related to the risk of insufficient assets to cover the liabilities assumed in notes 1.3. k), 8, 16, 19 and 43 attached to the Group's consolidated financial statements*	

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The mathematical provisions of life insurance presented in the consolidated financial statements amounted to Euros 742.857 thousand and the financial liabilities of the deposit component of insurance contracts and insurance contracts and transactions considered for accounting purposes as investment contracts amounted to Euros 3.175.960 thousand, corresponding in total to 96% of the liabilities of Santander Totta Seguros - Companhia de Seguros de Vida, SA on 31 December 2018. The assessment of the adequacy of insurance liabilities, inherent to the constitution of mathematical provisions of the life insurance is essentially made based on the projection of the future cash flows associated with each contract. These cash flows include premiums, deaths, maturities, redemptions, cancellations and expenses. This evaluation is carried out product by product or aggregated when the risks of the products are similar or managed jointly. 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 Santander Totta Seguros - Companhia de Seguros de Vida, SA for the commercialized contracts, due to the fact that it does not achieve an adequate correspondence between assets and liabilities at the level of interest rate and maturity of the same. To that extent, this was a material matter for the purposes of our audit. The Group's management 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.	The audit procedures we have developed included: • Identification and understanding of the key existing controls for assessing the adequacy of insurance liabilities, in particular for insurance products with assumed financial guarantees; • Verification of the effectiveness of controls associated with the recognition of mathematical provisions, provision for rate commitments and financial liabilities of the deposit component of insurance contracts and insurance contracts and transactions considered for accounting purposes as investment contracts; • Identification and evaluation of the assumptions used by the Group's management in assessing the adequacy of insurance responsibilities; • 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 management. In addition, we have reviewed the disclosures regarding the direct insurance technical provisions and the financial liabilities referred to in the notes to the consolidated financial statements, taking into account the requirements of 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. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Santander Totta, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 10 April 2019.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

10 April 2019

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signes by]
Aurélio Adriano Rangel Amado, R.O.C.