



2019 Report First Half



Banco Santander Totta, S.A.

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*This report was approved by the Bank's Board of Directors
on September 24, 2019*

Banco Santander Totta, SA

Rua do Ouro, 88 - 1100-063 Lisboa - Portugal

Share Capital: 1,256,723,284 euros

Registered at Lisbon Commercial Registry under the number 500 844 321 and tax identification number 500 844 321

LEI: 549300URJH9VSI58CS32

Highlights



"First half results lend continuity to the Bank's sustained growth, with net income amounting to €240 million, 1.7% more than in the first six months of 2018. We are a Bank that is ever closer to and focused on the customers, and these figures show that we are providing a good service and earn their trust. On the other hand, we have received many awards as the Best Bank in Portugal – this month we were rewarded by Euromoney – and as the Brand of Greatest Repute of the sector.

The resources are a sign that confidence following an upward path, with a year-on-year increase of 3.7%. And we continue to show very significant shares in new loans to companies (20.5%) and in mortgage loans (18.9%).

Lending continuity to our purpose of providing our customers with ever better service, we continued to implement new digital solutions and to simplify operational processes, in a gradual process of digital transformation. Products and services such as the new mortgage loan platform, the CrediSimples Business (online loans for businesses) and the innovative Work Café Branch model have had very good results, proof that they are being well accepted by the market. And this is also reflected in the more than 756,000 digital customers we have today, an increase of 13% (y-o-y).

For the second half we are optimistic about the evolution of our business and we will continue to focus on customer experience and support for households and businesses, through the best possible response to their needs".

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













PROFITABILITY	GROWTH	SOUNDNESS	COMMUNITY SUPPORT
 <p>Operating Income</p> <p>€670.2 mn (+5.5%)</p>	 <p>Mortgage loans +1.4%</p> <p>Customer deposits +3.4%</p> <p>Change YoY:</p>	 <p>NPE Ratio</p> <p>3.3%</p>	 <p>Participatory Donation</p> <p>25 projects</p>
 <p>Net income</p> <p>€239.8 mn (+1.7%)</p>	 <p>Main Bank Customers</p> <p>768,000 (+4.9%)</p>	 <p>Cost of Credit</p> <p>-0.1%</p>	 <p>Santander Advance</p> <p>128 training grants</p>
 <p>RoE</p> <p>13.5% (+0.6 pp)</p>	 <p>Digital Customers</p> <p>756,000 (+12.6%)</p>	 <p>CET1 Ratio</p> <p>16.5%</p>	 <p>Social Responsibility</p> <p>19,120 beneficiaries</p>

Table of Indicators

BALANCE SHEET AND RESULTS (million euro)	1H 2019	1H 2018	Var.
Total Net Assets	52,905	52,545	+0.7%
Loans and advances to customers (net)	39,751	40,069	-0.8%
Customers' Resources	42,591	41,072	+3.7%
Total shareholders' equity	3,632	3,288	+10.5%
Net Interest Income	426.2	445.0	-4.2%
Net Fees and Other Income	169.5	167.3	+1.3%
Net Income from Banking Activities	670.2	635.1	+5.5%
Net Operating Income	372.0	324.4	+14.7%
Income before taxes and non-controlling interests*	382.4	340.4	+12.3%
Consolidated net income attributable to the shareholders of BST	239.8	235.6	+1.7%

RATIOS	1H 2019	1H 2018	Var.
ROE	13.5%	12.9%	+0.6 p.p.
ROA	0.9%	0.9%	+0.0 p.p.
Efficiency ratio	44.5%	48.9%	-4.4 p.p.
CET I ratio** (fully implemented)	16.5%	12.6%	+3.9 p.p.
Tier I** ratio	16.5%	12.6%	+3.9 p.p.
Capital** ratio	18.6%	12.8%	+5.8 p.p.
Non-Performing Exposure Ratio	3.3%	4.9%	-1.6 p.p.
Non-Performing Exposure coverage ratio	53.3%	54.6%	-1.3 p.p.
Cost of credit	(0.1%)	(0.0%)	-0.1 p.p.
Loans-to-deposits ratio (transformation ratio)	111.9%	116.4%	-4.5 p.p.

RATING	1H 2019	1H 2018
FitchRatings	BBB+	BBB+
Moody's	Baa3	Ba1
Standard & Poor's	BBB	BBB-
DBRS	A	A

Other Data	1H 2019	1H 2018	Var.
Employees	6,340	6,695	-355
Employees in Portugal	6,317	6,662	-345
Branches	553	672	-119
Total Branches and Corporate Centers in Portugal	543	662	-119

* Excludes non-recurrent results

** 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 the Bank, a responsible bank.

Simple | Personal | Fair

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

All the teams at Banco Santander strive each day to ensure that everything they do is Simple, 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

Main Awards and Recognitions



Prémio Melhor Banco em Portugal 2019



No âmbito dos Euromoney Awards, o Santander foi nomeado o "Melhor Banco em Portugal 2019".
Este prémio é para si.

Este prémio é da exclusiva responsabilidade da entidade que o atribuiu.



Best Bank in Portugal

Santander in Portugal was distinguished by **Euromoney** magazine with the "**Best Bank in Portugal 2019**" award within the scope of the *Awards for Excellence 2019*, which took place in London with the presence of more than 500 bankers from around the world. The awards distinguish those institutions that provide the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate. This is now the 17th time that Santander's activity is distinguished in Portugal.



Best Bank in Portugal

The North American **Global Finance** magazine elected Santander in Portugal as the "**Best Bank in Portugal**", within the scope of the "*World's Best Banks 2019*". According to this North American entity those elected were those "best able to respond to the needs of their customers in difficult markets, further establishing the bases of success for the future"-



Most Reputed Banking Brand

Santander is the **brand with banking's best reputation in Portugal**, according to the **Marktest Reputation Index (MRI)** in 2019. The Bank obtained the highest ratings of the sector in the confidence, image and word-of-mouth (WOM) attributes. This year Santander rose to 1st place of the sector, standing out in the four criteria referred to above. In Familiarity it came second *ex-aequo*.



Most Reputed Banking Brand

Santander was also the **brand with banking's best reputation in Portugal**, according to the **Global Pulse RepScore 2019 study**, conducted by consultant **On Strategy**. It is the third consecutive time that Santander occupies this position, leading in the various attributes analysed, including: leadership, innovation, performance, corporate social responsibility, governance, citizenship and workplace.



Company with Best Corporate Reputation

Santander was considered the **Company with the best corporate reputation in Portugal**, on taking 1st place in the sector in the **2019 Merco Companies ranking**. It is also the best positioned bank in the general ranking of the Most Responsible Companies having best Corporate Governance. The analysis was conducted in Portugal for the first time, the methodology of which was based on 1,200 interviews of 12 different stakeholders.



5-star Bank

Santander won the **2019 Five Star Award** in the Large Banks category. After an evaluation of five major Portuguese banks, conducted by *U-scoot*, 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 prize for "*Best Private Banking Services Overall*" in Portugal, awarded by *Euromoney* magazine. This is the eighth consecutive time that Bank receives this award. The study was conducted through qualitative analysis of the sector's best practices, by region and by type of service.



Best Private Bank

Santander in Portugal's Private Banking was elected by *Global Finance* magazine as the "**Best in Portugal**", within the scope of The World's Best Private Banks Awards for 2019, which distinguish the world's best private-banking business models. This is now the fourth consecutive distinction.



Best Retail Bank

Santander was distinguished as "**Best Retail Bank in Portugal**" by the British magazine *World Finance*, in the annual awards of this publication. The entity highlighted the Bank's leadership, based on the profitability and sustainability of the business model.



Best Bank to Work For

Santander was considered the "**Best Bank to Work For in Portugal**". And 2nd best company (in the size of more than 1,000 employees) to work, within the scope of the **Great Place to Work**, which included the opinion of the Bank's employees.

Other awards and distinctions:

Best Private Banking in 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; ESG/Social Impact Investing; International Clients; Succession Planning Advice and Trusts

"Best Banking Contact Centre", *Portuguese Contact Centers Association*

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

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

No. 1 Corporate Bond House Award, *Euronext*

(Distinguishes the financial intermediary with the largest volume of placements of bonds on the Lisbon Stock Exchange, listed in the Euronext regulated market segment).

Relevant Facts in the first half of 2019

New Governing Bodies

Santander in Portugal with new governing bodies for the 2019-2021 three-year period. Pedro Castro e Almeida is the new CEO.



Focus on Customer Experience



Opening of the **second work café in Coimbra**. A new branch model, with a modern sophisticated layout, which is both a cafeteria, as well as co-working spaces for customers and non-customers, which encourages user proximity and experience.

Digital transformation in progress

Launch of a new online platform for contracting mortgage loans, which allows the follow-up of the loan workflow in real-time by all those involved in the process.



A Bank that support businesses and people

Mundo 1|2|3 solution for individuals returned about **€9 million as cashback to customers** in the first half of 2019.

Support to the training of the of companies through the **Advance Management Academy** provided **6 sectoral management programmes** Sector for Social Economy, Agro and Tourism, attended by 200 companies. **Box Santander Advance** visited the region of Madeira for the first time.

Commitment to Society

The Santander Group announced the ten goals that reflect its commitment to contribute to the United Nations Sustainable Development Goals and to carry on its business in a responsible manner.

In the first half, Santander supported 96 associations through its corporate responsibility programme, benefiting 19,120 people in Portugal.



Banco Santander Totta SA's Governing Bodies

Board of the General Meeting

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

Board of Directors

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

Audit Committee

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

Statutory Auditor

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

Executive Committee

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

Company Secretary

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

Executive Committee

Amílcar Lourenço

Recoveries and Divestment, Irregular Loans, Non-Productive Assets and Inspection. Responsible for Money Laundering Prevention issues

Manuel Preto

Deputy- chair of the Executive Committee
Financial, Organisation and Means

Miguel Carvalho

Commercial
Networks



Isabel Guerreiro

Innovation, Digital Development and Customer Experience

Pedro Castro e Almeida

Chair of the Executive Committee
Risks, Compliance, Human Resources and General Secretariat (including Internal Governance and Legal Area)

Inês Oom de Sousa

Products, Payments, Marketing, Universities and Responsible Banking

Business Framework

International

Global expansion continued in the first half of 2019, but at a more moderate pace, due to the materialisation of some latent risks such as trade wars, against a background of greater uncertainty and of longevity of the expansionist cycle.

The considerable uncertainty, with economic risks, reflected in the deepening of the trade and geopolitical wars, is also embodied in the more recent projections that suggest a more pronounced slowdown in 2019, particularly in the developed economies.

World Economic Growth

	2017	2018	2019E
World	3.8	3.6	3.2
Advanced Economies	2.4	2.2	1.9
USA	2.2	2.9	2.6
Euro Area	2.4	1.9	1.3
United Kingdom	1.8	1.4	1.3
Japan	1.9	0.8	0.9
Developing Countries	4.8	4.5	4.1
Africa	2.9	3.1	3.4
Asia	6.6	6.4	6.2
China	6.8	6.6	6.2
Central and Eastern Europe	6.1	3.6	1.0
Middle East	2.1	1.6	1.0
Latin America	1.2	1.0	0.6
Brazil	1.1	1.1	0.8

Source: IMF (July 2019)

In the July update the "World Economic Outlook" the International Monetary Fund (IMF) has lowered the projections for 2019 (and 2020), particularly in the advanced economies. The risk continued to be assessed as biased downwards, largely due to the worsening of the trade wars that began to penalise confidence and investment, as well as the deflationary pressures that condition the response space of monetary-policy in the current context of very low interest rates.

In the **Eurozone**, growth slowed faster, in line with the momentum observed at the end of 2018, but may grow about 1.3% in 2019. Europe, as a more open economic area, suffered the indirect effects of the trade wars, combined with other factors that struck all or part of the monetary union. In Germany, the industrial sector was also penalised by the "dieselgate", as well as by the effects of the energy transition, in an economy where the motor industry plays a major role for the activity.

In France, the protests of the "yellow jackets" also had a negative impact on activity, especially at the end of 2018 and the first

quarter of 2019, but also negatively influencing the annual dynamic.

In Italy, the economy stagnated in recent quarters, with the political tension and the consequent rise of yields penalising confidence and economic activity.

The European Central Bank has also incorporated this framework in its growth and inflation forecasts, which were revised downwards, and consequently reversed its message of "normalisation" of monetary policy and reinforced the "forward guidance" regards the expansionist nature of the policy. Thus, it announced new long-term lending (TLTRO III) operations starting in September 2019, extended until June 2020 the period in which interest rates may remain at minimum levels, and left open the possibility of new measures at the end of the summer. Investors incorporated expectations of further reductions of the deposit rate and of a new asset purchase program, with a general decline in interest rates in all spectra of the yield curve.

In the **USA** the economy maintained sustained growth rates, although decelerating, in what is one of the longest expansions in history. In the labour market, the unemployment rate remained at minimum levels, although without consequences in terms of wage dynamics, which remained moderate.

However, the increase of volatility in the financial markets, in the context of the uncertainty associated with the trade wars, led the Federal Reserve to lower the reference rate by 25 bp, in July, to 2.25% in what was the first rate decrease since 2008. It should be said that at the start of the year, the policy of the Federal Reserve was still one of a rise of the reference interest rates.

In the **United Kingdom** the political process around Brexit dominated the first half, starting to have implications on economic growth (with a GDP contraction in 2Q19). The initial date of March 31 for the United Kingdom to leave the European Union was successively postponed to October 31. Boris Johnson succeeded Theresa May as prime minister, forming a "Brexit" government and stating Britain will leave the European Union on October 31, with or without agreement.

China continued to slow down in a dynamic that reflects the combination of several factors: (i) the secular deceleration activity; (ii) the effects of measures to curb the over-indebtedness of the economy, in particular of the "shadow banking system"; and (iii) the effects of the imposition of additional tariffs by the US. In August, the North American Administration accused China of manipulating the exchange rate, after the Chinese currency depreciated to over 7 renminbi per dollar for the first time since 2008.

During this period, long-term interest rates declined significantly across the yield curve, and in most countries. In Germany, the yield curve fell to negative levels for maturities of 40 years, while

in Portugal yields entered negative territory for maturities of up to six years.

Risk premiums in general also declined, with a narrowing of the spreads against Germany, including the Italian rates.

Portuguese Economy

Economic activity in Portugal continued showing signs of greater dynamism in the first half, following a more timid second half of 2018. Growth amounted to around 1.8% year-on-year, though not reversing the deceleration slowdown trend seen since 2017 (when the GDP grew 2.8%).

Growth in this period was clearly led by exports and investment, with private consumption maintaining a sustained, though moderate, contribution GDP growth.

Macroeconomic Data

	2017	2018	2019E
GDP	2.8	2.1	1.6
Private Consumption	2.3	2.6	3.0
Public Consumption	0.2	0.8	0.9
Investment	9.2	5.5	4.8
Exports	7.8	3.7	3.5
Imports	8.1	4.9	6.0
Inflation (average)	1.4	1.0	1.1
Unemployment	8.9	7.0	6.7
Fiscal Balance (% GDP)	-3.0	-0.5	-0.2
Public Debt (% GDP)	124.8	122.0	118.6
Current Account Balance (% GDP)	1.5	0.6	0.3

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

Despite the favourable dynamic in the labour market, with the unemployment rate falling to 6.3% in the second quarter, households spending remained moderate in line with the evolution of disposable income. The savings rate stabilised above 4% of disposable income, very close to historic lows.

Investment expenditure maintained a positive momentum, particularly in the first quarter of 2019. Capital expenditure already accounts for 20% of the GDP, and the recovery from a minimum of 14.6% in 2013 stems from productive investment in machinery, equipment and transport equipment, the weight of construction unchanged.

This stronger growth of investment was reflected in the evolution of imports, which also accelerated in the first half of the year, leading to a reversal of the balance of goods and services, which returned to a deficit following the surpluses of recent years. However, as mentioned, import growth is largely justified by capital expenditure, with consumer goods imports under control.

Exports recovered in the first half, although at a more moderate pace than that of imports, affected also by the slowdown of the European economy. However, they maintain their role as a major contributor to economic growth, with a weight of about 48% of GDP.

The slowdown of imports was reflected a reversal of the trend of the external balance, with the balance of goods and services recording a deficit, which has not happened since 2012. The current and capital balance annulled the surpluses that had been recorded previously.

As mentioned, the unemployment rate fell to 6.3% in the second quarter, a reduction of 0.4 pp compared to the same period of 2018, the result of the creation of 43,000 jobs during the period. The creation of new jobs continues to be driven by the private sector, associated with an increasing number of permanent contracts.

The correction of the main structural imbalances continues at a pace needed to boost potential growth and reduce vulnerabilities in the light of exogenous shocks.

In this field, the indebtedness of the economy continues to decline, though it is still high compared with our European partners. In the first quarter of 2019, public debt stood at 123% of GDP, while the private sector had fallen to about 197% (129% and 253% of GDP, respectively, in 2013). Emphasis is given to the effort to reduce the level of debt of private companies, which fell from 171% of GDP in 2012 to 127% in 1Q19. Additionally, the reduction of non-productive assets continues, the ratio of which fell to 8.9% in the first quarter.

The budget balance of the general government in the first quarter of 2019 showed a surplus of 0.4% of the GDP, the result of a very favourable growth in tax revenues and social-security contributions, culminating in an overall growth of year-on-year revenues of 6.2%, and, as a percentage of the GDP, 0.1 pp (40% of the GDP). Government expenditure grew by just 0.4% year-on-year in the first quarter of 2019, the result of the reduction of expenditure on goods and services and of the service of the debt, which more than offset the increase in spending on wages and social benefits.

The resilient economic environment and the correction of imbalances supports a reduction in of the perception of the sovereign risk, reflected in the minimum levels recorded throughout the yield curve, where the 10-year term for sovereign debt was priced at 0.3% and recorded a spread of 90 basis points against Germany (as of August 12, 2019).

In this sense, the risk notation of the Republic's credit rating assigned by the S&P, Fitch and Moody's agencies is BBB, BBB and Baa3. DBRS, in May, and Moody's in August, revised the outlook of the debt to positive, indicating a possible upward revision of the risk notation should the economic and financial variables continue to develop favourably.

Major risks and uncertainties for the second half of 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 the second half of 2019, such as the domestic and foreign economic surroundings, or the regulatory and supervisory framework.

The economic environment, as described in the preceding chapter, shows signs of moderation of the growth rate, be it for the very maturity of the economic cycle, be it for the materialisation of some risk factors that are set to continue to condition the economy in the remaining months of 2019.

On the one hand, geopolitical risks persist, 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, risks continue or have increased of greater protectionism by some countries and/or economic blocs. The unilateral imposition of tariffs or other barriers to free trade, and retaliatory measures, are already adversely influencing growth, and in the first half of 2019 have already had an impact on the volume of world trade and contagion effects on economic activity.

Following the end of the electoral cycle with the elections to the European Parliament, the focus is centred on signs of economic slowdown, particularly marked in the industrial sector and, more specifically, the automobile industry. Along with the collateral effects of the trade wars, they contribute to a growth rate clearly below the potential especially in economies such as Germany, France and Italy, and have already led the European Central Bank to prepare for a series of new stimulus measures, to be communicated in September.

The actual date of the United Kingdom's exit from the European Union has been postponed to October 31. The new government signals that there will be no new postponements, regardless of whether or not there is a withdrawal agreement. The risks of a disorderly exit are thus perceived to be higher by the authorities and economic agents.

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 present, 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%. The improvement of the credit rating, or outlook by the major agencies, and the lower yields compared to Italy are a sign of a certain immunity, but it will not eliminate risk in a climate of greater risk aversion.

In October 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 has not only postponed the upward cycle of the reference interest rates, but it has also signalled that a longer period of lower interest rates may occur.

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

Also from the regulatory point of view, besides the current processes of alteration of the CRD IV/CRR, discussions were taking place on alterations to the calculation of risk-weighted assets (RWA).

Additionally, there is the process of transformation of the sector, with the start of activities by some large techs in the e-money segment, which allows them to process electronic payments, in competition with the banking sector.

Business Areas

Commercial Banking

Individuals and Businesses

In the first half of 2019 the Bank lent continuity to the strategy of improvement of the business model through the development and implementation of new digital solutions and process simplification. A new branch concept was adopted, called the



Work Café, which consists of a space "open" to society and to the market, which enhances the relationship among

customers and between customers and the Bank. In this period two areas of this new concept were inaugurated, one in Lisbon and one in Coimbra.

With regard to the customer base, there was an increase of 8,000 main bank accounts. As for the number of digital customers, users of the Santander App and/or of NetBanco exceeded 756,000 (45% of the active-customer base).



Also to be highlighted is the positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), in which the Bank has more than 258,000 customers, a growth of more than 15,000 during the period. **Mundo 123** is a multiproduct solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

A strategy underpinned by the soundness of the Bank and the trust of the customers, responding to need of development and support in the achievement of their projects that has resulted in an increase in loan production, with a positive impact of €45 million on the loan portfolio.

In the first six months of the year mortgage-loan production amounted to €904 million, with a very favourable quarterly dynamic. Personal-loan production stood at €103 million, with emphasis on the **CrediSimples** online solution, which accounted for about 16% of the production.

With regard to resources, the evolution was positive, an increase of more than €1 billion (of which 63% in balance sheet funds and the remainder in off balance sheet resources), compared to the amount observed at the end of 2018. The result of the increased diversification of the customers' placements with the Bank, emphasis is given to the growth in investment funds.

The Business segment continues to be of strategic importance and the Bank therefore continues to have an offer where customer experience, the offer of value and digitisation are of particular relevance. The launch, in March, of the **CrediSimples Business**, an online credit solution for businesses, is a visible example of this dynamic, having contributed to a y-o-y increase

of a production of more than 32%. At the end of June, the turnover of the segment increased by more than €400 million compared to December 2018, an increase of 5.2%.

Maintaining its strategy of proximity and strong connection to the Portuguese communities in the various geographies, the Bank has strengthened its position in this segment, which resulted in the increase of remittances received from abroad in 2019 (+9% y-o-y), as well as their retention.

Similarly, acknowledging the growing interest of foreigners in living and/or investing in Portugal, the Bank has paid special attention to this sub-segment, streamlining processes and creating conditions to meet the specific needs of these customers.

The evolution of the Private Banking area was generally positive in the first half, supported by the good performance of the global financial markets in a highly challenging environment of increasingly negative interest rates.

A major contribution to the good performance in the first half of 2019 was made by the relationship of proximity between the various areas of the Bank, in particular Companies area with which it maintains a dynamic customer cross-reference *dynamic* and the Brazil-Portugal "corridor", Private Banking in Portugal achieved a significant increase of customers referred by Banco Santander Brazil, lending continuity to a global offer of unique value only within the grasp of international banks such as Banco Santander. Thus, the first half of 2019 was characterised by the positive evolution with regard to attracting new customers, with Private Banking surpassing the goals set for the period.

At a time when "Digital" is an increasingly present reality in the lives of the customers and in the way they interact with their bank, the percentage of digital customers increased by 4 pp from the beginning of the year, now accounting for 48% of active customers. In order to accompany this evolution, Private Banking, has a digital-transformation team in order to seek and develop the best technological solutions for customers.

Corporate

In 2019 Banco Santander in Portugal maintains the focus on supporting the business sector through a comprehensive financial offer and a non-financial offer that aims to strengthen the qualifications of companies, rendering the relationship with customers increasingly global and ever closer.

The **Santander Advance Companies** programme is a unique and outstanding offering in the marketplace, with several non-financial solutions that it places at the disposal of companies and entrepreneurs, which promote the employability of young people, ongoing training of their management staff and

employees, support for internationalisation and strengthening in the Digital area.

Within the scope of the scholarship programme 128 new training courses took place in a business environment, a programme that constitutes a true platform for access to the employment market, for final-year university course students.



Regarding classroom training through the "Advance Management Academy", the offer was directed at specific business clusters: Agri-food, Tourism and Social Economy. Therefore, during this half-year, besides the Business Management programme held in Porto, now in its 12th

edition, six sectoral management programmes were organised, two linked to the Social Economy sector (Lisbon and Porto), two to the Agro sector (Lisbon and the Azores) and two to the Tourism sector (Madeira and Algarve). These activities involved more than 200 companies or institutions, contributing to the strengthening of their competitiveness by improving the skills of their management staff and employees.

The online training that complements class-room training, in partnership with two certified entities, allows free access to benchmark interactive training. Through these platforms the Bank offers more than 20 courses in several areas.

During this half-year two **BOX – Santander Companies** were also held, one in Leiria and another in Madeira for the first time. These initiatives consolidate the Bank's policy of proximity with companies, organisations, local associations and universities, through the exchange of experiences and opinions and sharing knowledge with all participants.

This set of initiatives and the entire Santander Advance Companies programme, which involves the Santander Companies Non-Financial Solutions, are available at the Santander Advance website, which now has more than 9,000 registered companies.

The Bank maintains its focus on business support through the most appropriate solutions, at the level both of terms and of price, the protocol-loan being one of its focuses. This commitment can be seen through its leadership, in several months of 2019, of the number of operations and amounts with Mutual Guarantee Societies, to support investment projects or to finance working-capital in the most varied economic sectors.

In the IFRRU 2020 line, too, the Bank continues its strategy of support for numerous urban-rehabilitation projects, both for business customers and for individuals, taking on the management of the market's biggest line.

During the first quarter of 2019 Santander in Portugal maintained its position in International Business, and it is the financial partner of Portuguese companies, both in their export

and import procedures and also in their internationalisation and in their positioning in various foreign markets.

The International Business support tools, such as the Santander Trade portal, the Santander Club and the International Desk, have enabled consistent growth of the number of customers, operations, volumes and operating income in international business, the growth of the cash and trade commissions being of particular importance.

The Bank continues to support company cash management at the largest Portuguese companies but also with greater involvement with SMEs, accompanying the customers with solutions tailored to their business and providing support in opening up new markets; this has permitted the favourable evolution of factoring and confirming production in a context of increasingly demanding requests by companies.

Promoters and Estate Agents

The beginning of the year was immediately marked by the entry into force of Decree-Law 122/2018, published on December 28, 2018, which allowed the Bank's partners that carry on credit intermediary business and had submitted the application for authorisation to the Bank of Portugal by December 31, 2018, to continue to carry on activity until July 31, 2019.

This alteration has allowed the safeguard of the counting of the period of the Bank of Portugal decision laid down in the credit intermediaries' legal regime enacted by Decree-Law 81-C/2017 without disruption of the business relationship between the Bank and its credit-intermediary partners, with a positive impact on securing new mortgage-loan business.

In parallel with the implementation of this transition to the new legal framework, the Bank maintained close relations with its strategic partners, marked by active presence at the conventions of the major real estate networks operating in Portugal, thus ensuring support and co-operation not only for the companies managing these networks, but also for each of their franchisees.

Taking into account the situation of the market and the Bank's strategic priorities, changed were also introduced to the business model of the external promoters, primarily focusing their on attracting new customers and mortgage-loan operations, personal loans and loans to business-segment customers.

Cross-Segment

In the first half of 2019 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 allowing the disclosure of the solutions available 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

Banco Santander in Portugal maintains its focus on the institutional customers segment, both for public entities, with a strong presence in the Autonomous Regions and with the Municipalities, as well as for private entities, with a special focus on the development of solutions for institutions that act in the Social Economy Area.

As a result of this strategy, the segment has continued to perform well, especially in attracting resources.

Omni-channelling

In the first half of 2019, Banco Santander maintained the trend of increase of users of the digital platforms, achieving a 45% penetration of active individual customers.

During the period, the Bank continued its innovation and digital transformation plan through the launch of new features on the digital platforms.

Digital Channels for Individuals



In the implementation of the of PSD2 Payment Services Directive new functions have been introduced to **Santander NetBanco**, enabling customers to add other bank accounts to consult balances and movements or even make transfers from these accounts.



In the **Santander App** the main novelties included the provision to customers of the possibility to change the terms of their credit cards and making MBWay transfers.

Common to the two channels customer experience was improved at the level of the functions associated with the grant of "CrediSimples" personal loans, namely a simpler simulation, the possibility of immediately taking out loans, if the customer meets certain conditions, and contracting the associated insurance.

Also implemented were new benefits in the Mundo 1|2|3 offering and monthly packages of instant transfers were created.

Customers may also receive a new PIN for the Santander cards via SMS, or issue proof of the IBAN of their accounts.

Digital Channels for Corporates



The CrediSimples Business was provided at **Santander NetBanco**, in which, in an unprecedented manner in the Portuguese banking system, instant credit is of up to €50,000 is extended to companies that meet certain conditions.

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

Also within the scope of the PSD2 payments directive, there is now the possibility of adding accounts of other banks to consult balances and movements and make transfers from those accounts.

In the **Companies App** the possibility was introduced of signature of applications for import documentary credits directly from the APP.



Other features were also provided, such as consultation, use and repayment of escrow accounts and scheduling of immediate transfers, and the possibility was created of contracting immediate-transfer packages.

Contact Centre



The Bank was distinguished by the Portuguese Contact Centres Association (APCC) for having the best operation of the banking sector.

Initiatives have been implemented that contribute to improving customer experience at the level of processes, training of assistants and technological improvement of the Contact Centre.

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



Portugueses Residentes no Estrangeiro
Há um país que espera por si e um banco que o acompanha

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.

Maintaining its strategy of proximity and strong link with Portuguese communities in the various countries where it has representative offices, Banco Santander in Portugal has strengthened its position in this segment and is recognised by its customers as a safe and reliable bank, a fact that it is reflected in the increase of remittances received from abroad in 2019, as well as in their retention, thus contributing to the increase in resources compared to the same period last year.

Acknowledging the growing interest of foreigners in living and/or investing in Portugal, the Bank continues to pay special attention to this sub-segment, streamlining processes and creating conditions to meet the specific needs of these customers.

Corporate & Investment Banking

The first half of 2019 was marked by intense activity in the Corporate and Investment Banking area. In an adverse situation of continuation of negative interest rates and high pressure on spreads, the commitment to customers was further strengthened, exploring new investment opportunities.

In the Global Debt Financing area, the first private issuance of debt was concluded in Portugal, under the Project Finance regime. Santander structured and placed a €270 million issue for Indaqua Feira.



Several major financing operations were also concluded during the first half, involving a broad range of industries such as the chemicals and the transport and logistics sector, with emphasis on the participation in financing the Finerge group in an amount in excess of €700 million, now considered the largest ever financing operation in the onshore renewables sector in Portugal.

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

In the bond market, emphasis is given to Bank's participation, as bookrunner, in the year's only issue, for EDP, with a hybrid bond with a maturity of 60 years in the amount of €1 billion.

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

In Treasury, *Fixed Income & FX* area maintained the positive growth momentum that it has revealed in recent quarters. The

launch of the new digital foreign-exchange contracting platform (via NetBanco Companies) and the increase of the number of interest-rate operations were the two foundations of the growth of the business.

In the interest-rate product the Bank's proximity to its customers has been reinforced with the offer of alternative credit arrangements that best suit their expectations regarding the expected performance of the interest-rate markets for the coming years. This monitoring resulted in an increase in the number of fixed-rate loan operations, the greatest number of fixed-rate loans having been achieved during the first half since the Bank began to provide this type of risk-management instrument.

In the foreign-exchange area, Banco Santander's new exchange contracting platform, launched at the beginning of the year, allowed an extension of the contracting channels available to customers. Currently, 50 Bank customer companies use this ease forex trading facility to contract their operations, and it is expected that by the end of the year it will be possible to provide this alternative for all Company customers.

The effect of the launch of exchange contracting platform associated with the joint effort between the Treasury area and the commercial networks in the monitoring of customers' exchange contracting needs resulted in an increase in the number of operations, active customers and amounts contracted compared to the same period last year.

Insurance and investment funds marketed

During the first half of 2019, the **Protection Insurance** area lent continuity to the provision of solutions that contribute to the greater protection and safety of customers in the various dimensions of their lives and of their businesses, in the various channels. Of the autonomous insurance marketed, approximately one third was contracted online.

For the main purpose of attracting new insurance customers, steps were taken to allocate preferential terms in the subscription of a set of products – the Star Products.

Complementing this, a start was made to a training programme for the commercial network, in order to strengthen their skills in the commercial dynamic of diagnosis of customer needs and presentation of offerings that meet those needs.



Also underscored is the advertising campaign that took place in May and June for individual customers, characterised by a powerful message associated with the **365 (day) protection requirements of the customers and their families**. 'Safer every day' is the signature campaign presented on television, in the press and on the digital channels, in addition to the branches.

In the Financial Insurance area the success is underscored of the PPR 10, which received subscriptions of about €212 million between January and April, four series having been released during the period. In parallel, the focus was maintained on active management of open financial insurance, which achieved a positive net change of about €44 million.

Santander Asset Management (SAM) sought to manage the mutual funds (FIM) actively, with the goal of maximising the return for its participants. The half-year ended with €2,012 million euros in FIMs under management, representing a 17.1% market share.

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.

Real-estate investment funds totalled €469 million in assets under management at the end of June 2019.

Relevant Facts after the close of the period

On September 9, 2019 the Competition Authority released its final decision on the process of infringement no. 09/2012, a framework which was allocated to 14 banking institutions following the alleged exchange of non-public, sensible information relating to the commercial terms and monthly production figures of Mortgage, Consumption and Corporate loans.

It is the Competition Authority's understanding that the alleged conduct would be in violation of article 9, no. 1 from 19/2012 law and article 101, no.1 of the TFUE (competitive restriction by object – presumption of anti-competitive conduct derived from interchange of information between competitors) and has sentenced 14 banking institutions to a fine totaling €246.201 million.

Banco Santander Totta, was sentenced to pay a fine in the amount of €35.65 million, of which €650,000 pertains to the fine imposed to former Banco Popular Portugal, incorporated by merger at the end of 2017.

It is Banco Santander Totta's intention to judicially challenge the penalty, currently within the permitted time frame.

The outlook for the second half of 2019

The current economic cycle is already showing signs of maturity, also due to the materialisation of several risk factors, particularly of a geopolitical and protectionist nature. On the other hand, at the level of monetary policy, the European Central Bank has said it would delay the cycle of increase of the reference interest rates, thereby fuelling the notion of a longer period of low interest rates.

In the second half of 2019 Banco Santander in Portugal will continue the transformation process, based essentially on i) process scanning and optimisation, in particular through continuous launches of innovations on the digital channels and strengthening of multi-channel distribution model in order to provide a more complete service accessible to our customers, ii) increasing market shares by strengthening, among other things, our position with the SMEs, iii) maintaining a low cost of credit and iv) maintaining a solid capital position in line with the new regulatory requirements.

Additionally, the Bank will continue its strategy to support to the revitalisation of the Portuguese economy and support for families and businesses, giving pride of place to customer experience, with a focus on allocating the best response to their needs.

Lastly, for Santander in Portugal to be a Responsible bank means fostering sustainable and inclusive growth of society, reducing the social and economic inequalities of the population and, at the same time, supporting the development of the communities where Santander is present. In turn, this is reflected in the promotion of sustainable consumption through products such as Santander Sustainable Fund and the financing of renewable energy and green technologies, thus supporting the transition to a low carbon economy.

Economic and Financial Information

Consolidated Business



Net income
€239.8 million (+1.7%)

Highlights in the 1st half of 2019

- Support for 96 associations in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, with an impact on more than 19,000 beneficiaries.
- The launch of the CrediSimples Business digital offer (loans to companies) allowed a 32% (YoY) increase of production.
- Reduction of 5 p.p. of the cost-to-income ratio, to a large extent through the growth of customer deposits (3.4% YoY)
- The increase in earnings reflects the growth of revenues, the reduction of costs through continuous optimisation of the structure and a low cost of credit.

At the end of June 2019, Banco Santander Totta, SA, returned net income in the amount of €239.8 million, a growth of 1.7% year-on-year.

Return on equity (RoE) stood at 13.5% and the cost-to-income ratio stood at 44.5%, as a result of the 5.5% growth of operating income and the 4.0% decrease of operating costs.

Gross customer loans and advances amounted to €40.7 billion, a decrease of 2.0% compared with the same period last year, influenced by the sale of non-productive portfolios. Excluding this effect, customer loans and advances would have stabilised. Loans to individuals grew by 0.3% and loans to companies fell by 4.0%.

The Non-Performing Exposure ratio stood at 3.3%, with coverage by provisions of 53.3%.

Customer resources amounted to €42.6 billion, an annual increase of 3.7%, with a 3.4% increase of deposits and a 5.3% increase of off-balance sheet resources.

The fully loaded Common Equity Tier 1 ratio stood at 16.5%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process.

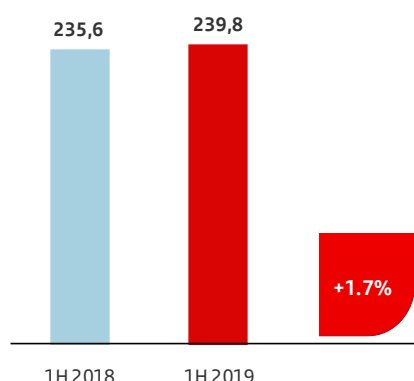
The reserve of assets available to immediately obtain liquidity totalled €10 billion at the end of the first half of 2019.

The long-term funding obtained from the Eurosystem remained stable at €3.1 billion. Net exposure to the European Central Bank (borrowings net of investments with this institution) stood at €0.9 billion at the end of the first half of 2019. In turn, the short-term financing achieved through Repos amounted to €2.2 billion.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 151%, thus meeting the regulatory requirement on the fully-implemented basis.

In March 2019 Standard & Poor's raised Banco Santander in Portugal's rating to BBB in long-term debt and to A-2 in short-term debt. The Bank's current long-term debt rating notations in comparison with the levels 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).

CONSOLIDATED NET INCOME
ATTRIBUTABLE TO THE SHAREHOLDERS OF BST
 million euro



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	1H 2019	1H 2018	Var.
Net interest income	426.2	445.0	-4.2%
Income from equity instruments	1.6	1.2	+32.8%
Net fees	195.0	186.7	+4.4%
Other operating results	(25.5)	(19.5)	+30.9%
Commercial revenue	597.4	613.5	-2.6%
Gain/losses on financial assets	72.8	21.5	+238.4%
Net income from banking activities	670.2	635.1	+5.5%
Operating costs	(298.1)	(310.7)	-4.0%
Staff Costs	(172.3)	(176.4)	-2.3%
General Administrative Costs	(101.6)	(113.6)	-10.5%
Depreciation in the year	(24.2)	(20.7)	+17.1%
Net operating Income	372.0	324.4	+14.7%
Impairment net of recoveries and other results*	10.0	13.7	-27.1%
Result from Associates	0.4	2.3	-82.5%
Income before taxes and non-controlling interests*	382.4	340.4	+12.3%
Taxes*	(142.7)	(125.0)	+14.1%
Income after taxes and before non-controlling interests*	239.8	215.4	+11.3%
Non-controlling interests	0.0	0.2	-100.0%
Non-recurrent results	0.0	20.1	-100.0%
Consolidated net income attributable to the shareholders of BST	239.8	235.6	+1.7%

* Excludes non-recurrent results

Net interest income stood at €426.2 million, down 4.2% compared to June 2018. The evolution of net interest income was affected by the interest-rate environment, against a competitive background and a moderate demand for loans by the economic agents.

Net commissions amounted to €195.0 million, a growth of 4.4% over the same period of 2018. This behaviour reflected the higher income earned in the management and maintenance commissions associated with accounts, means of payment, insurance and credit.

Other operating costs amounted to -€25.5 million, influenced by the recording of regulatory costs for 2019 in the amount of €32.6 million of the Bank's contribution to the Resolution Fund (€20.3 million for to Single Resolution Fund and €12.3 million to the National Resolution Fund).

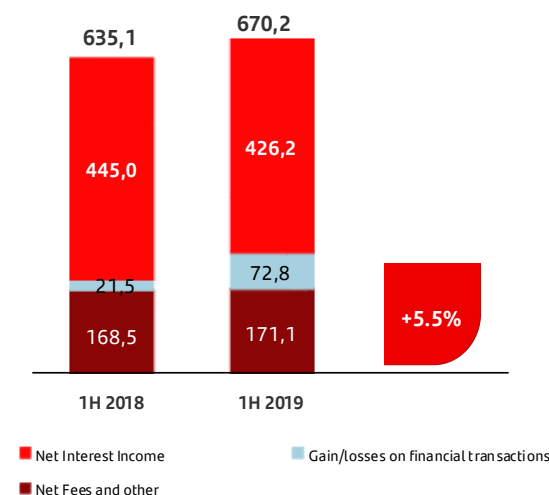
The commercial margin totalled €597.4 million, 2.6% less than the figure recorded a year earlier.

Results of financial operations amounted to €72.8 million, an increase of 238.4% over the amount observed in the same period last year, showing the gains arising from the management of the bond portfolio, especially public debt, and from interest-rate hedging derivatives transactions.

Gross operating income amounted to €670.2 million, up 5.5% over the figure for the same period of 2018, with emphasis on the evolution of the favourable contributions of results of financial operations and of net commissions.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs amounted to €298.1 million, down 4.0% year-on-year.

Personnel costs amounted to €172.3 million, a year-on-year decrease of 2.3%, reflecting the restructuring of the organisational structure, with the reduction of 355 employees.

General administrative overheads totalled €101.6 million, a 10.5% decrease y-o-y, in line with the resizing of the distribution network within the scope of the commercial

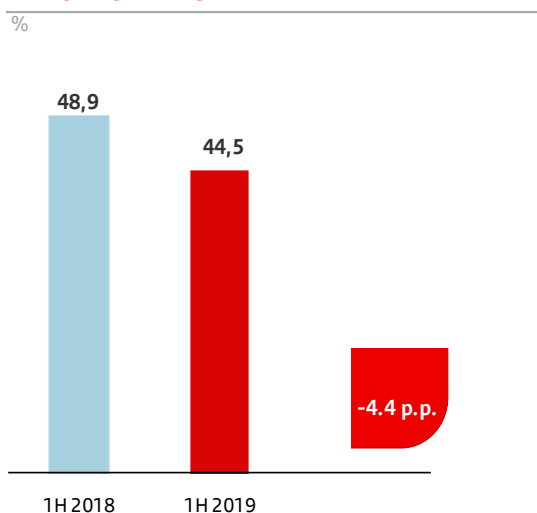
transformation and of the digitisation, with 119 attendance points closed last year.

Depreciation and amortisation amounted to €24.2 million, up 17.1% compared to the end of June 2018, influenced by the adoption of IFRS 16, with effect from January 1, 2019.

OPERATING COSTS (million euro)	1H 2019	1H 2018	Var.
Staff costs	(172.3)	(176.4)	-2.3%
General Administrative Costs	(101.6)	(113.6)	-10.5%
Depreciation in the year	(24.2)	(20.7)	+17.1%
Operating costs	(298.1)	(310.7)	-4.0%
Efficiency ratio	44.5%	48.9%	-4.4 p.p.

Operational efficiency has evolved favourably, with the cost-to-income ratio standing at 44.5%, an improvement of 4.4 percentage points compared to 48.9% determined a year

earlier, resulting from 5.5% growth of operating income and the 4.0% decrease of operating costs.

EFFICIENCY RATIO

Operating income amounted to €372.0 million, reflecting a y-o-y growth of 14.7%.

During the period from January to June 2019, impairments and net provisions were recorded in the amount of €0.2 million, reflecting the reduction of defaults, recoveries of past-due loans and gains on disposal of non-performing loans. The cost of credit, indicator of loan impairments as a percentage of the

Balance Sheet and Business

At the end of June 2019, turnover amounted to €83.3 billion, a y-o-y growth of 0.8%, reflecting the 3.7% increase of

average balance of the loan portfolio, stood at -0.1% in June 2019, confirming the quality of the assets and respective coverage.

The associated results recognised by the equity method stood at €0.4 million, a decrease of 82.5% compared with the amount for the first half 2018.

The results of non-current assets held for sale totalled €10.2 million, a sharp increase compared to the figure of €3.8 million determined a year earlier, arising from real-estate asset portfolio management operations.

Income before taxes and non-controlling interests (excluding non-recurring results) amounted to €382.4 million, equivalent to a 12.3% increase compared to the first half of 2018.

Taxes (excluding non-recurring results) amounted to €142.7 million, a y-o-y increase of 14.1%. Taxes include the special levy on the banking sector, which totalled €28.3 million in 2019 (€22.7 million the previous year).

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

At the end of June 2019, Banco Santander on Portugal returned net income in the amount of €239.8 million, a growth of 1.7% year-on-year.

customer funds, which offset the 2.0% decrease of loans and advances.

BUSINESS VOLUME (million euro)

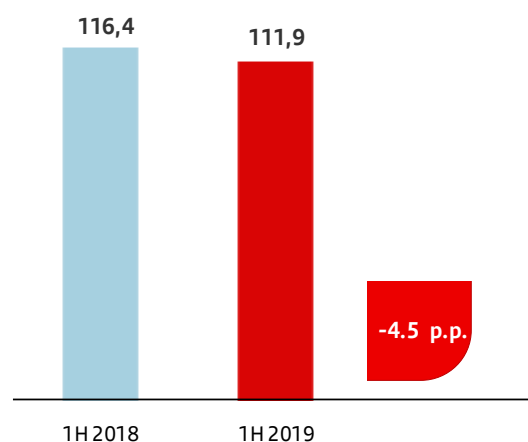
	1H 2019	1H 2018	Var.
Business Volume	83,305	82,614	+0.8%
Loans and advances to customers (gross)	40,715	41,542	-2.0%
Customers' Resources	42,591	41,072	+3.7%

The transformation ratio measured by the relationship between loans and deposits stood at 111.9% in June 2019, 4.5 percentage points less than the 116.4% observed in the first

half 2018 influenced by the growth of deposits, although interest rates stood historical lows, and by the decrease of loans.

LOAN-TO-DEPOSIT RATIO (Transformation ratio)

%



At the end of June 2019, the portfolio of loans to customers (gross) stood at €40.7 billion, down 2.0% compared to the same period last year, influenced by the management of non-productive exposures through disposals and write offs of the loan portfolio. Excluding the effect of these transactions, the

portfolio of loans to customers would have been stable compared to the figure recorded in June 2018.

LOANS (million euro)

	1H 2019	1H 2018	Var.
Loans and advances to customers (gross)	40,715	41,542	-2.0%
<i>of which</i>			
Loans to individuals	21,603	21,546	+0.3%
<i>of which</i>			
Mortgage	19,535	19,268	+1.4%
Consumer	1,626	1,617	+0.5%
Loans to corporates	18,286	19,055	-4.0%

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

Loans to individuals stood at €21.6 billion, a y-o-y increase of 0.3%, across its major components: 1.4% in mortgage loans to €19.5 billion, driven by the dynamics of the Portuguese real-estate market, and 0.5% in consumer credit to €1.6 billion, driven by personal loans extended via digital channels. In the production of personal credit, emphasis is given to the CrediSimples digital solution.

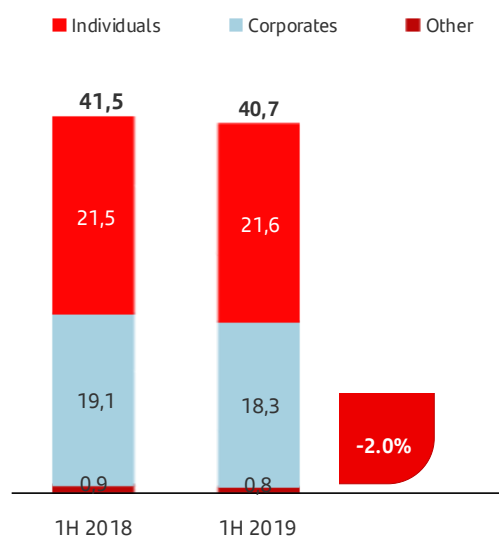
Corporate loans stood at €18.3 billion, equivalent to a y-o-y decline of 4.0%, influenced by the sale of non-productive loan portfolios and by the moderate demand by the economic agents. Emphasis is given to dynamics of the commercial activity, reflecting the support of the national business

community, with the increase of new production. In this respect, the launch must be underscored of the "CrediSimples Business" digital offering, which allows customers to immediately take out online loans. In protocol loans Banco Santander offers several solutions, through the Capitalizar and Capitalizar Mais Lines, and supports urban renovation via the IFRRU 2020 line.

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

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



Asset quality continued to improve with Non-Performing Exposure (NPE) ratio, calculated in accordance with the EBA definition, standing at 3.3% in June 2019, a decrease of 1.6

percentage points over the same half of the previous year, with coverage by impairments standing at 53.3%.

CREDIT RISK RATIOS

	1H 2019	1H 2018	Var.
Non-Performing Exposure Ratio	3.3%	4.9%	-1.6 p.p.
Non Performing Exposure Coverage Ratio	53.3%	54.6%	-1.3 p.p.
Cost of credit	(0.1%)	(0.0%)	-0.1 p.p.

At the end of the first half of 2019, customer funds amounted to €42.6 billion, a growth of 3.7% compared to the same period last year.

RESOURCES (million euro)

	1H 2019	1H 2018	Var.
Customers' resources	42,591	41,072	+3.7%
On-balance sheet resources	35,577	34,413	+3.4%
Deposits	35,577	34,413	+3.4%
Off-balance sheet resources	7,014	6,658	+5.3%
Investment funds marketed by the Bank	2,809	2,702	+4.0%
Insurance and other resources marketed by the Bank	4,204	3,957	+6.3%

Deposits stood at €35.6 billion, an increase of 3.4% compared to the amount observed at the end of June 2018, accounting for 84% of total resources and reflecting the activity of the commercial network and customer confidence in the Bank, in an environment of historically low interest rates.

Customer off-balance sheet funds stood at €7.0 billion, up 5.3% over fir figure as at June 2018. Investment funds managed or marketed by Banco Santander in the amount of €2.8 billion increased 4.0% over the past year, due to the diversification of customer investments, within a framework of

recovery of the financial markets that occurred in the first half of the year. Insurance and other resources (€4.2 billion)

performed well, on increasing fund taking by 6.3% compared to the amount recorded in the same period last year.

Solvency Ratios

At the end of the first half of 2019, the Common Equity Tier 1 (CET1) ratio stood at 16.5% (fully implemented), complying with all the capital ratios required by the European Central Bank within the scope of the SREP-Supervisory Review and Evaluation Process), with an increase of 3.9 percentage points compared to the end of June 2018.

CAPITAL (million euro)	1H 2019	1H 2018	Var.
Common Equity Tier 1	3,095	2,750	12.6%
Tier 1 Capital	3,095	2,750	+12.6%
Total Capital	3,491	2,796	+24.9%
Risk Weighted Assets (RWA)	18,765	21,855	-14.1%
CET 1 ratio	16.5%	12.6%	+3.9 p.p.
Tier 1 ratio	16.5%	12.6%	+3.9 p.p.
Total Capital Ratio	18.6%	12.8%	+5.8 p.p.

Introduction

For Santander in Portugal 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 an environment highly demanding for the financial markets.

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.

Credit Risk

In the first half of 2019, 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;
- At the level of portfolio risks the policy was maintained of proximity with the customers, in order to anticipate their needs, reviews of their credit lines and forestalling possible problems in their repayment ability;
- This action and the loan quality of the customers, allowed non-performing loans to be kept under control and at acceptable levels. The business support levels were intensified in attracting new good-risk transactions and customers, and improvements were implemented in the processes with a view to responding to 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 and late-payment ratios.
- Customer monitoring and review meetings were maintained, the Bank's usual practice for the early detection of loan-portfolio alerts;
- The Bank continues to review, develop and apply improvement measures in the management of the new-loan admission process, with the aim of improving the quality of the customer service whenever they present new loan-grant opportunities;
- In the standardised (or non-portfolio) risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Individuals and Business segments;
- Also in the matter of standardised risks, the focus continued to be centred on ensuring portfolio quality, 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 maintain 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 the production of new loans and customer retention and ongoing operations in order to compensate for the natural erosion of this portfolio;
- In a macroeconomic scenario, now 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 recovery activity and permanent monitoring of special and judicial/extrajudicial cases;
- The policy of strengthening negotiations regarding payments in kind was maintained, so that, when they occur, the first focus will be to obtain payment in kind as an alternative to legal action;
- Surveillance of the work methodology continued with a view to optimising the various processes for the purpose of "stressing" the model, increasing the efficiency of the resources and the effectiveness of the actions to bring loan recoveries forward;
- In corporate risk management, there continued to be a permanent focus on knowledge and monitoring of the loan portfolio, seeking to provide adequate and timely management measures to be taken with a view to correct management of the Bank's risks;
- Attention was also maintained in respect of the Bank's in-house models, almost all of which have already been recognised (by the regulators) as advanced (IRB) models for the calculation of the equity requirement, as well as their increasing inclusion in the management;

Risk model

Introduction

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

The organisation of the credit-risk function at Banco Santander in Portugal is specialised in the light of the customer typology, throughout the entire risk-management process, between portfolio customers (made-to-measure or personalised treatment) and standardised or mass-treatment customers (non-portfolio).

Portfolio customers are those that, fundamentally due to the risk assumed, are assigned a risk analyst. This group includes wholesale banking companies, financial institutions and part of the retail banking companies. 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 non-portfolio. Assessment of these risks is based on in-house valuation and automatic-decision models, complemented, in a subsidiary manner, when the model is not sufficiently precise, by specialised risk-analyst teams.

Risk measurement metrics and tools

The Bank 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 covered by own funds.

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

LGD calculation is based on the observation of the process of recovery of defaulting transactions, taking into account not only

the revenues and costs associated with this process, but also the moment they are produced and the indirect costs arising from the recovery activity.

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

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

Credit-risk cycle

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

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

Planning and establishing limits

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

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

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

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

Study of the risk, transaction decision and monitoring and control

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

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

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

Recoveries

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

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

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

Counterparty risk

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

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

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

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

During the first half of 2019 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.

The LCR (Liquidity Coverage Ratio) ratio calculated in accordance with ECB rules stood at 151% on 30/06/2019.

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

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

Management of the balance-sheet structural risk

Framework

In the first half of 2019 continuity was given to the strengthening of the solid liquidity position, with an increase of customer deposits by about €1.6 billion, reducing the exposure to the Eurosystem to below €1.0 billion and also increasing the liquidity buffer by about €1.0 billion to a total of €10 billion.

Liquidity Reserve

Santander in Portugal's policy is to maximise the available liquidity cushion to cope with adverse liquidity events. In the first half of 2019 the liquidity reserve increased by around €1.0 billion. Besides the active measures to generate eligible assets, the reduction of the commercial gap and consequent reduction of liquidity needs allowed a liquidity reserve totalling €10 billion to be achieved, available to cope with any unexpected events impacting on the Bank's liquidity situation.

Funding

During the first half of 2019, there was a progressive reduction of the commercial gap, mainly through the increase of the customers' deposits base, closing the year with a loans-deposits ratio of 112%, compared to 116% at the close of 2018.

The funding obtained from the European Central Bank has been kept solely in long-term operations: €3.1 billion of TLTROs. The increase of the customers' deposits base allowed a reduction of the net exposure to the Eurosystem, standing at around €10.9 billion at the end of the first half of 2019.

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

In terms of long-term funding, besides the €3.1 billion by the ECB, Santander in Portugal closed the first half of 2019 with about €10.8 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank with a view financing structural projects of the Portuguese economy, and also €2.75 billion of covered bonds.

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 in Portugal operates.

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

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

Methodologies

Negotiating activity

The methodology applied in 2019 within the scope of Banco Santander in Portugal for the negotiation activity is the Value at Risk (VaR). Used as the basis is the historic simulation methodology with a 99% confidence level and a one day time horizon, statistical adjustments having been applied that allow swift and effective inclusion of more recent events that condition the risk levels assumed.

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

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

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

Calibration and contrast measures (Backtesting)

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

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

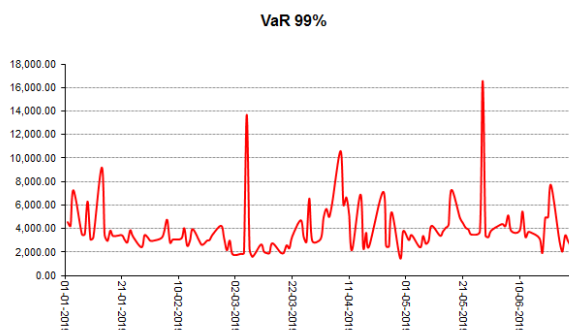
Limits

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

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

Quantitative analysis of the VaR throughout the year

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



VaR remained low, ranging between €1,000 and €16.5k.

Operational Risk

Definition and objectives

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

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

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

The Bank's priority is therefore to identify and mitigate risk sources, regardless of whether or not they have caused losses, through a uniform and integrated management approach for all areas involved. 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, as the last control element, 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 and 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:

- Risk Control 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

The Bank has an operational-risk management tool, which is common to several control areas, maximising synergies between the areas and allowing the use of common risk-assessment methodologies, in particular 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.

In this context, the Bank also has a Reputational Risk Model, built in line with last year's business model, under which, with the involvement of the areas considered most relevant, risk management is ensured and the issues and occurrences possibly of greater significance are monitored and assessed.

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.

Money Laundering Prevention

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

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

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

The system is audited annually.

The Bank prepared the Money Laundering Prevention and Terrorist Financing Report in accordance with Bank of Portugal Notice No. 5/2019 on the activity in these matters in the 2nd half of 2018 and in 2019, having sent it to the Bank of Portugal after

approval by the Board of Directors with the prior opinion of the Audit Committee.

Shareholder Structure

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

Treasury shares movement

In keeping with the resolution passed by the Annual General Meeting held on May 31, 2018, Banco Santander Totta, SA, may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

On December 31, 2018, Banco Santander Totta, SA, held 407,130 treasury shares corresponding to 0.032% of its share capital. During the first half of 2019, the Bank did purchase treasury shares.

TRANSACTION WITH OWN SHARES - 1H2019

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31-12-2018	407,130	5.26	2,139,754	0.032%
Purchases	-	-	-	-
Disposals	-	-	-	-
30-06-2019	407,130	5.26	2,139,754	0.032%

Alternative Performance Indicators

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

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

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

Net interest income

"Interest income" net of "Interest charge".

Net fees

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

Net fees and other income

Sum of "net fees" and "other operating results".

Commercial revenue

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

Gain/losses on financial assets

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

Net income from banking activities

Commercial revenue plus gain/losses on financial transactions.

Operating costs

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

Net operating income

Net income from banking activities minus operating costs.

Impairment and net provisions (excludes non-recurrent results)

Sum of "provisions net of reversals", "impairment on financial assets at amortised cost", and "impairment of other assets net of reversals and recoveries".

Impairment, net provisions and other results (excludes non-recurrent results)

Sum of "provisions, net of reversals", "impairment on financial assets at amortised cost", "impairment on other financial assets net of reversals and recoveries", "impairment of other assets net of reversals and recoveries and "Results from non-current assets held for sale" as presented in the Income Statement.

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

Net operating income less impairment, net provisions and other results plus "Results from associates".

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

Income before taxes and non-controlling interests less "Taxes".

Non-recurrent results

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

Consolidated net income attributable to the shareholders of BST / Net income

Income after taxes and before non-controlling interests, less "non-controlling interests" plus "non-recurrent results".

Efficiency ratio

Ratio between operating costs and net income from banking activities.

Loan-to-Deposit ratio (transformation ratio)

Calculated in accordance with Bank of Portugal Instruction 23/2011.

Commercial gap

Difference between "credit granted and other balances receivable at amortised cost" and "resources of customers and other debts".

Business volume

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

Loans and advances to customers (gross)

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

Loans and advances to customers (net)

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

Loans to individuals (mortgage and consumer) and corporates

Defined in accordance with the management information system (MIS).

Non-performing exposure ratio

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

Cost of credit

Ratio between "impairment on financial assets at amortised cost" (of the income statement) and the average of "Credit granted and other balances receivable at amortised cost" (of the balance sheet).

Non-performing exposure coverage ratio

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

Deposits / On-balance sheet resources

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

Off-balance sheet resources

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

Customer resources / Total resources

Sum of deposits and off-balance sheet resources.

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

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

Return on Assets (RoA)

Ratio between net income and total net assets.

Declaration to which article 246(1)(c) of the Securities Code refers

Article 246(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

"I declare, under the terms of and for the purposes set out in article 246(1)(c) of the Securities Code that, to the best of my knowledge, the condensed financial statements for the first six months of the 2019 were prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of Banco Santander Totta, SA, and of the companies included in the consolidation perimeter, and that the interim management report faithfully sets out the information required under article 246(2) of the Securities Code".

Board of Directors

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

Consolidated Financial Statements

The accounts for the first half of 2019 have not been submitted to limited audit or to the respective opinion of the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2019 AND DECEMBER 31, 2018

(Amounts expressed in thousands of Euros - tEuros)

Assets	Notes	31-12-2018		31-12-2017		LIABILITIES AND SHAREHOLDERS EQUITY	Notes	31-12-2018	31-12-2017
		Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets				
Cash and deposits at central banks	5	2,405,137	-	2,405,137	1,655,730	Liabilities			
Balances due from other banks	6	519,166	-	519,166	845,003	Financial liabilities held for trading	7	1,149,393	1,242,475
Financial assets held for trading	7	1,136,324	-	1,136,324	1,215,956	Financial liabilities at amortised cost			
Other financial assets mandatory at fair value through profit or loss	8	164,391	-	164,391	176,878	<i>Resources from central banks</i>	18	3,043,848	3,050,040
Other financial assets at fair value through other comprehensive income	9	6,014,576	3	6,014,573	5,246,157	<i>Resources from other credit institutions</i>	18	3,782,875	3,539,844
Financial assets at amortised cost						<i>Resources from customers and other debts</i>	18	35,577,037	33,937,757
<i>Loans and advances to credit institutions</i>	10	833,080	40	833,040	675,031	<i>Debt securities</i>	18	3,768,357	4,611,944
<i>Credit granted and other balances receivable at amortized cost</i>	10	40,714,911	963,773	39,751,138	39,582,109	<i>Other financial liabilities</i>	18	254,097	176,206
Hedging derivatives	11	91,856	-	91,856	73,464	Hedging derivatives	11	376,489	90,556
Value adjustments on assets included in hedging operations	41	254,290	-	254,290	56,511	Value adjustments on assets included in hedging operations	41	3,740	10,399
Investment in associated companies	12	59,391	1,918	57,473	61,481	Provisions	19	269,171	286,446
Investment properties	13	290,113	-	290,113	297,625	Tax liabilities	15	425,478	244,822
Other tangible assets	14	643,319	266,467	376,852	346,733	Equity representative instruments	20	69,188	69,560
Intangible assets	14	81,353	50,184	31,169	28,478	Other liabilities	21	553,152	476,668
Tax assets	15	647,588	-	647,588	661,395	Total liabilities		<u>49,272,825</u>	<u>47,736,717</u>
Other assets	16	365,603	100,015	265,588	336,443				
Non-current assets held for sale	17	92,236	26,175	66,061	30,022	Shareholders' equity			
						Share capital	22	1,256,723	1,256,723
						Share premium account	22	193,390	193,390
						Other equity instruments	22	135,000	135,000
						Accumulated comprehensive income reserves	22	15,515	(238,470)
						Other reserves and retained earnings	22	1,834,692	1,778,808
						(Own shares)	22	(44,022)	(44,022)
						Consolidated net income attributable to the shareholders' of BST	23	239,755	469,951
						Shareholders' equity attributable to the shareholders of BST		3,631,053	3,551,380
						Non-controlling interests	24	881	919
						Total shareholders' equity		<u>3,631,934</u>	<u>3,552,299</u>
Total assets		<u>54,313,334</u>	<u>1,408,575</u>	<u>52,904,759</u>	<u>51,289,016</u>	Total liabilities and shareholders' equity		<u>52,904,759</u>	<u>51,289,016</u>

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2019	30-06-2018
Interest income	26	606,653	625,718
Interest charge	27	(180,439)	(180,670)
Net interest income		426,214	445,048
Income from equity instruments	28	1,637	1,233
Income from services and commissions	29	241,893	225,574
Charges with services and commissions	30	(46,892)	(38,845)
Gains/Losses on financial assets			
<i>Financial assets and liabilities at fair value through profit or loss</i>	31	12,475	(5,001)
<i>Other Financial assets at fair value through other comprehensive income</i>	31	57,695	26,352
<i>Exchange revaluation</i>	31	4,976	4,762
<i>Disposal of other assets</i>	31	(2,331)	(4,598)
Other operating results	32	(25,495)	(19,472)
Net income from banking activities		670,172	635,053
Staff costs	33	(172,320)	(176,437)
General administrative costs	34	(101,638)	(113,582)
Depreciation in the year	14	(24,182)	(20,657)
Provisions, net of reversals	19	(9,241)	(306,510)
Impairment on financial assets at amortised cost	19	16,497	11,607
Impairment on other financial assets net of reversals and recoveries	19	(7,488)	(21,626)
Results from associates	35	412	2,349
Results from non-current assets held for sale	36	10,217	3,782
Income before taxes and non-controlling interests		382,429	13,979
Taxes	15	(142,674)	221,474
Income after taxes and before non-controlling interests		239,755	235,453
Non-controlling interests		-	183
Consolidated net income attributable to the shareholders' of BST		239,755	235,636
Number of ordinary shares outstanding	23	1,241,722,839	1,241,730,754
Earnings per share (in Euros)	23	0.19	0.19

The accompanying notes form an integral part of the consolidated income statements for the six-month period ended June 30, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	June 30, 2019		June 30, 2018	
	Attributable to the shareholders of BST	Attributable to non-controlling interests	Attributable to the shareholders of BST	Attributable to non-controlling interests
Consolidated net income for the period	239,755	-	235,636	(183)
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations				
. Gross value	39,588	-	(7,772)	-
Items that may be reclassified subsequently to the income statement:				
. Revaluation reserves of associated companies valued by the equity method				
. Fair value	1,050	-	587	-
. Tax effect	(270)	-	(160)	-
. Changes in financial assets at fair value through other comprehensive income				
. Fair value	369,345	-	50,620	-
. Tax effect	(114,248)	-	(14,600)	-
. Changes in fair value of financial assets held to maturity				
. Fair value	(60,118)	-	41,520	-
. Tax effect	18,638	-	(12,871)	-
Consolidated comprehensive income for the first half year	493,740	-	292,960	(183)

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the six-month period ended June 30, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AS OF JUNE 30, 2019 AND DECEMBER 30, 2018

(Amounts expressed in thousands of Euros)

	Share capital	Share premium account	Other equity instruments	Revaluation reserves			Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the period	Non-controlling interests	Shareholders' equity
				Legal revaluation	Fair value	Deferred taxes							
Balances as at December 31, 2017	1,256,723	193,390	135,000	23,245	(378,699)	78,229	344,748	1,020,860	609,746	(43,991)	421,157	1,138	3,661,546
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	-	69,563	317,177	34,417	-	(421,157)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(618,597)	-	-	-	-	(618,597)
Purchase of own shares	-	-	-	-	-	-	-	-	-	(31)	-	-	(31)
Impact from IFRS9 implementation	-	-	-	-	-	-	-	(18,465)	-	-	-	-	(18,465)
Long term incentives - shares	-	-	-	-	-	-	-	332	-	-	-	-	332
Other	-	-	-	(23,245)	-	-	-	151,948	(132,921)	-	-	(2)	(4,220)
Consolidated comprehensive income for 2018	-	-	-	-	90,384	(28,384)	-	-	-	-	469,951	(217)	531,734
Balances as at December 31, 2018	1,256,723	193,390	135,000	-	(288,315)	49,845	414,311	853,255	511,242	(44,022)	469,951	919	3,552,299
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	-	47,553	416,068	6,330	-	(469,951)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(422,873)	-	-	-	-	(422,873)
Long term incentives - shares	-	-	-	-	-	-	-	(332)	-	-	-	-	(332)
Other	-	-	-	-	-	-	-	9,138	-	-	-	(38)	9,100
Consolidated comprehensive income for the first half year 2019	-	-	-	-	349,865	(95,880)	-	-	-	-	239,755	-	493,740
Balances as at June 30, 2019	1,256,723	193,390	135,000	-	61,550	(46,035)	461,864	855,256	517,572	(44,022)	239,755	881	3,631,934

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the the six-month period ended June 30, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros)

	<u>30-06-2019</u>	<u>30-06-2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	741,862	760,321
Payment of interest and commissions	(205,540)	(198,754)
Payment to staff and suppliers	(307,133)	(296,794)
Foreign exchange and other operating results	(21,999)	(28,454)
Recovery of uncollectable loans	4,034	3,722
Operating results before changes in operating assets and liabilities	<u>211,224</u>	<u>240,041</u>
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	(158,407)	(68,641)
Financial assets held for trading	79,722	172,445
Credit granted and other balances receivable at amortized cost	(121,398)	(253,721)
Assets and liabilities at fair value through profit or loss	15,371	(1,253)
Non-current assets held for sale	(49,287)	(17,691)
Investment properties	7,512	23,776
Other assets	83,452	248,274
	<u>(143,035)</u>	<u>103,189</u>
Increase / (decrease) in operating liabilities		
Resources of financial institutions	236,718	(90,935)
Resources of customers and other debts	1,679,270	2,386,930
Financial liabilities held for trading	(93,082)	(166,341)
Other liabilities	166,223	(114,947)
	<u>1,989,129</u>	<u>2,014,707</u>
Net cash flow from operating activities before income tax	2,057,318	2,357,937
Income tax paid	(43,734)	(71,414)
Net cash flow from operating activities	<u>2,013,584</u>	<u>2,286,523</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1,637	1,233
Purchase of financial assets at fair value through other comprehensive income	(1,066,380)	(558,613)
Sale of financial assets at fair value through other comprehensive income	713,960	615,338
Other financial assets mandatory at fair value through profit or loss	15,587	(237,611)
Income from financial assets at fair value through other comprehensive income	84,114	95,075
Purchase of tangible and intangible assets	(61,227)	(15,463)
Sale of tangible assets	12,944	1,179
Net cash flow from investing activities	<u>(299,365)</u>	<u>(98,862)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance/(redemption) of debt securities	(422,873)	(145,301)
Interest paid on bonds issued and other	(842,033)	(24,291)
Dividends paid	(23,215)	(618,324)
Interest paid on subordinated liabilities	(2,528)	(313)
Net cash flow from financing activities	<u>(1,290,649)</u>	<u>(788,229)</u>
Net Increase / (Decrease) (a) in cash and cash equivalents	<u>423,570</u>	<u>1,399,432</u>
Cash and cash equivalents at the beginning of the period	2,500,733	1,697,709
Cash and cash equivalents at the end of the period	2,924,303	3,097,141

Notes to the Consolidated Financial Statements

INTRODUCTION

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

As from December 2000, the Bank joined the Santander Group, following the acquisition of Banco Totta & Açores, SA (Totta) by the Group. The main balances and transactions with companies of the Santander Group during the first half of 2019 and during 2018 are detailed in Note 40.

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

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

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

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

Following the decision of the Single Resolution 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 BAPOP in Portugal and its inclusion in the Santander Group, Banco Santander, SA, demonstrated the intention to transfer all the shares representing the share capital and voting rights of 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 and to the merger into the Bank. Consequently, the merger was registered on December 27, 2017.

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

The Bank has a nationwide network of 508 branches (527 branches as at December 31, 2018). It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank's financial statements for the first half of 2019 were approved at the Board of Directors meeting on September 24, 2019.

1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

The Group's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) n° 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 n° 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Bank in the preparation of its consolidated financial statements as at June 30, 2019, are consistent with those used in the preparation of the consolidated financial statements as at December 31, 2018, applying in particular IAS 34 (Interim Financial Reporting).

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

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

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

- **IFRS 16** (new) – 'Leases'. This new standard replaces IAS 17 – 'Leases', with an impact on the accounting by lessees who are now required to recognise a future lease liability reflecting payments of the lease and a "right of use" asset for all lease contracts, except certain short-term leases and low-value assets. The definition of a lease contract was also altered, and is based on the "right to control the use of an identified asset". With regard to the transitional regime, the new standard may be applied retrospectively or may be followed in a modified retrospective approach.
- **IFRS 9** (Amendment), 'Prepayment features with negative compensation'. This amendment introduces the possibility to classify financial assets with pre-payment conditions with negative compensation, at amortised cost, provided specific conditions are complied with, rather than being classified at fair value through profit or loss.
- **IAS 19** (Amendment), Defined-benefit plan amendment, curtailment or settlement This amendment to IAS 19 requires that an entity: (i) use updated assumptions to determine the current-service 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 – ‘Financial instruments’. Long-term investments in associates and joint ventures are subject to the estimated loss impairment model, before being added for the purpose of impairment testing of the overall investment in an associate or joint venture, as and where there are indicators of impairment.
- **Improvements to the 2015 – 2017 standards.** This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.
- **IFRIC 23 (new)** – Uncertainty over income tax treatment. It is an interpretation of IAS 12 – Income taxes, referring to the recognition and measurement requirements to be applied when there are uncertainties as to the acceptance of a particular tax treatment by the tax authority in respect of income tax. In case of uncertainty regarding the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities in light of IAS 12, and not of IAS 37 – Provisions, contingent liabilities and contingent assets, based on the expected amount or the most likely amount. Application of IFRIC 23 can be retrospective or modified retrospective.

The standards and interpretations referred to above had no material impact on the financial statements.

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 3 (Amendment)**, ‘Definition of business’ (effective for annual periods beginning on or after January 1, 2020). This amendment is still subject to endorsement by the European Union. This amendment is a revision to the definition of business for the purpose of accounting for business combinations. The new definition requires that an acquisition include an input and a substantial process that jointly manage outputs. The outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of reductions of costs and other economic benefits for shareholders. Concentration tests are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.
- **IFRS 1 and IAS 8 (Amendment)**, ‘Definition of material’ (to be applied in annual periods beginning on or after January 1, 2020). This amendment is still subject to endorsement by the European Union. This amendment introduces a change to the concept of material, and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, the entity to assess the materiality considering the financial statements as a whole. Clarifications are also provided as to the meaning of “primary users of the financial

statements", which are defined as 'current and future investors, lenders and creditors' who rely on the financial statements to obtain a significant part of the information they need.

- **Conceptual structure**, 'Alterations if the reference to other IFRS' (to be applied in periods beginning on or after January 1, 2020). These amendments are still subject to endorsement by the European Union. 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' (effective for annual periods beginning on or after January 1, 2021). 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.

1.2. Consolidation principles and registration of associate companies

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

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

The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 24).

The acquisition cost is measured at the fair value of the assets given in return, of the liabilities assumed and of the equity interests issued for the purpose. The transaction costs incurred are recorded as expenses in the periods in which the costs are incurred, with the exception of the costs of

issuing debt or equity securities, which have to be recognised in accordance with IAS 32 and IFRS 39. Identifiable assets acquired and liabilities assumed on acquisition are measured at the fair value determined on the date of acquisition.

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

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

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

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

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

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

Goodwill corresponds to the positive difference between the acquisition cost of the business and the effective equivalent percentage in the fair value of the assets, liabilities and contingent liabilities of the subsidiaries and associates acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – Impairment of assets. For the purpose, goodwill is allocated to cash-flow generating units, never greater than the group of assets comprising each of the Group's operational

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

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

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

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

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

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

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

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

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

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

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

b) Foreign currency transactions

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

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

c) Financial instruments

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

Credits sold and not derecognised are recorded under "Credit extended and other balances receivable at amortised cost", and are subject to accounting criteria identical to the other credit operations. Interest and commissions associated with the securitised credit portfolio are accrued in keeping with the respective term of the credit operations.

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

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenditure with services and commissions

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

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

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

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

Other financial assets at fair value through other comprehensive income

Other financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at the time of their initial recognition at fair value, plus transaction costs, and they are subsequently measured at fair value. Gains and losses related to subsequent variation in the fair value are reflected in specific equity heading named Accumulated

comprehensive income reserve until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

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

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

Financial assets and liabilities held for trading and other financial assets 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.

Repo Operations

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

Secondary market transactions

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

Hedge accounting

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

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

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy, including the following aspects:
 - . Identification of the hedging instrument;
 - . Identification of the hedged item;
 - . Identification of the type of risk hedged; and

- Definition of the form of measuring the effectiveness of the hedge and subsequent monitoring;
- Initial expectation that the hedge relationship is highly effective ; and
- Over the life of the operation the effectiveness of the hedge lies in the interval between 80% and 125%. The effectiveness of the hedge is tested on each financial reporting date by comparing the change in the fair value of the hedged item relative to the risk that is being hedged, with the change in the fair value of the hedging derivative.

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

Fair-value hedges

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

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

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

Cash flow hedge

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

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

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

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

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

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

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

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

Loan impairment

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

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

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

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

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

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

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

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

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

Significant increase of the credit risk

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

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

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

- Limits of relative variation of the accumulated PD for the residual maturity of the transaction. The limits of relative variation are differentiated by PD level to the extent that variations of risk in very low risk transactions may not represent a significant increase of the risk. It should be noted that customers with no alteration of the credit-risk notation can have a significant

deterioration (accumulated PD variation above the defined limit) for evolution of the residual term (sensitivity of the transactions differentiated over time) or by alterations of future expectations regarding the economy.

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

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

Credit risk parameters

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

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

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

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

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

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

The Bank assesses the expected credit-risk loss for the purpose of impairment losses, considering the risk of default during the maximum contractual period during which the entity is exposed to the credit risk. However, for financial instruments such as credit cards, credit lines and overdraft

facilities that include a loan and an unused commitment component, the Bank's contractual ability to demand repayment and to cancel the unused commitment does not limit the Bank's exposure to loan losses to the contractual period of notice. For such financial instruments, the Bank measures the Expected Credit Risk Loss for the period historically observed as the average life of these instruments.

Collective analysis

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

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

Individual analysis

The individual analysis process is applied to customers with Stage 3 exposure (assets impaired 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 Bank's Office of Economic Studies models economic-forecast scenarios for the Bank's various planning exercises, in particular, budget, strategic planning and ICAAP. In this connection, different macro-economic scenarios are generated, including two pessimistic scenarios, one base scenario and two optimistic scenarios. For the purpose of impairment losses a pessimistic scenario is used, the base scenario and an optimistic scenario. The Bank applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Bank for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) Tangible assets

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

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

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

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

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

Whenever there is an indication that the tangible fixed asset may be impaired, an estimate of its recoverable value is made. For the purpose, the branches are considered cash-flow generating units, and impairment losses are recorded in situations where the recoverable amount of property where the branch is located, through its use in the operations or through its sale, is less than its net carrying amount. Impairment losses are recognised in the income statement, and they are reversed in subsequent reporting periods when the reasons for their initial recognition cease. To this end, the new 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 Bank records under this heading expenses incurred with development of projects relating to information technologies implemented and at the implementation stage, as well as those relating to software purchased, in every case where their expected impact has to be reflected in years subsequent to that in which they are made. An analysis is performed annually to identify possible

impairment losses.

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

In the first half of 2019 the Bank recognised €2,205k of internally-generated intangible assets (€2,509k in 2018).

f) Investment properties

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

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

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

g) Available-for-sale non-current assets

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

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

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

h) Provisions

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

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

i) Employee post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€88.30 per beneficiary and €38.91 in the case of pensioners); and
- ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit, because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

Application of IAS 19

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

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

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

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

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

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

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

made.

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

j) Corporation tax

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

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 2019 State Budget Act (Law 71/2018 of December 31), the taxation of corporate earnings for the first half of 2019 and for 2018 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 9%

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

Tax losses generated as from 2014, inclusive, may be used in the twelve subsequent taxation periods, which is reduced to five taxation periods or reporting deadline as from 2017. However, the deduction of losses to be carried out each year may not exceed 70% of the respective taxable income, and the remainder (30%) may be used by the end of the reporting period.

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

Regulatory Decree 5/2016, of November 18 came to establish the ceilings for impairment losses and other value corrections for specific credit deductible for purposes of determination of taxable

income under IRC in 2016. This methodology was also applied to the treatment of the transitional adjustments related to the credit impairments of entities that had previously submitted their financial statements under the NCA.

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 13/2018 of December 28 extended the 2016 tax regime to 2018.

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

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

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

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

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

Deferred tax assets and liabilities have been calculated on the basis of the tax rates 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 55/2010, 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 the taxable person less the original own funds ("Tier 1") and the ancillary own funds ("Tier 2" and deposits covered by the Deposit Guarantee Fund. From the liabilities so determined the following are deducted:
- Items that in accordance with the applicable accounting standards are recognised as own funds;
 - Liabilities associated with the recognition of liabilities for defined-benefit plans;
 - Liabilities for provisions;
 - Liabilities arising from revaluation of derivative financial instruments;
 - Deferred income revenues, without consideration of those in respect of borrowing operations;
 - Liabilities for assets not derecognised in securitisation operations.
- b) The notional value of off-balance sheet derivative financial instruments determined by the taxpayers, with the exception of hedging derivative financial instruments or whose position at risk is mutually offset.

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

k) Long-term share incentive plans

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

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

l) Treasury shares

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

m) Provision of insurance mediation services

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

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

n) Cash & cash equivalents

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

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

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

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

Employee post-employment benefits

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

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

Valuation of financial instruments not traded on active markets

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

Fair value

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

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

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

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

Amortised cost:

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

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

Determination of impairment losses

Impairment losses on loans are calculated as indicated in Note 1(3)(c). In this way, determination of the impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. The determination of impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as: - type of instrument; type of customer; credit risk degree measured by the ratings or scoring system; collateral type; date of initial recognition; relationship between loan and guarantee value (LTV).

Taxes

Recognition of deferred tax assets assumes the existence of profits and future taxable matter. Additionally, current and deferred taxes were determined on the basis of the interpretation of current tax legislation. Thus, changes to tax laws or to their interpretation by the authorities may have an impact on the amount of current and deferred taxes. 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 the six-month period ending June 30, 2017, and in 2018, in keeping with the Bank's interpretation thereof.

Determination of the outcome of legal proceedings in progress

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Commercial Banking:

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

Corporate Activities:

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

The breakdown of the income statement by operating segment for the six-month period ending on at June 30, 2018 and 2019, is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	30-06-2019				
	Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	41,008	260,623	50,851	73,732	426,214
Income from equity instruments	-	-	-	1,637	1,637
Financial margin	41,008	260,623	50,851	75,369	427,851
Net commissions	24,914	162,963	12,639	(5,515)	195,001
Other results from banking activity	-	1,471	-	(26,966)	(25,495)
Commercial margin	65,922	425,057	63,490	42,888	597,357
Results from financial operations	8,625	2,595	587	61,008	72,815
Net income from banking activities	74,547	427,652	64,077	103,896	670,172
Operating costs	(12,667)	(241,614)	(18,384)	(1,293)	(273,958)
Depreciation and amortization	(1,430)	(22,214)	(538)	-	(24,182)
Net operating income	60,450	163,824	45,155	102,603	372,032
Impairment and provisions, net of reversals	1,757	4,126	(11,754)	5,639	(232)
Result from associates	-	-	-	412	412
Results from non-current assets held for sale	-	-	-	10,217	10,217
Income before taxes	62,207	167,950	33,401	118,871	382,429
Taxes	(19,284)	(52,064)	(10,354)	(60,972)	(142,674)
Net income for the period	42,923	115,886	23,047	57,899	239,755

	30-06-2018				
	Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	43,336	243,590	58,805	99,317	445,048
Income from equity instruments	-	-	-	1,233	1,233
Financial margin	43,336	243,590	58,805	100,550	446,281
Net commissions	23,330	156,958	14,777	(8,336)	186,729
Other results from banking activity	-	2,271	-	(21,743)	(19,472)
Commercial margin	66,666	402,819	73,582	63,266	613,538
Results from financial operations	7,058	2,089	925	11,443	21,515
Net income from banking activities	73,724	404,908	74,507	86,017	635,053
Operating costs	(12,667)	(256,123)	(19,577)	(1,652)	(290,019)
Depreciation and amortization	(1,430)	(18,774)	(453)	-	(20,657)
Net operating income	59,627	130,011	54,477	84,365	324,377
Impairment and provisions, net of reversals	12,424	(5,732)	(1,558)	(321,663)	(316,529)
Result from associates	-	-	-	2,349	2,349
Results from non-current assets held for sale	-	-	-	3,782	3,782
Income before taxes	72,051	124,279	52,919	(231,167)	13,979
Taxes	(22,258)	(40,873)	(16,564)	301,169	221,474
Non-controlling interests	-	-	-	183	183
Net income for the period	49,793	83,406	36,355	70,185	235,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

As at June 20, 2019 and December 31, 2018, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	30-06-2019				
	Global				
	Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	19,534,779	-	-	19,534,779
Consumer loans	-	1,625,814	-	-	1,625,814
Other loans	3,736,910	6,024,191	8,829,444	-	18,590,545
Total allocated assets	3,736,910	27,184,784	8,829,444	-	39,751,138
Total non-allocated assets					13,153,621
Total Assets					52,904,759
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	2,371,313	26,678,497	5,918,502	608,725	35,577,037
Debt securities	-	-	-	3,768,357	3,768,357
Total allocated liabilities	2,371,313	26,678,497	5,918,502	4,377,082	39,345,394
Total non-allocated Liabilities					9,927,431
Total Liabilities					49,272,825
Guarantees and sureties given	294,631	557,360	672,540	-	1,524,531
	31-12-2018				
	Global				
	Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities ⁽¹⁾	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	19,462,199	-	-	19,462,199
Consumer loans	-	1,634,821	-	-	1,634,821
Other loans	3,643,925	6,105,996	8,735,168	-	18,485,089
Total allocated assets	3,643,925	27,203,016	8,735,168	-	39,582,109
Total non-allocated assets					11,706,907
Total Assets					51,289,016
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	1,853,859	26,240,113	5,378,931	464,853	33,937,757
Debt securities	-	-	-	4,611,944	4,611,944
Total allocated resources	1,853,859	26,240,113	5,378,931	5,076,797	38,549,701
Total non-allocated Liabilities					9,187,016
Total Liabilities					47,736,717
Guarantees and sureties given	303,378	541,721	722,921	-	1,568,020

As at June 30, 2019 and December 31, 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE PERIOD

As at June 30, 2019 and December 31, 2018, the subsidiaries and associated companies and their most significant financial data taken from the respective financial statements, excluding adjustments on conversion to IAS/IFRS can be summarised as follows:

Company	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the period	
	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018	30-06-2019	31-12-2018
BANCO SANTANDER TOTTA, S.A.	Headquarters	Headquarters	Headquarters	Headquarters	56,467,851	55,173,578	3,484,074	3,404,774	249,510	475,535
TOTTA IRELAND, PLC ⁽²⁾	100.00	100.00	100.00	100.00	512,496	491,050	466,561	460,759	7,972	2,790
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. ⁽¹⁾	100.00	100.00	100.00	100.00	201,149	239,145	128,738	25,662	3,316	(4,092)
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,745	55,740	55,743	55,739	4	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	80.02	79.80	80.02	79.80	354,916	356,123	346,345	344,366	2,941	8,685
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,145	7,130	6,545	6,807	26	62
HIPO TOTTA NO. 4 PLC	-	-	-	-	664,815	700,965	(5,368)	(3,481)	(1,628)	1,011
HIPO TOTTA NO. 5 PLC	-	-	-	-	647,177	679,746	(10,684)	(7,007)	(3,380)	(2,678)
HIPO TOTTA NO. 4 FTC	-	-	-	-	601,226	632,736	596,766	633,160	320	2,196
HIPO TOTTA NO. 5 FTC	-	-	-	-	584,634	612,496	580,394	610,576	878	2,451
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	-	80,717	-	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	-	62,624	-	60,737	-	127
Securitization operations managed by GAMMA, STC	-	-	-	-	3,389,142	3,591,682	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	25.79	25.79	25.79	25.79	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	365,718	347,331	88,951	107,282	6,778	20,234
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.76	25.76	25.76	25.76	106,544	105,824	100,302	100,304	(3)	2,010
BANIF INTERNACIONAL BANK, LTD	100.00	100.00	100.00	100.00	654	596	184	96	89	36
PRIMESTAR SERVICING, S.A.	80.00	79.96	80.00	79.96	1,519	1,539	1,268	1,269	-	(169)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

As at June 30, 2019 and December 31, 2018, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

Company	Activity	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Headquarters
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Holding company	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate management	Portugal	Equity
BANIF INTERNATIONAL BANK	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity
HIPOTOTTA nº 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
Securitization operations managed by GAMMA, STC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC	Securitized loans fund	Ireland	Full
ATLANTES MORTGAGE 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Fund management	Portugal	Equity
PRIMESTAR SERVICING, S.A.	Investment management	Portugal	Full

- (1) As at June 30, 2019, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k.
- (2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2018, and June 30, 2019 and the month of December, 2018.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

As at June 30, 2019, and December 31, 2018, the composition of the Novimovest Fund balance sheet was as follows:

	30-06-2019	31-12-2018
Securities portfolio	3,379	3,379
Real estate portfolio	290,114	297,625
Accounts receivable	7,072	8,221
Cash and banks	53,428	46,844
Accruals and deferrals	923	54
	<u>354,916</u>	<u>356,123</u>
Fund capital	346,345	344,366
Adjustments and provisions	4,057	4,917
Accounts payable	2,469	4,540
Accruals and deferrals	2,045	2,300
	<u>354,916</u>	<u>356,123</u>

As at June 30, 2019, and December 31, 2018, the consolidated net income includes a profit of €2,353k and €6,931k, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Cash	245,324	287,669
Demand deposits in central banks		
European Central Bank	2,159,813	1,368,061
	<u>2,405,137</u>	<u>1,655,730</u>

In accordance with Regulation n° 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Balances due from domestic banks		
Demand deposits	14,364	189,872
Balances due from foreign banks		
Other credit institutions		
Demand deposits	504,802	655,131
	<u>519,166</u>	<u>845,003</u>

As at June 30, 2019, and December 31, 2018, "Balances with credit institutions abroad – Current accounts" included a current account in the amounts of €48,416k and €66,131k, respectively, which can be used as certain obligations vis-à-vis third parties are fulfilled.

7. FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Financial assets held for trading		
Derivatives with positive fair value	1,132,945	1,212,577
Securities - Participating units - Maxirent	3,379	3,379
	<u>1,136,324</u>	<u>1,215,956</u>
Financial liabilities held for trading		
Derivatives with negative fair value	<u>(1,149,393)</u>	<u>(1,242,475)</u>

As at June 30, 2019, and 31 December 2018, the following derivatives are recorded:

	30-06-2019			31-12-2018		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	1,836	1,578	258	2,157	1,817	340
Swaps						
Cross currency swaps	636	564	72	692	688	4
Currency swaps	49	7,270	(7,221)	7	7,055	(7,048)
Interest rate swaps	1,047,178	1,058,250	(11,072)	1,120,138	1,143,613	(23,475)
Equity swaps	14,683	13,937	746	9,676	9,932	(256)
Options						
Foreign exchange options	1,007	996	11	1,877	1,846	31
Equity options	1,836	1,837	(1)	2,186	2,216	(30)
Caps & Floors	65,720	64,961	759	75,844	75,308	536
	<u>1,132,945</u>	<u>1,149,393</u>	<u>(16,448)</u>	<u>1,212,577</u>	<u>1,242,475</u>	<u>(29,898)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2019, the assets and liabilities headings relating to "Derivative financial instruments" are reduced by the amounts of approximately €9,219k and €21,195k of "Credit Value Adjustments and Debit Value Adjustments", respectively (€15,550k and €22,716k as at December 31, 2018, respectively), in accordance with the method described in Note 41.

As at June 30, 2019, and December 31, 2018, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA.

As at June 30, 2019, and December 31, 2018, "Securities - Units" involved units of the Maxirent Closed End Real Estate Investment Fund.

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

The composition of this heading is as follows:

Description	Fair value	
	30/06/2019	31/12/2018
Equity Instruments		
Issued by residents	163,030	175,181
Issued by non-residents	1,361	1,697
	<u>164,391</u>	<u>176,878</u>

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

The breakdown of this heading is as follows:

	30-06-2019						Book Value
	Acquisition cost	Interest receivable	Fair value reserve			Impairment	
			Positive	Negative	Total		
				(Note 22)	(Note 19)		
Debt instruments							
Issued by residents							
Public residentes	4,801,191	58,477	729,935	(86)	729,849	-	5,589,517
Other residents							
Non subordinated debt	2,520	-	-	-	-	(3)	2,517
Issued by non-residents							
Foreign public issuers	310,888	2,940	27,290	-	27,290	-	341,118
Other non-residents	37	-	-	(1)	(1)	-	36
	<u>5,114,636</u>	<u>61,417</u>	<u>757,225</u>	<u>(87)</u>	<u>757,138</u>	<u>(3)</u>	<u>5,933,188</u>
Equity instruments							
Measured at fair value	80,515	-	870	-	870	-	81,385
	<u>5,195,151</u>	<u>61,417</u>	<u>758,095</u>	<u>(87)</u>	<u>758,008</u>	<u>(3)</u>	<u>6,014,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	30-06-2018							Book Value
	Acquisition cost	Interest receivable	Fair Value Reserve			IFRS 9	Impairment	
			Positive	Negative	Total			
					(Note 22)		(Note 19)	
Debt instruments								
Issued by residents								
Public residentes	4,329,379	80,969	382,440	-	382,440	-	-	4,792,788
Other residents								
Non subordinated debt	53,100	1,443	29	-	29	-	(3)	54,569
Issued by non-residents								
Foreign public issuers	311,428	1,416	5,614	-	5,614	-	-	318,458
Other non-residents	37	-	-	(1)	(1)	-	-	36
	<u>4,693,944</u>	<u>83,828</u>	<u>388,083</u>	<u>(1)</u>	<u>388,082</u>	<u>-</u>	<u>(3)</u>	<u>5,165,851</u>
Equity instruments								
Measured at fair value	15,397	-	581	-	581	64,328	-	80,306
	<u>4,709,341</u>	<u>83,828</u>	<u>388,664</u>	<u>(1)</u>	<u>388,663</u>	<u>64,328</u>	<u>(3)</u>	<u>5,246,157</u>

The public issuers headings had the following characteristics:

Description	30-06-2019				31-12-2018			
	Acquisition cost	Interest receivable	Gain/losses	Book value	Acquisition cost	Interest receivable	Gain/losses	Book value
National public issuers								
Maturing between three and five years	23,405	675	1,082	25,162	23,796	184	468	24,448
Maturing between five and ten years	4,720,399	57,076	723,416	5,500,891	4,079,071	74,071	374,066	4,527,208
Maturities higher than ten years	57,387	726	5,351	63,464	226,512	6,714	7,906	241,132
Foreign public issuers								
Maturing between three and five years	1,506	1	28	1,535	1,507	4	13	1,524
Maturing between five and ten years	309,382	2,939	27,262	339,583	309,921	1,412	5,601	316,934
	<u>5,112,079</u>	<u>61,417</u>	<u>757,139</u>	<u>5,930,635</u>	<u>4,640,807</u>	<u>82,385</u>	<u>388,054</u>	<u>5,111,246</u>

As at June 30, 2019, and December 31, 2018, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €654,982k and €311,387k respectively, used as collateral in funding operations (Note 18)

The other issuers headings had the following characteristics:

Description	30-06-2019				31-12-2018				
	Acquisition cost	Gain/losses	Impairment	Book value	Acquisition cost	Interest receivable	Gain/losses	Impairment	Book value
Non subordinated debt									
CGD 3% 2014/2019	-	-	-	-	50,000	1,443	29	(3)	51,469
OB.HEFESTO STC SA SERIE-1 CL-R	2,520	-	(3)	2,517	3,100	-	-	-	3,100
Other	37	(1)	-	36	37	-	(1)	-	36
	<u>2,557</u>	<u>(1)</u>	<u>(3)</u>	<u>2,553</u>	<u>53,137</u>	<u>1,443</u>	<u>28</u>	<u>(3)</u>	<u>54,605</u>

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As at June 30, 2019, and December 31, 2018, "Equity instruments" included the following securities:

Description	30-06-2019			31-12-2018			
	Acquisition cost	Gain/losses	Book value	Acquisition cost	Gain/losses	IFRS 9	Book value
SIBS - SGPS, S.A.	68,313	-	68,313	3,985	-	64,328	68,313
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,218	-	3,218	3,218	-	-	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,218	-	3,218	3,218	-	-	3,218
VISA INC series C	1,375	-	1,375	1,431	-	-	1,431
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	850	-	850	850	-	-	850
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	471	745	274	491	-	765
GARVAL - SOC.DE GARANTIA MUTUA S	410	112	522	287	27	-	314
AGROGARANTE-SOC.GARANTIA MUTUA S	1,344	267	1,611	106	50	-	156
LISGARANTE - SOC. GARANTIA MUTUA S.A.	398	-	398	517	-	-	517
NORGARANTE - SOC. GARANTIA MUTUA S.A.	808	-	808	1,296	-	-	1,296
OTHER	307	20	327	215	13	-	228
	<u>80,515</u>	<u>870</u>	<u>81,385</u>	<u>15,397</u>	<u>581</u>	<u>64,328</u>	<u>80,306</u>

As at June 30, 2019, and December 31, 2018, the negative revaluation reserves resulting from the valuation at fair value had the following devaluation percentages compared to the respective acquisition costs:

	30-06-2019			31-12-2018		
	Acquisition cost	Negative reserve	Book value	Acquisition cost	Negative reserve	Book value
Debt instruments						
Between 0% and 25%	299	(66)	233	-	-	-
Between 25% and 50%	69	(20)	49	37	(1)	36
	<u>368</u>	<u>(86)</u>	<u>282</u>	<u>37</u>	<u>(1)</u>	<u>36</u>

10. FINANCIAL ASSETS AT AMORTISED COST

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

	<u>30-06-2019</u>	<u>31-12-2018</u>
Loans and advances to other domestic banks		
Deposits	5,934	102,218
Loans	71,017	87,354
Interest receivable	92	497
	<u>77,043</u>	<u>190,069</u>
Loans and advances to other foreign banks		
Very short term loans and advances	94,129	66,292
Deposits	317,496	270,562
Other applications	344,393	148,180
Interest receivable	19	12
	<u>756,037</u>	<u>485,046</u>
	<u>833,080</u>	<u>675,115</u>
Impairment losses (Note 19)	(40)	(84)
	<u>833,040</u>	<u>675,031</u>

As at June 30, 2019, and December 31, 2018, "Investments at credit institutions abroad – Other investments" includes margin accounts of €343,982k and €147,927k, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	<u>30-06-2019</u>	<u>31-12-2018</u>
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	196,112	208,795
Loans	9,246,409	9,326,549
Current account loans	1,213,246	1,126,534
Overdrafts	173,909	139,344
Factoring	1,469,486	1,506,932
Finance leasing	1,161,793	1,158,855
Other credits	43,346	43,384
To individuals		
Mortgage loans	14,845,739	14,514,864
Consumer credit and other loans	2,125,494	2,148,694
Foreign loans		
To corporate clients		
Loans	434,765	394,738
Current account loans	7,713	10,002
Overdrafts	1,915	646
Factoring	56,137	65,353
Finance leasing	3,240	3,708
Other credits	7,758	7,254
To individuals		
Mortgage loans	442,089	437,347
Consumer credit and other loans	70,109	64,694
	<u>31,499,260</u>	<u>31,157,693</u>
Non-subordinated debt securities	<u>4,129,697</u>	<u>4,081,130</u>
Non-derecognized securitized assets		
- Mortgage loans to individuals	<u>4,125,814</u>	<u>4,419,096</u>
Overdue loans and interest		
Up to 90 days	20,778	23,768
More than 90 days	502,153	599,360
	<u>522,931</u>	<u>623,128</u>
	<u>40,277,702</u>	<u>40,281,047</u>
Accrued interest		
Loans and advances	116,632	75,177
Loans represented by securities	20,609	16,463
Non-derecognized securitized assets	3,054	3,138
Deferred expenses	92,494	86,999
Checks payable	72,915	75,423
Debtors	269,334	290,564
Commissions associated with amortized cost (net)	(137,829)	(138,118)
	<u>437,209</u>	<u>409,646</u>
	<u>40,714,911</u>	<u>40,690,693</u>
Impairment of loans and advances to customers (Note 19)	<u>(963,773)</u>	<u>(1,108,584)</u>
	<u>39,751,138</u>	<u>39,582,109</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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In the first halves of 2019 and 2018, portfolios of loans granted to individuals and companies, with a carrying amount of €157,071k and €233,183k, respectively, were sold. As a result of these transactions net gains were recorded in the amounts of €2,082k and €11,308k, respectively (Note 19).

As at June 30, 2019, and December 31, 2018, "Domestic loans – To individuals - Residential" included loans assigned to the autonomous property of the mortgage loans issued by the Bank in the amounts of €9,424,717k and €8,937,341k, respectively (Note 18).

Movement under impairments losses during the first halves of 2019 and 2018 is presented in Note 19.

As at June 30, 2019, and December 31, 2018, the breakdown of overdue loans and interest by default period was as follows:

	30-06-2019	31-12-2018
Up to three months	20,778	23,767
Between three and six months	39,147	28,287
Between six months and one year	48,582	61,971
Between one year and three years	248,121	312,347
More than three years	166,303	196,756
	<u>522,931</u>	<u>623,128</u>

As at June 30, 2019, and 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:

	30-06-2019			31-12-2018		
	Gross value	Provisions	Coverage	Gross value	Provisions	Coverage
Stage 1	37,275,807	(68,192)	0.18%	36,693,093	(78,690)	0.21%
Stage 2	1,740,552	(80,309)	4.61%	1,962,197	(96,651)	4.93%
Stage 3	1,698,552	(815,272)	48.00%	2,035,403	(933,243)	45.85%
	<u>40,714,911</u>	<u>(963,773)</u>		<u>40,690,693</u>	<u>(1,108,584)</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	30-06-2019			31-12-2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	2,650	269,670	(267,020)	10,079	67,509	(57,430)
Equity swaps	-	1,097	(1,097)	20	1,714	(1,694)
Cash-flows hedge						
Interest rate swaps	89,206	380	88,826	63,365	332	63,033
Forward sale	-	105,342	(105,342)	-	21,001	(21,001)
	<u>91,856</u>	<u>376,489</u>	<u>(284,633)</u>	<u>73,464</u>	<u>90,556</u>	<u>(17,092)</u>

As at June 30, 2019, and December 31, 2018, the breakdown of derivative financial instruments was as follows:

Type of financial instrument	Book Value	30-06-2019					Total	Notional amounts	
		Notional amounts						EUR	Other
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years			
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased		165,713	33,906	70,675	31,690	-	301,984	153,705	148,279
Sold	258	165,533	33,841	70,656	31,663	-	301,693	145,804	155,889
Currency swaps									
Purchased		1,590,955	1,335	84	-	-	1,592,374	398,406	1,193,968
Sold	(7,221)	1,597,194	1,380	88	-	-	1,598,662	1,199,913	398,749
Interest rate swaps	(11,072)	62,319	185,735	44,111	4,401,095	18,802,558	23,495,818	23,460,377	35,441
Cross currency swaps									
Purchased		30,751	1,123	3,310	-	-	35,184	35,184	-
Sold	72	30,948	1,094	3,310	-	-	35,352	35,352	-
Other Interest rate swaps									
Equity swaps	746	-	-	-	-	740,563	740,563	740,563	-
Currency swaps									
Purchased		70,341	70,385	26,362	10,545	-	177,633	-	177,633
Sold	11	70,341	70,385	26,362	10,545	-	177,633	-	177,633
Equity options									
Purchased		50,284	40,409	146,926	-	-	237,619	237,619	-
Sold	(1)	50,284	40,409	146,926	-	-	237,619	237,619	-
Caps & Floors	759	439,773	102	51,434	441,528	675,614	1,608,451	1,608,451	-
	<u>(16,448)</u>	<u>4,324,436</u>	<u>480,104</u>	<u>590,244</u>	<u>4,927,066</u>	<u>20,218,735</u>	<u>30,540,585</u>	<u>28,252,993</u>	<u>2,287,592</u>
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Other financial assets at fair value									
through other comprehensive income	(47,104)	-	-	-	-	2,080,000	2,080,000	2,080,000	-
Liabilities and loans	(219,916)	44,029	11,903	20,704	823,338	2,951,713	3,851,687	3,665,345	186,342
Equity swaps	(1,097)	25,110	5,192	18,485	34,768	-	83,555	82,398	1,157
Cash flow hedge									
Interest rate swaps									
Cash flows	88,826	102,564	1,000,000	4,000,000	5,000,000	-	10,102,564	10,102,564	-
Forwards sale	(105,342)	-	558,510	424,753	-	-	983,263	983,263	-
	<u>(284,633)</u>	<u>171,703</u>	<u>1,575,606</u>	<u>4,463,942</u>	<u>5,858,106</u>	<u>5,031,713</u>	<u>17,101,069</u>	<u>16,913,570</u>	<u>187,499</u>

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	31-12-2018								
	Book Value	Notional amounts						Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	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									
Cross currency swaps									
Purchased	4	7,631	-	-	-	-	7,631	7,631	-
Sold		7,631	-	-	-	-	7,631	7,631	-
Other interest rate swaps	(23,475)	41,837	1,881,966	263,484	2,562,893	21,459,887	26,210,067	26,173,246	36,821
Equity swaps	(256)	138,295	-	-	-	757,869	896,164	896,163	1
Cross currency swaps									
Purchased		52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold	31	52,232	50,646	101,607	5,240	-	209,725	-	209,725
Equity options									
Purchased		64,728	49,450	90,693	146,926	-	351,797	351,797	-
Sold	(30)	64,728	49,450	90,693	146,926	-	351,797	351,797	-
Caps & Floors	536	257,600	773,409	440,105	265,011	889,193	2,625,318	2,625,318	-
	(29,898)	2,549,222	3,092,017	1,110,228	3,197,263	23,107,221	33,055,951	31,507,467	1,548,484
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Other financial assets at fair value									
through other comprehensive income	(5,795)	-	-	-	-	80,000	80,000	80,000	-
Liabilities and loans	(51,635)	-	19,078	58,152	804,385	2,504,626	3,386,241	3,200,390	185,851
Equity swaps	(1,694)	26,619	16,136	30,126	35,565	-	108,446	140	108,306
Cash flow hedge									
Interest rate swaps									
Cash flows	63,033	56,746	192,081	1,102,594	9,000,000	-	10,351,421	10,351,421	-
Forwards sale	(21,001)	377,402	-	558,511	-	-	935,913	935,913	-
	(17,092)	460,767	227,295	1,749,383	9,839,950	2,584,626	14,862,021	14,567,864	294,157

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

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

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

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

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

In accordance with the standard, parts of operations, commonly known as "embedded derivatives" are also separated and carried as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

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All derivatives (embedded or autonomous) are carried at fair value.

Derivatives are also recorded in off-balance-sheet accounts at their theoretical value (notional value). The notional value is the reference value for the calculation of flows of payments and receipts originated by the operation.

The fair value corresponds to the estimated value that the derivatives would have if they were traded on the market on the reference date. The evolution of the fair value of derivatives is recognised in the relevant balance sheet accounts and has immediate impact on profit or loss.

12. INVESTMENTS IN ASSOCIATES

As at June 30, 2019, and 31 December 2018, the breakdown of this heading is as follows:

	30-06-2019		31-12-2018	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1,918	25.81	1,918
Lusimovest	25.77	25,847	25.77	25,847
Unicre - Instituição Financeira de Crédito, S.A.	21.86	31,626	21.86	35,634
		<u>59,391</u>		<u>63,399</u>
Impairment of investments in associates (Note 19)				
Benim - Sociedade Imobiliária, S.A.		(1,918)		(1,918)
		<u>(1,918)</u>		<u>(1,918)</u>
		<u>57,473</u>		<u>61,481</u>

As at June 30, 2019, and December 31, 2018, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

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

13. INVESTMENT PROPERTY

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Properties held by Novimovest Fund	<u>290,113</u>	<u>297,625</u>

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

As at June 30, 2019, and December 31, 2018, the characteristics of properties held by the Novimovest Real Estate Fund were as follows:

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	<u>30-06-2019</u>	<u>31-12-2018</u>
Land		
Urbanized	13,972	14,643
Non-urbanized	1,128	1,141
Finished constructions		
Rented	217,280	222,946
Not rented	39,915	41,070
Other construction projects	17,818	17,825
	<u>290,113</u>	<u>297,625</u>

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

	<u>30-06-2019</u>	<u>30-06-2018</u>
Rents (Note 32)	6,726	7,798
Condominium expenses	(623)	(578)
Maintenance and repair expenses	(6)	(542)
Insurances	(80)	(106)
	<u>6,017</u>	<u>6,572</u>

Movement under "Investment properties" in the first halves of 2019 and 2018 was as follows:

	<u>30-06-2019</u>				<u>Balances at 30-06-2019</u>
	<u>Balances at 31-12-2018</u>	<u>Increases</u>	<u>Fair value valuation</u>	<u>Sales</u>	
Properties held by Novimovest Fund	<u>297,625</u>	<u>-</u>	<u>(1,590)</u>	<u>(5,922)</u>	<u>290,113</u>
	<u>30-06-2018</u>				<u>Balances at 30-06-2018</u>
	<u>Balances at 31-12-2017</u>	<u>Increases</u>	<u>Fair value valuation</u>	<u>Sales</u>	
Properties held by Novimovest Fund	<u>353,957</u>	<u>-</u>	<u>(682)</u>	<u>(23,093)</u>	<u>330,182</u>

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under "Sale of other assets" (Note 31).

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

As at June 30, 2019, and December 31, 2018, the form of determination of the fair value of the investment properties in accordance with the levels set out in IFRS 13 is as follows:

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	Level 3	
	30-06-2019	31-12-2018
Investment properties	290,113	297,625

In accordance with the requirements of IFRS 13, a summary is presented hereunder, for the investment properties of greater value in the Group's portfolio as at June 30, 2019, and December 31, 2018, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

Description of the property	Use	Value on		Valuation technique	Relevant inputs
		30-06-2019	31-12-2018		
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,712	34,447	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3 Plots in Matosinhos	Leased out	41,780	41,694	Comparative market method / Residual value method	Lease value per m2 Capitalization rate
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	26,474	26,365	Income method / Comparative market method	Lease value per m2 Capitalization rate
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,896	15,896	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	11,107	11,699	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	11,635	11,878	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2 Golf courses in Loulé	Leased out	12,128	12,128	Income method / Cost method Income method / Cost method	Lease value per m2 Capitalization rate
Alfena - Valongo Plots Plots in Valongo	Construction in course	10,576	10,576	Comparative market method / Cost method Residual value method	Land value and cost of construction and marketing per m2
		<u>164,308</u>	<u>164,683</u>		

If there is an increase of the amount of rent per m² or an increase of the occupancy rate or a decrease of the capitalisation rate, the fair value of the investment properties will be increased. On the other hand, in the event of an increase of construction or marketing costs, an increase of the capitalisation rate, a decrease in the value of rent per square metre or a decrease in occupancy rate, the fair value of the investment properties will be decreased.

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14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during the first halves of 2019 and 2018 is as follows.

	30-06-2019																
	31-12-2018				Write-offs and sales		Transfers		Transfers		Depreciation in the period	30-06-2019					
	Gross amount	Accumulated depreciation	Impairment	Acquisitions	Gross amount	Accumulated depreciation	From/to other assets	Accumulated depreciation	Gross amount	Accumulated depreciation		Gross amount	Accumulated depreciation	Impairment	Net amount		
	(Note 19)				(Note 19)												
Tangible assets																	
Property																	
Property for own use	432,057	141,813	6,146	2,459	-	-	(5,622)	(1,918)	176	-	4,541	429,070	144,436	6,146	278,488		
Leasehold expenditure	28,310	21,143	-	525	308	252	-	-	(182)	-	812	28,345	21,703	-	6,642		
Other property	167	78	-	-	-	-	-	-	-	-	1	167	79	-	88		
Rights of use	-	-	-	37,997 a)	-	-	-	-	-	-	3,095	37,997	3,095	-	34,902		
Unfinished tangible assets																	
Property for own use	88	-	-	-	-	-	-	-	-	-	-	88	-	-	88		
	<u>460,622</u>	<u>163,034</u>	<u>6,146</u>	<u>40,981</u>	<u>308</u>	<u>252</u>	<u>(5,622)</u>	<u>(1,918)</u>	<u>(6)</u>	<u>-</u>	<u>8,449</u>	<u>495,667</u>	<u>169,313</u>	<u>6,146</u>	<u>320,208</u>		
Equipment																	
Furniture and fixtures	10,793	4,012	-	647	581	581	-	-	(43)	(43)	591	10,816	3,979	-	6,837		
Machinery and tools	1,860	840	-	267	55	54	-	-	6,280	6,280	171	8,352	7,237	-	1,115		
Computer hardware	68,144	59,009	-	2,317	1,125	1,125	-	-	(6,062)	(6,062)	1,937	63,274	53,759	-	9,515		
Indoor facilities	34,879	11,911	-	3,921	242	195	(91)	(34)	5	(1)	1,854	38,472	13,535	-	24,937		
Vehicles	17,856	7,017	-	445	910	560	-	-	(52)	(19)	1,052	17,339	7,490	-	9,849		
Security equipment	6,098	4,971	-	102	949	949	-	-	(181)	(181)	215	5,070	4,056	-	1,014		
Other equipment	2,196	856	-	116	106	87	-	-	(22)	(22)	138	2,184	885	-	1,299		
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	9	-	-	9		
	<u>141,835</u>	<u>88,616</u>	<u>-</u>	<u>7,815</u>	<u>3,968</u>	<u>3,551</u>	<u>(91)</u>	<u>(34)</u>	<u>(75)</u>	<u>(48)</u>	<u>5,958</u>	<u>145,516</u>	<u>90,941</u>	<u>-</u>	<u>54,575</u>		
Other tangible assets																	
Work of Art	2,059	-	-	-	-	-	-	-	-	-	-	2,059	-	-	2,059		
Other	51	38	-	-	-	-	-	-	26	26	3	77	67	-	10		
	<u>2,110</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26</u>	<u>26</u>	<u>3</u>	<u>2,136</u>	<u>67</u>	<u>-</u>	<u>2,069</u>		
	<u>604,567</u>	<u>251,688</u>	<u>6,146</u>	<u>48,796</u>	<u>4,276</u>	<u>3,803</u>	<u>(5,713)</u>	<u>(1,952)</u>	<u>(55)</u>	<u>(22)</u>	<u>14,410</u>	<u>643,319</u>	<u>260,321</u>	<u>6,146</u>	<u>376,852</u>		
Intangible assets																	
Software purchased	62,830	36,497	-	10,226	-	-	-	-	2,486	22	9,526	75,542	46,045	-	29,497		
Unfinished intangible assets	492	-	-	2,205	-	-	-	-	(2,432)	-	-	265	-	-	265		
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-		
Other	1,040	547	-	-	-	-	-	-	-	-	246	1,040	793	-	247		
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160		
	<u>68,868</u>	<u>40,390</u>	<u>-</u>	<u>12,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54</u>	<u>22</u>	<u>9,772</u>	<u>81,353</u>	<u>50,184</u>	<u>-</u>	<u>31,169</u>		

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

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15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

As at June 30, 2019, and 31 December 2018, the breakdown of these headings is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Current tax assets	32,600	21,334
Deferred tax assets	614,988	640,061
	<u>647,588</u>	<u>661,395</u>
Current tax liabilities	68,686	7,589
Deferred tax liabilities	356,792	237,233
	<u>425,478</u>	<u>244,822</u>
Deferred taxes	<u>258,196</u>	<u>402,828</u>

As at June 30, 2019, and 31 December 2018, the breakdown of taxes in the income statement is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Current taxes	(93,566)	61,661
Deferred assets	(49,108)	159,813
	<u>(142,674)</u>	<u>221,474</u>

Dividends distributed to the Bank by subsidiaries and associates located in Portugal or in a European Union Member State are not taxed within the sphere of the latter as a result of the application of the arrangements provided for in article 51 of the IRC Code that provides for the elimination of double taxation of distributed profits.

The tax authorities are entitled to review the Bank's tax situation during a period of four years (five years for Social Security), except in cases where there are tax losses carried forward and any other tax deduction or credit, situations in which the expiry is that of the exercise of that right.

The Bank was subject to a tax inspection up to and including 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 in Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 19).

Of the Bank's tax losses €51,655k can be used up until 2026 and €157,843k up until 2027.

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

16. OTHERS ASSETS

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Debtors and other applications	772	447
Gold, other precious metals, coins and medals	3,145	3,145
Promises and other assets received as settlement of defaulting assets received as settlement of defaulting	287,214	356,659
Income receivable		
from mutual funds placement by Santander SGFIM	4,960	4,054
From loan operations	57	70
Other services rendered	15,921	17,074
Other	11,431	8,096
Deferred costs	1,818	2,850
Other assets pending regularization	40,285	53,382
	<u>365,603</u>	<u>445,777</u>
Impairment losses (Note 19):		
Debtors, other investments and other assets		
Own properties for sale	(100,015)	(109,334)
	<u>(100,015)</u>	<u>(109,334)</u>
	<u>265,588</u>	<u>336,443</u>

As at June 30, 2019, and December 31, 2018, "Income receivable" mainly included commissions receivable from insurers for the marketing of their insurance (Note 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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As at June 30, 2019, and December 31, 2018, "Other" includes loan/borrowing transactions pending settlement as detailed below:

	30-06-2019		31-12-2018	
	Other assets	Other liabilities	Other assets	Other liabilities
	(Note 21)		(Note 21)	
Cheques, values in transit and other transactions to be settled	21,762	(61,103)	29,309	(58,888)
Transfers within SEPA	55	(225,089)	-	(117,895)
Balances to be settled in ATM's	1,599	(40)	2,720	-
Other	16,869	(32,238)	21,353	(47,395)
	<u>40,285</u>	<u>(318,470)</u>	<u>53,382</u>	<u>(224,178)</u>

Movement under "Payment in kind promises, auctions and other assets received as payment in kind" during the six-month period ended on June 30, 2019 was as follows:

	31-12-2018			2019						30-06-2019		
	Gross amount	Impairment (Note 19)	Net amount	Increases	Sales	Transfers	Impairment (Note 19)			Gross amount	Impairment (Note 19)	Net amount
							Increases	Reversal	Utilization			
Assets received as settlement of defaulting												
Properties received as settlement of defaulting	109,320	(52,155)	57,165	9,900	(4,760)	(47,593)	(5,771)	8,640	1,304	66,867	(47,982)	18,885
Promises	11,435	(43)	11,392	-	(8,826)	-	(18)	2	-	2,609	(59)	2,550
Public sales	49,820	(27,452)	22,368	9,751	(8,178)	605	(1,110)	215	-	51,998	(28,347)	23,651
Other properties	139,419	(4,168)	135,251	2,388	(24,309)	(84)	(214)	12,764	-	117,414	8,382	125,796
Liquidation assets	1,892	(1,892)	-	478	(103)	(521)	(258)	404	-	1,746	(1,746)	-
Property for own use	44,773	(23,624)	21,149	39	(1,993)	3,761	(7,902)	392	871	46,580	(30,263)	16,317
	<u>356,659</u>	<u>(109,334)</u>	<u>247,325</u>	<u>22,556</u>	<u>(48,169)</u>	<u>(43,832)</u>	<u>(15,273)</u>	<u>22,417</u>	<u>2,175</u>	<u>287,214</u>	<u>(100,015)</u>	<u>187,199</u>

17. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Properties received as settlement of defaulting	90,246	46,277
Equipment	1,990	1,913
	<u>92,236</u>	<u>48,190</u>
Impairment losses (Note 19)	(26,175)	(18,168)
	<u>66,061</u>	<u>30,022</u>

Movement under "Non-current assets held for sale" in the six-month period ended June 30, 2019, was as follows:

	31-12-2018			2019					30-06-2019		
	Gross amount	d impairment (Note 19)	Increases	Sales	Transfers	Impairment (Note 19)			Gross amount	Accumulated impairment (Note 19)	Net value
						Increases	Reversals	Utilisation			
Properties:											
Received as payment	46,277	(16,599)	7,753	(11,376)	47,593	(20,889)	6,439	6,466	90,247	(24,583)	65,664
Equipment	1,913	(1,569)	588	(512)	-	(355)	173	159	1,989	(1,592)	397
	<u>48,190</u>	<u>(18,168)</u>	<u>8,341</u>	<u>(11,888)</u>	<u>47,593</u>	<u>(21,244)</u>	<u>6,612</u>	<u>6,625</u>	<u>92,236</u>	<u>(26,175)</u>	<u>66,061</u>

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

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

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

a) Market method

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

b) Income method

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

c) Cost method

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

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

18. FINANCIAL LIABILITIES AT AMORTISED COST

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

	<u>30-06-2019</u>	<u>31-12-2018</u>
Resources from Bank of Portugal		
Deposits	3,039,329	3,045,472
Resources from other Central Banks		
Deposits	4,519	4,568
	<u>3,043,848</u>	<u>3,050,040</u>

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The composition of the resources from other credit institutions sub-heading is as follows:

	30-06-2019	31-12-2018
Resources from domestic credit institutions		
Deposits	185,707	192,141
Other resources	1,010	792
Interest payable	12	6
Revenue with deferred income	1,108	44
	<u>187,837</u>	<u>192,983</u>
Resources from foreign credit institutions		
Consigned resources	900,000	900,000
Short-term resources	77,329	76,856
Deposits	399,818	376,488
Sale operations with repurchase agreement	2,200,368	1,957,342
Other resources	17,218	35,995
Interest payable	305	180
	<u>3,595,038</u>	<u>3,346,861</u>
	<u>3,782,875</u>	<u>3,539,844</u>

As at June 30, 2019, and December 31, 2018, resources from foreign credit institutions – Repo operations, is broken down by type of asset underlying the repo operations:

Type of underlying	30-06-2019			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	654,982	(301)	(1,089)	653,592
Non-subordinated bonds	1,052,629	(19)	(19)	1,052,591
Bonds issued by non-residents	494,185	-	-	494,185
	<u>2,201,796</u>	<u>(320)</u>	<u>(1,108)</u>	<u>2,200,368</u>
Type of underlying	31-12-2018			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	311,387	(46)	(28)	311,313
Non-subordinated bonds	1,263,379	(62)	(16)	1,263,301
Bonds issued by non-residents	382,728	-	-	382,728
	<u>1,957,494</u>	<u>(108)</u>	<u>(44)</u>	<u>1,957,342</u>

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The customers' resources and other loans sub-heading comprises the following:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Term deposits	17,523,248	16,615,519
Demand deposits	16,708,240	15,412,253
Other Clients Resources	447,292	951,499
Savings deposits	814,127	875,550
Other	70,694	66,982
	<u>35,563,601</u>	<u>33,921,803</u>
Interest payable	13,436	15,954
	<u><u>35,577,037</u></u>	<u><u>33,937,757</u></u>

The debt securities sub-heading comprises the following:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Bonds in circulation		
Covered bonds		
Issued	6,950,000	7,700,000
Repurchased	(4,200,000)	(4,200,000)
Interest payable and another deferred costs and income	(9,885)	(11,222)
Bonds issued in securitization operations		
Issued	4,556,873	4,898,562
Repurchased	(3,767,622)	(4,010,288)
Interest payable and another deferred costs and income	(59,075)	(62,903)
	<u>3,470,291</u>	<u>4,314,149</u>
Other		
EMTN Programme	711	711
Interest payable	7	2
	<u>718</u>	<u>713</u>
Subordinated Liabilities		
Subordinated Perpetual Bonds Totta 2000		
Issued	284,315	284,315
Repurchased	(13,868)	(13,868)
Subordinated Perpetual Bonds BSP 2001		
Issued	172,833	172,833
Repurchased	(159,015)	(159,015)
Subordinated Perpetual Bonds CPP 2001		
Issued	54,359	54,359
Repurchased	(50,084)	(50,084)
Banco Santander Totta SA 7.5%	7,599	7,599
Subordinated MC factor Bonds		
Issued	2,993	2,993
Repurchased	(2,394)	(2,394)
	<u>296,738</u>	<u>296,738</u>
Interest payable	610	344
	<u><u>3,768,357</u></u>	<u><u>4,611,944</u></u>

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

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

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Between May 2008 and June 2019, Bank undertook twenty-three covered-bond issues under the €12.5 billion Covered Bonds Programme. As at June 30, 2019, and December 31, 2018, covered bonds had autonomous assets and liabilities comprising:

	30-06-2019	31-12-2018
Loans and advances (Note 10)	9,424,717	8,937,341
Credit interests	8,017	7,220
Commissions	(52,895)	(46,134)
Deferred costs	4,463	2,518
Derivatives	(71,754)	(65,587)
	<u>9,312,548</u>	<u>8,835,358</u>

Movement under covered bonds and cash bonds and other debt issued by the Bank during 2018 and the first half of 2019 was as follows:

	Bonds outstanding		EMTN Programme
	Issued	Repurchased	Issued
Balances at December 31, 2017	7,701,072	(4,200,000)	25,744
Issues repurchased	(1,072)	-	(25,033)
Balances at December 31, 2018	7,700,000	(4,200,000)	711
Issues repurchased	(750,000)	-	-
Balances at June 30, 2019	<u>6,950,000</u>	<u>(4,200,000)</u>	<u>711</u>

Movement within the scope of the securitisation operations during 2018 and the first half of 2019 was as follows:

	Bonds outstanding	
	Issued	Repurchased
Balances at December 31, 2017	3,249,292	(2,121,485)
Issued	2,266,000	-
Repurchased	(616,730)	550,539
Reacquired		
Hipototta13	-	(2,266,000)
Hipototta 4 e 5	-	(172,842)
Azor mortgages	-	(500)
	<u>1,649,270</u>	<u>(1,888,803)</u>
Balances at December 31, 2018	4,898,562	(4,010,288)
Repurchased	(341,689)	242,666
Balances at June 30, 2019	<u>4,556,873</u>	<u>(3,767,622)</u>

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The Other financial liabilities sub-heading comprises the following:

	30-06-2019	31-12-2018
Cheques and orders payable	93,942	56,413
Creditors and other resources		
Creditors resulting from operations with futures	9,157	3,457
Public sector	21,604	30,633
Creditors under factoring contracts	51,979	50,442
Future income commitments (IFRS 16 application)	35,028	-
Suppliers	6,993	7,468
Creditors for outstanding amounts	17,424	18,255
Other	17,970	9,538
	<u>254,097</u>	<u>176,206</u>

19. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during the first halves of 2019 and 2018, was as follows:

	2019					30-06-2019
	31-12-2018	Increases	Reversals	Utilization		
Provisions for tax contingencies	10,796	-	-	(207)		10,589
Provisions for pensions and other charges	129,353	162	-	(25,951)		103,564
Impairment and provisions for guarantees and other sureties given	53,159	4,843	-	-		58,002
Other provisions	93,138	16,010	(11,774)	(358)		97,016
	<u>286,446</u>	<u>21,015</u>	<u>(11,774)</u>	<u>(26,516)</u>		<u>269,171</u>

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

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	2019						
	31-12-2018	Increases	Reversals of impairment losses	Utilization and others	30-06-2019	Recoveries of past due loans	Gain/loss from loan sales
	Impairment for applications on credit institutions (Note 10)	84	2	(46)	-	40	-
Impairment to customers and other debtors (Note 10)	1,108,584	138,483	(147,243)	(136,051)	963,773	(5,611)	(2,082)
Impairment of other financial assets at fair value through other comprehensive income (Note 9)	3	-	-	-	3	-	-
Impairment for investments in associates (Note 12)	1,918	-	-	-	1,918	-	-
	<u>1,110,589</u>	<u>138,485</u>	<u>(147,289)</u>	<u>(136,051)</u>	<u>965,734</u>	<u>(5,611)</u>	<u>(2,082)</u>
Tangible assets (Note 14)	6,146	-	-	-	6,146	-	-
Other assets (Note 16)	109,334	15,273	(22,417)	(2,175)	100,015	-	-
Non recurrent assets held for sale (Note 17)	18,168	21,244	(6,612)	(6,625)	26,175	-	-
	<u>133,648</u>	<u>36,517</u>	<u>(29,029)</u>	<u>(8,800)</u>	<u>132,336</u>	<u>-</u>	<u>-</u>
	<u>1,244,237</u>	<u>175,002</u>	<u>(176,318)</u>	<u>(144,851)</u>	<u>1,098,070</u>	<u>(5,611)</u>	<u>(2,082)</u>

	2018							
	31-12-2017	IFRS 9	Impairment losses	Reversals of impairment losses	Utilization and others	30-06-2018	Recoveries of past due loans	Gain/loss from loan sales
	Impairment for assets at amortized cost	1,740,865	59,640	179,001	(176,029)	(330,268)	1,473,209	(3,271)
Impairment of other financial assets at fair value through other comprehensive income	63,174	(62,899)	1,705	(1,705)	-	275	-	-
Impairment for investments in associates	5,532	-	-	-	(3,679)	1,853	-	-
	<u>1,809,571</u>	<u>(3,259)</u>	<u>180,706</u>	<u>(177,734)</u>	<u>(333,947)</u>	<u>1,475,337</u>	<u>(3,271)</u>	<u>(11,308)</u>
Tangible assets	6,301	-	-	-	(20)	6,281	-	-
Other assets	200,212	(31,499)	35,425	(14,827)	(11,631)	177,680	-	-
Non recurrent assets held for sale	42,856	-	1,476	(448)	(6,425)	37,459	-	-
	<u>249,369</u>	<u>(31,499)</u>	<u>36,901</u>	<u>(15,275)</u>	<u>(18,076)</u>	<u>221,420</u>	<u>-</u>	<u>-</u>
	<u>2,058,940</u>	<u>(34,758)</u>	<u>217,607</u>	<u>(193,009)</u>	<u>(352,023)</u>	<u>1,696,757</u>	<u>(3,271)</u>	<u>(11,308)</u>

As at June 30, 2019, and December 31, 2018, the breakdown of Provisions for pensions and other charges was as follows:

	30-06-2019	31-12-2018
Restructuring plans	87,954	102,948
BAPOP retirement prize	1,684	1,684
Supplementary pension plan of the Board of Directors (Note 39)	13,926	24,721
	<u>103,564</u>	<u>129,353</u>

20. EQUITY REPRESENTATIVE INSTRUMENTS

As at June 30, 2019, and December 31, 2018, this item represented units of the Novimovest Fund not held by the Group.

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21. OTHER LIABILITIES

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Relating to personnel		
Vacation and vacation subsidies	31,105	39,044
Other variable remuneration	23,594	29,698
Christmas subsidy	9,383	-
Other personnel costs	-	263
Receiving Invoices and check	154,592	114,344
Integration costs	10,495	35,964
Liabilities with pensions (Note 38)		
Pension fund of BST	973,742	972,776
Bank pension fund book value	(998,389)	(979,892)
London branch liabilities	44,509	44,509
London branch pension fund book value	(38,891)	(38,891)
Former Banif liabilities	133,084	133,084
Former Banif pension fund book value	(100,641)	(100,641)
Former Popular liabilities	160,369	163,111
Former Popular pension fund book value	(170,765)	(163,475)
Other deferred income	2,495	2,596
Other (Note 16)	318,470	224,178
	<u>553,152</u>	<u>476,668</u>

22. SHARE CAPITAL

As at June 30, 2019, and December 31, 2018, the Bank's share capital was represented by 1,256,723,284 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	<u>30-06-2019</u>		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Own shares	15,000,445	1.19%	15,000
Other	543,326	0.05%	543
	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>

During 2018, the Bank purchased 7,915 treasury shares for the amount of €31k. In the first half of 2019, there were no purchases of treasury shares.

Under the terms of Order-in-Council nº 408/99, of June 4, published in *Diário da República* – 1st series B, nº 129, the issue premiums, in the amount of €193,390k, cannot be used for the allocation of dividends or for the acquisition of treasury shares.

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

In 2018 the Bank distributed dividends in the amount of €618,597k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.498 per share.

In 2019 the Bank distributed dividends in the amount of €422,873k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.3405 per share.

As at June 30, 2019, and 31 December 2018, the breakdown of reserves for accumulated comprehensive income was as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Other financial assets at fair value through other comprehensive income (Note 9)	758,008	388,663
Revaluation reserves of companies under the equity method	2,719	1,668
Cash-flow hedging instruments	(28,182)	31,936
Actuarial gains and losses (Note 37)		
Pension Fund of BST	(659,093)	(686,172)
Pension Fund of the Lond branch of BST	(12,109)	(12,109)
Pension fund of Former Banif	(8,515)	(8,515)
Pension fund of Former BAPOP	11,756	(753)
Actuarial gains and losses of companies under the equity method	(3,034)	(3,033)
	<u>61,550</u>	<u>(288,315)</u>
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Other financial assets at fair value through other comprehensive income	(233,562)	(119,314)
Revaluation reserves of companies under the equity method	(695)	(425)
Cash-flow hedging instruments	8,737	(9,901)
Tax impact of actuarial gains and losses	181,691	181,691
Tax impact from the change in accounting policies		
of companies under the equity method	942	942
Relating to the revaluation of tangible assets	(3,148)	(3,148)
	<u>(46,035)</u>	<u>49,845</u>
	<u>15,515</u>	<u>(238,470)</u>

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

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

During 1998, under Decree-Law 31/98 of February 11, the Bank revalued its tangible fixed assets, increasing their value, net of accumulated depreciation, by approximately €23,245k, which was recorded in revaluation reserves. The net amount resulting from revaluation carried out can only be used for share capital increases or to cover losses, as and when they are used (amortised) or the assets to which they relate are sold. In 2018 this reserve was reclassified to Other reserves.

As at June 30, 2019, and December 31, 2018, the breakdown of "Other reserves and retained earnings" is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Legal reserve	461,864	414,311
Other reserves		
Reserves of consolidated companies	164,280	165,615
Reserves of companies consolidated under the equity method	8,733	5,064
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	(8,411)
Other reserves	23,395	23,728
Retained earnings	517,572	511,242
	<u>1,834,692</u>	<u>1,778,808</u>

Legal reserve

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

Merger reserve

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

23. CONSOLIDATED NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS' OF BST

In the first half of 2019 and in 2018, the determination of the consolidated profit can be summarised as follows:

	30-06-2019		31-12-2018	
	Net Income for the year	Contribution to the consolidated net income	Net Income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	249,510	249,510	475,535	475,535
Net income of other Group companies:				
Totta (Ireland), Plc.	5,182	5,182	9,902	9,902
Novimovest - Fundo de Investimento Imobiliário Aberto	2,941	2,353	8,685	6,931
Unicre, Instituição Financeira de Crédito, S.A.	6,778	1,482	20,234	4,423
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	26	26	62	62
Totta Urbe, Empresa de Administração e Construções, S.A.	3,316	3,316	(4,092)	(4,092)
Banif International Bank, LTD	89	89	36	36
Lusimovest Fundo de Investimento Imobiliário	(3)	(1)	2,010	518
Taxagest, S.A.	4	4	(3)	(3)
Primestar Serving	-	-	(169)	(135)
	18,333	12,451	36,665	17,642
Elimination of dividends:				
Unicre, Instituição Financeira de Crédito, S.A.		(5,203)		(3,454)
Adjustments related with securitization operations		(8,525)		(18,003)
Other		(8,478)		(1,769)
Consolidated net income for the period		239,755		469,951

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

	30-06-2019	30-06-2018
Consolidated net income attributable to the shareholders of BST	239,755	235,636
Weighted average number of ordinary shares issued	1,256,723,284	1,256,723,284
Weighted average number of own shares	15,000,445	14,992,530
Weighted average number of ordinary shares outstanding	1,241,722,839	1,241,730,754
Basic earnings per share attributable to the shareholders of BST (Euro)	0.19	0.19

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24. NON-CONTROLLING INTERESTS

As at June 30, 2019, and December 31, 2018, the breakdown per entity of the value of third-party holdings in Group companies is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Taxagest, S.A.	557	557
Other	324	362
	<u>881</u>	<u>919</u>

25. OFF-BALANCE-SHEET ACCOUNTS

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

	<u>30-06-2019</u>	<u>31-12-2018</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,524,531	1,568,020
Documentary credits	402,918	388,488
Assets pledged as guarantees		
Bank of Portugal	161,337	166,024
Deposit Guarantee Fund	98,563	88,059
Investor Indemnity System	9,428	8,903
Assets pledged as guarantees in monetary policy operations	10,716,741	10,227,930
	<u>12,913,518</u>	<u>12,447,424</u>
Commitments		
Credit lines		
Revocable	5,203,545	5,307,745
Irrevocable	772,723	1,035,032
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,110	7,954
Other revocable commitments	215	216
	<u>6,051,562</u>	<u>6,419,916</u>
Liabilities for services rendered		
Deposit and custodial services	34,181,353	32,462,095
Amounts received for collection	175,061	172,451
Other amounts	46,267	33,686
	<u>34,402,681</u>	<u>32,668,232</u>

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

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was created in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by Ministry of Finance Order-in-Council, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as a cost for the period to which they relate.

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid amounts accumulated as at June 30, 2019, and December 31, 2018, for which this commitment was entered into amounts to €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2019 and 2018, the Bank paid 100% of the annual contribution in the amounts of €50k and €44k, respectively (Note 32).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as cost. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2019, and December 31, 2018, these liabilities amounted to €6,110k and €7,954k, respectively.

26. INTEREST INCOME

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Interest on cash and deposits		
In foreign credit institutions	327	622
Interest on applications		
In domestic credit institutions	4,034	2,162
In foreign credit institutions	2,997	580
Interest on loans and advances to customers		
Domestic loans	292,493	317,082
Foreign loans	9,393	7,306
Other loans and receivables	36,184	39,050
Interest from securitized assets not derecognized	19,602	19,991
Income from comissions received associated to amortized cost	27,230	31,643
Interest on overdue loans	3,437	4,239
Interest and similar income on other financial assets		
through other comprehensive income	61,734	55,848
Hedging derivatives	141,526	122,622
Other	7,696	24,573
	<u>606,653</u>	<u>625,718</u>

27. INTEREST CHARGE

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Interest on resources of Central Banks	-	63
Interest on resources of credit institutions		
Domestic	174	111
Foreign	2,953	1,920
Interest on customers' deposits		
Residents	22,793	26,351
Non-residents	3,015	2,828
Interest on debt securities issued		
Bonds	21,394	22,940
Other debt securities	4	57
Interest on subordinated liabilities	2,528	313
Interest on hedging derivatives	118,257	119,238
Other interest	9,321	6,849
	<u>180,439</u>	<u>180,670</u>

28. INCOME FROM EQUITY INSTRUMENTS

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

	<u>30-06-2019</u>	<u>30-06-2018</u>
SIBS – Sociedade Interbancária de Serviços, S.A.	1,634	1,159
Unicampos-Fundo Especial de Invest. Imobiliário Fechado	-	65
Other	3	9
	<u>1,637</u>	<u>1,233</u>

29. INCOME FROM SERVICES & COMMISSIONS

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
On guarantees given		
Guarantees and securities	7,823	8,734
Documentary credits	1,629	1,711
On commitments to third parties	402	1,001
By banking services provided		
Deposit and custody services	3,106	2,577
Collection of values	6,107	6,450
Real estate and mutual fund management	12,957	13,346
Transfers	896	1,365
Card transactions	45,274	43,501
Annuities	15,111	12,976
Credit operations	26,313	24,542
Other	499	7,003
On operations carried out on behalf of third parties		
On securities	7,585	8,655
Other	86	1,214
Insurance companies (Note 37)	50,571	47,581
Account maintenance	39,915	32,370
Cheques	4,674	4,749
Other	18,945	7,798
	<u>241,893</u>	<u>225,573</u>

30. CHARGES WITH SERVICES & COMMISSIONS

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
On guarantees received		
Guarantees and securities	2,233	1,220
On banking services rendered by third parties		
Funds for collection and management	818	701
Transactions with customers	34,444	22,469
Credit operations	3,959	7,093
Other services rendered	1,028	3,922
On operations carried out by third parties		
Securities	928	1,400
Other	2,909	1,031
Other commission paid	573	1,009
	<u>46,892</u>	<u>38,845</u>

31. GAINS/LOSSES ON FINANCIAL ASSETS

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

	<u>30-06-2019</u>	<u>30-06-2018</u>
Financial assets held for trading:		
Equity instruments	90	106
Derivative instruments:		
Swaps:		
Currency swaps	(116)	344
Interest rate swaps	10,161	(6,880)
Equity swaps	52	1,669
Options:		
Currency swaps	42	58
Equity swaps	(13)	(852)
Interest rate swaps	-	-
Interest rate guarantee contracts	(31)	243
	<u>10,185</u>	<u>(5,312)</u>
Other financial assets mandatory at fair value through P&L accounts		
Equity instruments	2,290	328
Securities - other	-	(3)
	<u>2,290</u>	<u>325</u>
Hedging derivatives:		
Swaps		
Interest rate swaps	(205,150)	(15,061)
Equity swaps	826	(130)
Autocallable options	-	133
Value adjustments from hedged assets and liabilities	204,324	15,044
	<u>-</u>	<u>(14)</u>
	<u><u>12,475</u></u>	<u><u>(5,001)</u></u>

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

	<u>30-06-2019</u>	<u>30-06-2018</u>
Debt instruments		
National public issuers	57,029	25,529
Foreign public issuers	-	775
Others	666	48
	<u>57,695</u>	<u>26,352</u>

The currency revaluation sub-heading comprises the following:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Gains on the revaluation of the foreign exchange position	64,560	146,193
Losses on the revaluation of the foreign exchange position	(59,584)	(141,431)
	<u>4,976</u>	<u>4,762</u>

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

	<u>30-06-2019</u>	<u>30-06-2018</u>
Investment properties		
Realized gains	266	742
Unrealized gains	1,902	1,403
	<u>2,168</u>	<u>2,145</u>
Investment properties		
Realized losses	(418)	(498)
Unrealized losses	(3,931)	(2,086)
Other losses in non financial operations	(150)	(4,159)
	<u>(4,499)</u>	<u>(6,743)</u>
	<u>(2,331)</u>	<u>(4,598)</u>

32. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Income from services rendered	1,471	1,743
Rents from operational leasing	7,206	8,174
Contributions to the Deposit Guarantee Fund (Note 25)	(50)	(44)
Contributions to the Resolution Fund	(32,597)	(22,219)
Charges related to transactions made by customers	(3,624)	(1,031)
Other	2,099	(6,095)
	<u>(25,495)</u>	<u>(19,472)</u>

During the first six months of 2019 and 2018, "Rents earned" includes the amounts of €6,726k and €7,798k, respectively, in respect of the rents received by the Novimovest Real Estate Fund.

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice nº 1/2013 and Instructions nºs 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. The Bank's periodic contribution in 2019 and 2018 amounted to €12,261k and €7,754k, respectively.

Within the scope of the single Resolution mechanism the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318k, in keeping with a letter received from the Bank of Portugal in November 2015. In 2018 and 2019 and as provided for in the Bank of Portugal's letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €23,924k and €17,253k, respectively.

33. STAFF COSTS

The composition of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Remuneration		
Management and supervisory boards	4,121	4,691
Employees	113,542	117,529
Stock option plans	-	186
Other variable remuneration	16,036	14,266
	<u>133,699</u>	<u>136,672</u>
Mandatory social charges		
Charges on remuneration	30,178	31,949
Pension Funds (Note 38)	2,854	3,382
Other mandatory social charges	552	576
	<u>33,584</u>	<u>35,907</u>
Other staff costs		
Complementary pension plan	291	291
Staff transfers	644	687
Other	4,102	2,880
	<u>5,037</u>	<u>3,858</u>
	<u><u>172,320</u></u>	<u><u>176,437</u></u>

34. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
External services:		
Specialized services	36,334	40,081
Maintenance of software and hardware	26,373	22,451
Rent and leases	3,124	7,669
Communications	5,256	6,857
Advertising and publishing	6,900	7,087
Travel, lodging and representation expenses	2,608	2,862
Maintenance and repairs	2,667	3,660
Transportation	2,560	2,413
Insurance	728	771
Other	3,498	5,813
External supplies:		
Water, electricity and fuel	4,705	5,460
Current consumable material	1,027	1,131
Other	111	122
Subscriptions and donations	3,573	3,504
Other taxes	2,174	3,701
	<u>101,638</u>	<u>113,582</u>

35. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	<u>30-06-2019</u>	<u>30-06-2018</u>
Unicre - Instituição Financeira de Crédito, S.A.	412	1.881
Lusimovest - Fundo de Inv. Imobiliario	-	468
	<u>412</u>	<u>2.349</u>

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36. RESULTS FROM NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	30-06-2019			30-06-2018		
	Gain	Loss	Net	Gain	Loss	Net
Non-current assets held for sale	33,999	(23,782)	10,217	5,429	(1,647)	3,782

37. PROVISION OF INSURANCE MEDIATION SERVICES

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

	30-06-2019			30-06-2018		
	Life Products	Non-life Products	Total	Life Products	Non-life Products	Total
	(Note 29)					
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	24,667	-	24,667	22,400	-	22,400
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	15,634	-	15,634	15,487	-	15,487
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.		9,514	9,514	-	2,371	2,371
Liberty Seguros	-	-	-	-	6,629	6,629
Other	-	756	756	694	-	694
	<u>40,301</u>	<u>10,270</u>	<u>50,571</u>	<u>38,581</u>	<u>9,000</u>	<u>47,581</u>

As at June 30, 2019, and December 31, 2018, "Other assets – Income receivable" (Note 16) includes commissions receivable from insurers as detailed hereunder:

	30-06-2019	31-12-2018
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	11,564	13,093
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	2,705	2,375
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	1,631	1,585
Others	12	11
	<u>15,912</u>	<u>17,064</u>

These amounts refer essentially to the commissions determined and not yet paid in respect of premiums of insurance marketed during the second quarter of 2019 and the last quarter of 2018.

38. 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.

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preceding periods, as well as the respective coverage, are detailed as follows:

	2019	2018	2017	2016	2015
Estimate of responsibilities for past services:					
for past services:					
-Pensions					
.Current employees	265,302	264,141	289,518	314,119	303,523
.Pensioners	39,918	38,877	34,059	31,526	26,928
.Retired staff and early retired staff	508,068	509,295	475,916	424,970	399,942
	813,288	812,313	799,493	770,615	730,393
-Healthcare systems (SAMS)	148,132	148,351	147,942	147,207	151,544
-Death subsidy	5,142	5,076	5,132	6,372	5,759
-Retirement bonus	7,180	7,036	6,802	8,082	-
	973,742	972,776	959,369	932,276	887,696
Coverage of responsibilities:					
-Net assets of the Fund	998,389	979,892	996,786	932,465	914,204
Excess / insufficient funding	24,647	7,116	37,417	189	26,508
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	-	2,958	-	30,579	-
- Experience adjustments:					
.Other actuarial (gains) / losses	10,916	(4,872)	(4,319)	23,815	(9,857)
.Financial (gains) / losses	(37,995)	29,753	(32,933)	2,050	(17,675)
	(27,079)	24,881	(37,252)	25,865	(27,532)
	(27,079)	27,839	(37,252)	56,444	(27,532)

In 2011 a tripartite agreement was concluded between the Ministry of Finance, the Portuguese Banks Association and the Financial Sector Federation (FEBASE), within the scope of which the Bank transferred to Social Security the liabilities to retirees and pensioners who, on December 31, 2011, were covered by the replacement Social Security regime set out in the collective bargaining agreement (CBA) in force in the banking sector. As a result, the assets of the Bank's Pension Fund were transferred in that part corresponding to those liabilities. In accordance with the provisions of Decree-Law 127/2011, of December 31, the amount of the pension liabilities transferred to the State was determined taking into account the following assumptions:

Mortality table male population	TV 73/77 less 1 year
Mortality table female population	TV 88/90
Technical actuarial rate (discount rate)	4%

The amount of the liabilities transferred to Social Security determined on the basis of the above assumptions was €456,111k.

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The main assumptions used by the Bank to determine its liabilities for retirement pensions as at June 30, 2019, and December 31, 2018, were as follows:

Mortality Table	
Female	TV 88/90 ⁽⁻¹⁾
Male	TV 88/90
Rate of return on pension fund assets	2.10%
Technical actuarial rate (discount rate)	2.10%
Wage growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years, though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

Movement under liabilities for past services during the first half of 2019 and in 2018, can be detailed as follows with regard to the Bank's pension plan:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Responsibilities at beginning of year	972,776	959,369
Cost of current services	1,856	4,075
Cost of interests	9,805	18,418
(Actuarial Gains / Losses)	10,916	(1,914)
Early retirements	7,691	39,021
Amounts paid	(30,549)	(48,637)
Employee Contributions	1,247	2,444
Responsibilities at end of period	<u>973,742</u>	<u>972,776</u>

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the first halves of 2019 and 2018, the breakdown of pension costs is as follows (Note 33):

	<u>30-06-2019</u>	<u>30-06-2018</u>
Cost of current services	1,876	2,038
Cost of interests	9,804	9,209
Income from assets calculated at discount rate	(9,804)	(9,209)
Defined benefit plan	1,876	2,038
Defined contribution plan	552	555
London branch plan	426	162
BAPOP plan	-	627
	<u>2,854</u>	<u>3,382</u>

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

Movement under actuarial deviations during 2018 and in the first half of 2019 was as follows:

Balance as at December 31, 2017	658,333
Actuarial gains on pensions	(2,389)
Financial losses on pensions generated	24,699
Actuarial losses on health care, death benefit and retirement premium	475
Financial loss on healthcare, death benefit and retirement premium	5,054
Balance as at December 31, 2018 (Note 22)	686,172
Actuarial gains on pensions	10,182
Financial losses on pensions generated	(31,476)
Actuarial losses on health care, death benefit and retirement premium	734
Financial loss on healthcare, death benefit and retirement premium	(6,519)
Balance as at June 30, 2019 (Note 22)	659,093

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at June 30, 2019, and December 31, 2018, the number of participants of the Fund was as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Current employees ⁽¹⁾	4,523	4,582
Pensioners	1,211	1,175
Retired staff and early retired staff	5,683	5,689
	<u>11,417</u>	<u>11,446</u>

(1) Of whom 358 and 340 employees belong to the defined-contribution plan as at June 30, 2019, and December 31, 2018, respectively.

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Movement under the BST Pension Fund during the first half of 2019 and in 2018 was as follows:

Book value at December 31, 2017	996,786
Bank contribution (monetary)	40,634
Employee contribution	2,444
Net income of the fund:	
Income from assets using discount rate	18,418
Income of the fund above the discount rate	(29,753)
Amount paid	<u>(48,637)</u>
Book value at December 31, 2018	979,892
Employee contribution	1,247
Net income of the fund:	
Income from assets using discount rate	9,804
Income of the fund above the discount rate	37,995
Amount paid	<u>(30,549)</u>
Book value at June 30, 2019	<u>998,389</u>

The rates of return of the Pension Fund as at June 30, 2019 and December 31, 2018, amounted to 4.92% and (0.98%), respectively.

The investments and allocation policy of the BST Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

The investment policy of the BST Pension Fund in force provides for the following limits:

<u>Asset Class</u>	<u>Intervals foreseen</u>
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

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As at June 30, 2019, and December 31, 2018, the composition of the BST Pension Fund was as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Debt instruments:		
Rating A	57,732	26,262
Rating BBB	423,477	407,452
Rating BB	11,813	14,055
Without rating to the issuance and issuer	52,166	53,931
Real estate funds	142,294	154,781
Mutual funds	210,341	175,316
Deposits	34,472	68,387
Real estate		
Commercial spaces	19,883	21,313
Land	844	844
Equity instruments:		
Portuguese shares – listed	190	161
Portuguese shares – not listed	33,819	34,030
Derivative financial instruments - Listed Options	(2,379)	2,288
Other	13,737	21,072
	<u>998,389</u>	<u>979,892</u>

As at June 30, 2019, and December 31, 2018, the method for the determination of the fair value of the assets and liabilities mentioned above adopted by the Bank's Pension Fund Management Company, as recommended in IFRS 13 (Note 41), was as follows:

	30-06-2019				31-12-2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	493,022	-	52,166	545,188	447,769	-	53,931	501,700
Investment Funds	185,977	-	166,658	352,635	164,181	-	165,916	330,097
Equity instruments	34,009	-	-	34,009	34,191	-	-	34,191
Derivative financial instruments	(2,379)	-	-	(2,379)	2,288	-	-	2,288
Real estate	-	-	20,727	20,727	-	-	22,157	22,157
	<u>710,629</u>	<u>-</u>	<u>239,551</u>	<u>950,180</u>	<u>648,429</u>	<u>-</u>	<u>242,004</u>	<u>890,433</u>

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As at June 30, 2019, and December 31, 2018, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Rented properties	13,875	14,841
Securities (including units in funds managed)	167,960	151,881
	-----	-----
	181,835	166,722
	=====	=====

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In the first halves of 2019 and in 2018 the premium paid by the Bank amounted to €291k.

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 June 30, 2019, and December 31, 2018, 85 and 88 employees, respectively, were covered by this plan.

Defined benefit pension plan – London Branch

As at December 31, 2018, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of BST's London Branch were as follows:

Mortality table	AMC00/AFC00
Technical actuarial rate (discount rate)	2.7%
Wage growth rate	2.5%
Pension growth rate	2.0%
Inflation rate	2.5%

As at December 31, 2018, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

Estimated liabilities for past-services	44,509
Coverage – Pension Fund asset value	38,891
Amount not funded – London Branch	-----
	(5,618)
	=====

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With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2018 is as follows:

Liabilities as at December 31, 2017	47,440
Cost of current services	163
Interest cost	1,120
Actuarial gains	(3,327)
Amounts paid	(887)
Liabilities as at December 31, 2018	44,509
	=====

Movement in the Pension Fund of the London Branch in 2018 was as follows:

Book value as at December 31, 2017	40,711
Net income of the Fund:	
Return on assets calculated with the discount rate	960
Income of the Fund below the discount rate	(2,030)
Contribution of the Branch	137
Amounts paid	(887)
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 is as follows:

Cost of current services	163
Interest cost	1,120
Return on assets calculated using a rate equal to the discount rate	(960)

	323
	===

Movement under actuarial deviations of the London Branch in 2018 was as follows:

Balance as at December 31, 2017	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030

Balance as at December 31, 2018 (Note 19)	12,109
	=====

As at December 31, 2018, the portfolio of the Pension Fund of the London Branch include the following

assets:

Debt instruments	20,908
Equity instruments	1,773
Other instruments	16,025
Deposits	185

Fund value	38,891
	=====

Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, retirees, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested of the Insurance and Pension Funds Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by Insurance and Pension Funds Supervisory Authority.

Banif employees were covered by different types of pension plans:

- a) The first pension plan, defined-benefit, was subdivided between the Banif population and the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – Banif subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS, the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.
- b) Defined-benefit pension plan I– former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

- c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the

evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

- d) Pension plan III contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or rescinded by the date of entry into force of the Company Agreement.

The Bank assumed Banif's liabilities in the three pension plans. As at December 31, 2018, the population covered is as follows:

	31-12-2018		
	Subpopulation of former Banif	Subpopulation of former BBKA	Total
Current employees	727	174	901
Retired staff and pensioners	96	161	257
Early retired staff	10	171	181
Formes participants with vested rights	-	69	69
Retired of the defined contribution plan	175	-	175
Total number	1,008	575	1,583

Pension Plan's defined contribution - employees covered

	31-12-2018
Plan II	470
Plan III	257
Total number	727

The breakdown of the estimated liabilities for past services as at December 31, 2018, using the Bank's assumptions, was as follows for the defined-benefit pension plan (considering both the Banif and the

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former BBKA subpopulations):

	31-12-2018				
	Liabilities				
	Healthcare				Total
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	
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)

As at December 31, 2018, the portfolio of the former Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

Asset	31-12-2018	
	Total	Relative Weight
Debt Instruments	64,385	62.49%
Securities investment funds	7,908	7.68%
Real estate fund	1,946	1.89%
Real estate properties	13,744	13.34%
Equity instruments	6,665	6.47%
Deposits	6,111	5.93%
Other	2,266	2.20%
	103,025	
Assets to be transferred	(2,384)	
	100,641	

The value of the assets to be transferred corresponds to the amount of the assets of the Pension Fund's portfolio to be allocated to the coverage of the liabilities relating to Banif employees who were not transferred to the Bank.

Pension Fund – BAPOP

Following the acquisition/merger of BAPOP on December 27, 2017, the Bank took over its Pension Fund in its entirety. The BAPOP the pension plan is a defined-benefit plan that provides the benefits laid down in the CBA. 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.

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As at June 30, 2019, and December 31, 2018, the population covered is as follows:

	<u>30-06-2019</u>	<u>31-12-2018</u>
Current employees	894	929
Retired staff and pensioners	110	138
Early retired staff	30	23
Former employees (management)	2	2
Former employees	1,165	1,165
Total	<u>2,201</u>	<u>2,257</u>

The breakdown of the estimated liabilities for past services as at June 30, 2018, and December 31, 2018, using the Bank assumptions, is as follows:

	<u>30-06-2019</u>			<u>31-12-2018</u>		
	SAMS and Death			SAMS and Death		
	Pensions	subsidy	Total	Pensions	subsidy	Total
Current employees	49,354	6,928	56,282	49,183	6,804	55,987
Retired staff and pensioners	52,436	2,487	54,923	57,755	2,529	60,284
Early retired staff	14,716	818	15,534	12,352	663	13,015
Former employees (management)	2,522	44	2,566	2,718	43	2,761
Former employees	31,064	-	31,064	31,064	-	31,064
Total liabilities for past services	<u>150,092</u>	<u>10,277</u>	<u>160,369</u>	<u>153,072</u>	<u>10,039</u>	<u>163,111</u>
Book value of the pension fund			170,765			163,475
Over financing			<u>10,396</u>			<u>364</u>

As at June 30, 2019, and December 31, 2018, the breakdown of the BAPOP Pension Fund by type of asset is as follows:

Asset	<u>30-06-2019</u>		<u>31-12-2018</u>	
	Total	Relative weight	Total	Relative weight
Debt instruments	104,439	61.16%	83,324	50.97%
Participation units	59,496	34.84%	57,519	35.19%
Deposits and other	6,830	4.00%	22,632	13.84%
	<u>170,765</u>		<u>163,475</u>	

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.

39. 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 Navegador – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegador). BST continues manage the loan contracts, delivering to Hipototta Funds (nº 4 and nº 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegador.

As a form of funding, Hipototta Funds (nº 4 and nº 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta (nº 4 and nº 5) PLC delivered all amounts received from BST and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

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.

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As at June 30, 2019, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	Fitch				Up to early redemption date	After early redemption date
Class A	2,616,040	521,650	A		September 2048	December 2014	Euribor 3 month + 0,12%	Euribor 3 month + 0,24%
Class B	44,240	18,978	A		September 2048	December 2014	Euribor 3 month + 0,19%	Euribor 3 month + 0,40%
Class C	139,720	59,936	BB-		September 2048	December 2014	Euribor 3 month + 0,29%	Euribor 3 month + 0,58%
	<u>2,800,000</u>	<u>600,564</u>						
Class D	14,000	14,000	NR		September 2048	December 2014	Residual income of the securitized portfolio	
	<u>2,814,000</u>	<u>614,564</u>						

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 month + 0.05%	Euribor 3 month + 0.10%
Class A2	1,693,000	476,395	A	Aa3	February 2060	February 2014	Euribor 3 month + 0.13%	Euribor 3 month + 0.26%
Class B	26,000	26,000	A	Aa3	February 2060	February 2014	Euribor 3 month + 0.17%	Euribor 3 month + 0.34%
Class C	24,000	24,000	A	A1	February 2060	February 2014	Euribor 3 month + 0.24%	Euribor 3 month + 0.48%
Class D	26,000	26,000	A	Baa2	February 2060	February 2014	Euribor 3 month + 0.50%	Euribor 3 month + 1.00%
Class E	31,000	31,000	BBB	Ba2	February 2060	February 2014	Euribor 3 month + 1.75%	Euribor 3 month + 3.50%
	<u>2,000,000</u>	<u>583,395</u>						
Class F	10,000	6,000	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>589,395</u>						

The bonds issued by Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

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 nº 5 class F bonds constitute the last liability to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and service fee charged by BST, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta nº 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. "Swap Agreements" were also concluded between the Santander Group and securitisation vehicles and between the Bank and the Santander Group intended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Azor Mortgage nº 1

Operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, SA) were ceded. The ceded loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	Fitch	Moody's		Up to early redemption date
Class A	253,000	-	AA	A1	September 2047	Euribor 3 month + 0,3%
Class B	19,000	18,099	AA	A1	September 2047	Euribor 3 month + 0,76%
Class C	9,000	9,000	BBB	A3	September 2047	Euribor 3 month + 1,75%
	<u>281,000</u>	<u>27,099</u>				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	<u>291,000</u>	<u>37,099</u>				

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.

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Atlantes Mortgage nº 2						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Inicial	Current	S&P	Fitch		Up to early redemption date
Class A	349,100	117,811	AA	AA	September 2060	Euribor 3 month + 0,33%
Class B	18,400	13,817	A	A+	September 2060	Euribor 3 month + 0,95%
Class C	7,500	5,632	BBB	BBB+	September 2060	Euribor 3 month + 1,65%
	<u>375,000</u>	<u>137,260</u>				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	<u>391,125</u>	<u>153,385</u>				

Azor Mortgage nº 2

Operation carried out in July 2008, when the mortgage loans originated at the former BBKA were ceded to Gamma STC. To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Inicial	Current	S&P	Fitch		Up to early redemption date
Class A	253,500	91,046	AA (sf)	A (sf)	December 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,8%
	<u>300,000</u>	<u>134,126</u>				
Class C	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	<u>306,750</u>	<u>140,876</u>				

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
	Inicial	Current	S&P	Fitch		Up to early redemption date
Class A	558,600	201,889	AA	AA (sf)	August 2061	Euribor 3 month + 0,2%
Class B	41,400	28,953	NR	NR	August 2061	Euribor 3 month + 0,5%
	<u>600,000</u>	<u>230,842</u>				
Class C	57,668	51,061	NR	NR	August 2061	Residual income of the securitized portfolio
	<u>657,668</u>	<u>281,903</u>				

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Atlantes Mortgage nº 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Inicial	Current	S&P	Fitch		Up to early redeption date
Class A	514,250	228,614	AA (sf)	AA	December 2064	Euribor 3 month + 0,15%
Class B	35,750	25,176	NR	NR	December 2064	Euribor 3 month + 0,3%
	<u>550,000</u>	<u>253,790</u>				
Class C	74,250	69,381	NR	NR	December 2064	Residual income of the securitized portfolio
	<u>624,250</u>	<u>323,171</u>				

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
	Inicial	Current	S&P	Fitch		Up to early redeption date
Class A	455,000	187,410	AA	AA	November 2068	Euribor 3 month + 0,15%
Class B	45,000	34,601	NR	NR	November 2068	Euribor 3 month + 0,3%
	<u>500,000</u>	<u>222,011</u>				
Class C	66,250	62,011	NR	NR	November 2068	Residual income of the securitized portfolio
	<u>566,250</u>	<u>284,022</u>				

Atlantes Mortgage nº 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 7, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Inicial	Current	S&P	Fitch		Up to early redeption date
Class A	357,300	148,446	AA-	AA	August 2066	Euribor 3 month + 0,15%
Class B	39,700	27,586	NR	NR	August 2066	Euribor 3 month + 0,3%
	<u>397,000</u>	<u>176,032</u>				
Class C	63,550	57,206	NR	NR	August 2066	Residual income of the securitized portfolio
	<u>460,550</u>	<u>233,238</u>				

Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

Hipototta 13						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Inicial	Current	S&P	Fitch		Up to early redeption date
Class A	1,716,000	1,358,300	NR	A+(sf)	October 2072	Euribor 3 m + 0,6%
Class B	484,000	484,000	NR	NR	October 2072	Euribor 3 m + 1%
	<u>2,200,000</u>	<u>1,842,300</u>				
Class C	66,000	56,920	NR	NR	October 2072	Residual income of the securitized portfolio
	<u>2,266,000</u>	<u>1,899,220</u>				
VFN	0.001	0.001	NR	NR	October 2072	No income

During the first half of 2019 the Atlantes Mortgage No. 1 operation was wound up.

40. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in the first half of 2019 are as follows:

Name of the related entity	Head office
<u>Entities that directly or indirectly control the Group</u>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<u>Entities under direct or indirect control by the Group</u>	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário - Novimovest	Portugal
Primestar Servicing	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
<u>Entities significantly influenced by the Group</u>	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
<u>Special Purpose Entities that are directly or indirectly controlled by the Group</u>	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitization operations managed by GAMMA, STC	Portugal

Name of the related entity	Head office
<u>Entities under direct or indirect common control by the group</u>	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam (Banco Popular España)	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Activos	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Thechnology, S.L.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Bank's related entities with which it maintained balances or transactions in 2018 are as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaube - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliário	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	Portugal
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Consulteam (Banco Popular España)	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingenieria de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Activos	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Global Thechnology, S.L.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

The composition of balances and transactions maintained during the six-month period ended June 30, 2019 and during 2018 with related parties was as follows:

	30-06-2019		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	34,617	-	764
Financial assets held for trading	152,816	-	14,996
Loans and advances to credit institutions	507,701	55,086	5,977
Credit granted and other balances receivable at amortized cost	9,157	1,923	37,904
Hedging derivatives	2,614	-	-
Investment in associated companies	-	57,473	-
Current Tax Assets	1	-	-
Other assets	7	5,203	17,879
Liabilities:			
Financial liabilities held for trading	1,106,229	-	13,171
Resources from other credit institutions	826,994	-	8,662
Resources of customers and other debts	93,115	15,624	656,230
Debt securities	53,082	-	-
Hedging derivatives	54,928	-	-
Subordinated liabilities	335,042	-	4,297
Current tax liabilities	65,443	-	-
Other liabilities	4,624	-	22,934
Costs:			
Interest charge	117,708	-	6,593
Charges with services and commissions	37	-	1,489
Results from assets and liabilities at fair value through profit or loss	308,450	-	75,449
Results from foreign exchange revaluation	1,823	-	-
General administrative costs	4,581	-	16,022
Income:			
Interest income	112,925	202	185
Income from services and commissions	234	157	31,336
Results from assets and liabilities at fair value through profit or loss	216,317	-	75,449
Results from foreign exchange revaluation	-	-	15
Result from associates	-	412	-
Other operating results	-	-	150
Off balance sheet items:			
Guarantees provided and other contingent liabilities	33,116	22	161,340
Guarantees received	1	-	162
Commitments to third parties	125,000	82	97,112
Currency operations and derivatives	23,901,027	-	487,937
Responsibilities for services rendered	3,628,031	-	5,526,116

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

	31-12-2018		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	91,713	-	6,633
Financial assets held for trading	162,071	-	11,289
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	15	60,145
Hedging derivatives	9,970	-	-
Investment in associated companies	-	61,481	-
Current Tax Assets	228	-	-
Other assets	3,482	-	18,429
Liabilities:			
Financial liabilities held for trading	1,197,394	-	2,762
Resources from other credit institutions	290,308	-	21,771
Resources of customers and other debts	61,399	4,048	517,822
Debt securities	63,824	-	-
Hedging derivatives	21,242	-	5,795
Subordinated liabilities	335,049	-	4,297
Current tax liabilities	10,404	-	-
Other liabilities	7,061	-	3,772
Costs:			
Interest charge	223,607	-	19,326
Charges with services and commissions	872	-	2,753
Results from assets and liabilities at fair value through profit or loss	586,111	-	195,805
Results from other financial assets at fair value through comprehensive income	1,318	-	-
General administrative costs	7,061	-	36,010
Other operating results	-	-	7,170
Impairment of investments in associates	-	65	-
Results from other assets	-	-	2,168
Income:			
Interest income	213,471	1,318	3,232
Income from services and commissions	409	283	64,864
Results from assets and liabilities at fair value through profit or loss	482,511	-	190,779
Results from foreign exchange revaluation	1,176	-	-
Disposal of other assets	1,756	-	-
Result from associates	-	7,188	-
Other operating results	-	-	793
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	79,452
Guarantees received	1	-	162
Commitments to third parties	110,000	29,500	105,718
Currency operations and derivatives	26,406,931	-	581,731
Responsibilities for services rendered	3,578,893	1,027	5,451,192

GOVERNING BODIES

Board of Directors

As at June 30, 2019, and December 31, 2018, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €502k and €533k, respectively. As at June 30, 2019, and December 31, 2018, fixed and variable remuneration totalled €4,121k and €9,549k, respectively.

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 June 30, 2019, and December 31, 2018, liabilities with this plan amounted to €13,926k and €24,721k, respectively, and were covered by a provision of the same amount carried under "Provisions for pensions and other charges" (Note 19).

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

41. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS**BALANCE SHEET***Categories of financial instruments*

As at June 30, 2019, and December 31, 2018, the carrying amount of financial instruments was as follows:

	30-06-2019				Net Value
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	
<u>Assets</u>					
Cash and deposits at central banks	-	2,159,813	245,324	-	2,405,137
Balances due from other banks		519,166	-	-	519,166
Financial assets held for trading	1,136,324	-	-	-	1,136,324
Other financial assets mandatory at fair value through profit or loss	164,391	-	-	-	164,391
Other financial assets at fair value through other comprehensive income	6,014,576	-	-	(3)	6,014,573
Loans and advances to credit institutions	-	833,080	-	(40)	833,040
Credit granted and other balances receivable at amortized cost	3,988,253	36,653,743	72,915	(963,773)	39,751,138
Hedging derivatives	91,856	-	-	-	91,856
	11,395,400	40,165,802	318,239	(963,816)	50,915,625
<u>Liabilities</u>					
Financial liabilities held for trading	1,149,393	-	-	-	1,149,393
Resources of central banks	-	3,043,848	-	-	3,043,848
Resources from other credit institutions	-	3,782,875	-	-	3,782,875
Resources of customers and other debts	175,056	35,401,981	-	-	35,577,037
Debt securities	-	3,768,357	-	-	3,768,357
Other liabilities	-	160,155	93,942	-	254,097
Hedging derivatives	376,489	-	-	-	376,489
	1,700,938	46,157,216	93,942	-	47,952,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	31-12-2018				Net Value
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	
<u>Assets</u>					
Cash and deposits at central banks	-	1,368,061	287,669	-	1,655,730
Balances due from other banks		845,003	-	-	845,003
Financial assets held for trading	1,215,956	-	-	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,246,160	-	-	(3)	5,246,157
Loans and advances to credit institutions	-	675,115	-	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,281,500	37,333,770	75,423	(1,108,584)	39,582,109
Hedging derivatives	73,464	-	-	-	73,464
	<u>9,993,958</u>	<u>40,221,949</u>	<u>363,092</u>	<u>(1,108,671)</u>	<u>49,470,328</u>
<u>Liabilities</u>					
Financial liabilities held for trading	1,242,475	-	-	-	1,242,475
Resources of central banks	-	3,050,040	-	-	3,050,040
Resources from other credit institutions	-	3,539,844	-	-	3,539,844
Resources of customers and other debts	359,471	33,578,286	-	-	33,937,757
Debt securities	-	4,611,944	-	-	4,611,944
Other liabilities	-	119,793	56,413	-	176,206
Hedging derivatives	90,556	-	-	-	90,556
	<u>1,692,502</u>	<u>44,899,907</u>	<u>56,413</u>	<u>-</u>	<u>46,648,822</u>

The credit extended and other receivables at amortised cost 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

In the first halves of 2019 and 2018, the breakdown of interest and commission income and expenses, determined in accordance with the effective interest-rate method, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	30-06-2019			30-06-2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Balances due from other banks	327	-	327	622	-	622
Other financial assets at fair value						
through other comprehensive income	61,734	-	61,734	55,848	-	55,848
Loans and advances to credit institutions	7,031	-	7,031	2,742	-	2,742
Credit granted and other balances receivable at amortized cost	388,338	(7)	388,331	419,311	(12)	419,299
	<u>457,430</u>	<u>(7)</u>	<u>457,423</u>	<u>478,523</u>	<u>(12)</u>	<u>478,511</u>
Liabilities						
Resources of central banks	-	-	-	-	(63)	(63)
Resources from other credit institutions	-	(3,127)	(3,127)	-	(2,031)	(2,031)
Resources of customers and other debts	-	(25,808)	(25,808)	-	(29,179)	(29,179)
Debt securities	-	(27,786)	(27,786)	-	(27,556)	(27,556)
	<u>-</u>	<u>(56,721)</u>	<u>(56,721)</u>	<u>-</u>	<u>(58,829)</u>	<u>(58,829)</u>
Guarantees given	9,452	-	9,452	10,445	-	10,445
Credit Lines	402	-	402	1,001	-	1,001

In the first halves of 2019 and 2018, the breakdown of commission income and costs, not included in the calculation of the effective interest rate, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	30-06-2019			30-06-2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Credit granted and other balances receivable at amortized cost	31,747	(6,868)	24,879	28,979	(8,124)	20,855
Liabilities						
Resources of customers and other debts	54,267	-	54,267	45,658	-	45,658

During the first halves of 2019 and 2018 the Bank recognised financial income in respect of Interest income on non-performing loans, or in situations of impairment, in the amounts of €3,437k and €4,239k, respectively (Note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

OTHER DISCLOSURES**Hedge accounting**

As at June 30, 2019, and December 31, 2018, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	30-06-2019					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,769,939	3,778,251	208,198	3,986,449	3,769,939	(221,998)
Other financial assets at fair value						
through other comprehensive income	2,080,000	2,117,355	43,477	2,160,832	2,080,000	(47,104)
Resources of customers and other debts	(173,562)	(173,931)	(1,125)	(175,056)	165,304	985
Cash flow hedge						
Other financial assets at fair value						
through other comprehensive income	900,000	900,000	-	900,000	983,263	(105,342)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	89,206
Resources of customers and other debts	102,564	102,564	-	102,564	102,564	(380)
	16,678,941	16,724,239	250,550	16,974,789	17,101,070	(284,633)
	31-12-2018					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,274,106	3,279,651	47,162	3,326,813	3,283,020	(55,944)
Other financial assets at fair value						
through other comprehensive income	80,000	89,046	1,295	90,341	80,000	(5,795)
Resources of customers and other debts	(358,688)	(359,471)	(2,345)	(361,816)	211,667	2,615
Cash flow hedge						
Other financial assets at fair value						
through other comprehensive income	850,000	850,000	-	850,000	935,913	(21,001)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	63,365
Resources of customers and other debts	351,421	351,421	-	351,421	351,421	(332)
	14,196,839	14,210,647	46,112	14,256,759	14,862,021	(17,092)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

Cash flow hedge

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period are as follows:

	30-06-2019					Total
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	
Interest rate swaps	(385)	-	25,587	63,624	-	88,826

	31-12-2018					Total
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	
Interest rate swaps	4,802	9,926	21,026	27,279	-	63,033

Gains and losses recognised in the income statements for first halves of 2019 and 2018, with fair-value hedge transactions, were as follows:

	30-06-2019			30-06-2018		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	161,036	(161,036)	-	8,695	(8,695)	-
Other financial assets at fair value through other comprehensive income	42,014	(42,014)	-	3,845	(3,845)	-
Resources of customers and other debts	1,274	(1,274)	-	2,504	(2,518)	(14)
	<u>204,324</u>	<u>(204,324)</u>	-	<u>15,044</u>	<u>(15,058)</u>	<u>(14)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
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Fair value of financial instruments

As at June 30, 2019, and December 31, 2018, the breakdown of financial instruments was as follows:

	30-06-2019			31-12-2018		
	Measured at fair value	Not measured at fair value	Total	Measured at fair value	Not measured at fair value	Total
<u>Assets</u>						
Cash and deposits at central banks	-	2,405,137	2,405,137	-	1,655,730	1,655,730
Balances due from other banks	-	519,166	519,166	-	845,003	845,003
Financial assets held for trading	1,136,324	-	1,136,324	1,215,956	-	1,215,956
Other financial assets at fair value through profit or loss	164,391	-	164,391	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	6,014,573	-	6,014,573	5,246,157	-	5,246,157
Loans and advances to credit institutions	-	833,040	833,040	-	675,031	675,031
Credit granted and other balances receivable at amortized cost	3,778,251	35,972,887	39,751,138	3,279,651	36,302,458	39,582,109
Hedging derivatives	91,856	-	91,856	73,464	-	73,464
	<u>11,185,395</u>	<u>39,730,230</u>	<u>50,915,625</u>	<u>9,992,106</u>	<u>39,478,222</u>	<u>49,470,328</u>
<u>Liabilities</u>						
Financial liabilities held for trading	1,149,393	-	1,149,393	1,242,475	-	1,242,475
Resources of central banks	-	3,043,848	3,043,848	-	3,050,040	3,050,040
Resources from other credit institutions	-	3,782,875	3,782,875	-	3,539,844	3,539,844
Resources of customers and other debts	173,931	35,403,106	35,577,037	359,471	33,578,286	33,937,757
Debt securities	-	3,768,357	3,768,357	-	4,611,944	4,611,944
Other liabilities	-	254,097	254,097	-	176,206	176,206
Hedging derivatives	376,489	-	376,489	90,556	-	90,556
	<u>1,699,813</u>	<u>46,252,283</u>	<u>47,952,096</u>	<u>1,692,502</u>	<u>44,956,320</u>	<u>46,648,822</u>

Financial assets and liabilities for which hedge accounting was applied were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2019, and December 31, 2018, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	30-06-2018				
	Acquisition cost	Accruals interest	Valuation	Impairment	Net book value
<u>Assets</u>					
Financial assets held for trading	2,500	-	1,133,824	-	1,136,324
Other financial assets mandatory at fair value through profit or loss	164,391	-	-	-	164,391
Other financial assets at fair value through other comprehensive income	5,195,151	61,417	758,008	(3)	6,014,573
Credit granted and other balances receivable at amortized cost	3,769,939	10,116	-	(1,804)	3,778,251
Hedging derivatives	-	-	91,856	-	91,856
	<u>9,131,981</u>	<u>71,533</u>	<u>1,983,688</u>	<u>(1,807)</u>	<u>11,185,395</u>
<u>Liabilities</u>					
Financial liabilities held for trading	-	-	1,149,393	-	1,149,393
Resources of customers and other debts	173,562	369	-	-	173,931
Hedging derivatives	-	-	376,489	-	376,489
	<u>173,562</u>	<u>369</u>	<u>1,525,882</u>	<u>-</u>	<u>1,699,813</u>
	31-12-2018				
	Acquisition cost	Accruals interest	Valuation	Impairment	Net book value
<u>Assets</u>					
Financial assets held for trading	2,500	-	1,213,456	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	-	176,878
Other financial assets at fair value through other comprehensive income	4,709,341	83,828	452,991	(3)	5,246,157
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
	<u>8,162,825</u>	<u>91,222</u>	<u>1,739,911</u>	<u>(1,852)</u>	<u>9,992,106</u>
<u>Liabilities</u>					
Financial liabilities held for trading	-	-	1,242,475	-	1,242,475
Resources of customers and other debts	358,688	783	-	-	359,471
Hedging derivatives	-	-	90,556	-	90,556
	<u>358,688</u>	<u>783</u>	<u>1,333,031</u>	<u>-</u>	<u>1,692,502</u>

To determine the fair value of financial instruments, the valuation methods consisted of obtaining prices on active markets or other valuation techniques, in particular through updating future cash flows.

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

As at June 30, 2019, and December 31, 2018, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by valuation methodology:

	30-06-2019			
	Methodology of determining fair value			
	Listed in			
	active markets (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
<u>Assets</u>				
Financial assets held for trading	-	1,132,945	3,379	1,136,324
Other financial assets at fair value through profit or loss	732	-	163,659	164,391
Other financial assets at fair value through other comprehensive income	3,765,479	2,234,938	14,156	6,014,573
Credit granted and other balances receivable at amortized cost	-	3,778,251	-	3,778,251
Hedging derivatives	-	91,856	-	91,856
	<u>3,766,211</u>	<u>7,237,990</u>	<u>181,194</u>	<u>11,185,395</u>
<u>Liabilities</u>				
Financial liabilities held for trading	-	1,149,393	-	1,149,393
Resources of customers and other debts	-	173,931	-	173,931
Hedging derivatives	-	376,489	-	376,489
	<u>-</u>	<u>1,699,813</u>	<u>-</u>	<u>1,699,813</u>
31-12-2018				
Methodology of determining fair value				
Listed in				
active markets (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total	
<u>Assets</u>				
Financial assets held for trading	-	1,212,577	3,379	1,215,956
Other financial assets at fair value through profit or loss	10,503	-	166,375	176,878
Other financial assets at fair value through other comprehensive income	3,098,805	2,136,790	10,562	5,246,157
Credit granted and other balances receivable at amortized cost	-	3,279,651	-	3,279,651
Hedging derivatives	-	73,464	-	73,464
	<u>3,109,308</u>	<u>6,702,482</u>	<u>180,316</u>	<u>9,992,106</u>
<u>Liabilities</u>				
Financial liabilities held for trading	-	1,242,475	-	1,242,475
Resources of customers and other debts	-	359,471	-	359,471
Hedging derivatives	-	90,556	-	90,556
	<u>-</u>	<u>1,692,502</u>	<u>-</u>	<u>1,692,502</u>

The valuation at fair value of the Bank's financial assets and liabilities comprises three levels under the terms of IFRS 7 and IFRS 13:

- Level 1 – Financial instruments carried at fair value based on prices published in active markets, comprising mainly public debt, some private debt, some investment funds and equities.
- Level 2 – Financial instruments carried at fair value through the use of prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed on the market, either directly (as prices) or indirectly (derived from prices). This category includes some securities of the portfolio of other financial assets at fair value through other comprehensive income measured as indicative market bids or based on internal valuation models and the whole of the derivative financial hedging and trading instruments. It should be pointed out that the internal valuation models used mainly involve future cash-flow updating models and valuation methods based on the Black-Scholes model for options and structured products. The future cash-flow updating models ("present value method") update the future contractual cash flows using the interest-rate curves of each currency observable on the market, increased by the credit spread of the issuer or of the entity with a similar rating.

The main valuation techniques for derivative financial instruments, are provided hereunder:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate swaps	Black-Scholes model, Heath-Jarrow-Morton model
Options-other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Bank calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments of financial assets held for trading and hedging derivatives from a standpoint of aggregate exposure by counterparty. In this, the evolution is simulated of the joint exposure of all derivatives with given counterparty, through stochastic processes. This evolution is grouped into time periods that represent the future positive and negative expected future exposures. An expected loss factor and the discount factor of the respective term are applied to these exposures. The CVA and DVA determined for each counterparty thus result from the sum of the expected losses in each term.

Additionally, for the purposes of determination of the Credit Value Adjustments and of the Debit Value Adjustments to the derivative financial instruments, the following inputs were used:

- Counterparties with credit default swaps listed on active markets;
- Counterparties without listed credit default swaps:
 - Prices published on active markets for similar-risk counterparties; or

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- 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 the first half of 2019 and in 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	Other financial assets mandatory at fair value through comprehensive income - for sale	Total
December 31, 2018	3,379	166,375	10,562	-	180,316
First implementation of IFRS9	-	-	-	-	-
Acquisitions	-	66	3,608	-	3,674
Sales	-	-	(2,819)	-	(2,819)
Reimbursements	-	(2,516)	(581)	-	(3,097)
Reclassifications	-	-	3,100	-	3,100
Changes in fair value	-	(266)	289	-	23
Impairment recognized in the year	-	-	(3)	-	(3)
June 30, 2019	3,379	163,659	14,156	-	181,194

The interest-rate curves for the most representative maturities and currencies used in the valuation of the financial instruments were as follows:

	30-06-2019		31-12-2018	
	EUR	USD	EUR	USD
Overnight	-0.21%	2.50%	-0.25%	2.75%
1 month	-0.21%	2.50%	-0.25%	2.76%
3 months	-0.25%	2.32%	-0.24%	2.76%
6 months	-0.31%	2.15%	-0.24%	2.74%
9 months	-0.34%	2.07%	-0.23%	2.73%
1 year	-0.36%	1.98%	-0.23%	2.73%
3 years	-0.36%	1.71%	-0.07%	2.60%
5 years	-0.23%	1.73%	0.20%	2.61%
7 years	-0.07%	1.81%	0.47%	2.66%
10 years	0.18%	1.94%	0.81%	2.75%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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As at June 30, 2019, and December 31, 2018, the carrying amount and fair value of the financial instruments measured at amortised cost was as follows:

	30-06-2019		
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	2,405,137	2,430,023	24,886
Balances due from other banks	519,166	519,166	-
Loans and advances to credit institutions	833,040	833,063	23
Credit granted and other balances receivable at amortized cost	35,972,887	36,749,288	776,401
	<u>39,730,230</u>	<u>40,531,540</u>	<u>801,310</u>
<u>Liabilities</u>			
Resources from central banks	(3,043,848)	(3,042,173)	1,675
Resources from other credit institutions	(3,782,875)	(3,789,109)	(6,234)
Resources from customers and other debts	(35,403,106)	(35,418,998)	(15,892)
Debt securities	(3,768,357)	(3,905,349)	(136,992)
Other liabilities	(254,097)	(254,097)	-
	<u>(46,252,283)</u>	<u>(46,409,726)</u>	<u>(157,443)</u>
	31-12-2018		
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	1,655,730	1,640,365	(15,365)
Balances due from other banks	845,003	845,003	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,302,458	35,954,166	(348,292)
	<u>39,478,222</u>	<u>39,115,105</u>	<u>(363,117)</u>
<u>Liabilities</u>			
Resources of central banks	(3,050,040)	(3,038,968)	11,072
Resources from other credit institutions	(3,539,844)	(3,544,490)	(4,646)
Resources of customers and other debts	(33,578,286)	(33,599,176)	(20,890)
Debt securities	(4,611,944)	(4,614,850)	(2,906)
Other liabilities	(176,206)	(176,206)	-
	<u>(44,956,320)</u>	<u>(44,973,690)</u>	<u>(17,370)</u>

To determine the fair value of financial instruments carried at amortised cost or historical cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

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As at June 30, 2019, and December 31, 2019, details of the valuation methods used to determine the carrying amount of financial instruments measured at amortised cost or historical cost are as follows:

	30-06-2019			
	Methodology for determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<u>Assets</u>				
Cash and deposits at central banks	-	2,430,023	-	2,430,023
Balances due from other banks	-	519,166	-	519,166
Loans and advances to credit institutions	-	833,063	-	833,063
Credit granted and other balances receivable at amortized cost	-	710,906	36,038,382	36,749,288
	-	4,493,158	36,038,382	40,531,540
<u>Liabilities</u>				
Resources of central banks	-	(3,042,173)	-	(3,042,173)
Resources from other credit institutions	-	(3,789,109)	-	(3,789,109)
Resources of customers and other debts	-	-	(35,418,998)	(35,418,998)
Debt securities	-	(3,905,349)	-	(3,905,349)
Other liabilities	-	(254,097)	-	(254,097)
	-	(10,990,728)	(35,418,998)	(46,409,726)
	31-12-2018			
	Methodology for determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<u>Assets</u>				
Cash and deposits at central banks	-	1,640,365	-	1,640,365
Balances due from other banks	-	845,003	-	845,003
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	497,136	35,457,030	35,954,166
	-	3,658,075	35,457,030	39,115,105
<u>Liabilities</u>				
Resources of central banks	-	(3,038,968)	-	(3,038,968)
Resources from other credit institutions	-	(3,544,490)	-	(3,544,490)
Resources of customers and other debts	-	-	(33,599,176)	(33,599,176)
Debt securities	-	(4,614,850)	-	(4,614,850)
Other liabilities	-	-	(176,206)	(176,206)
	-	(11,198,308)	(33,775,382)	(44,973,690)

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 period;
- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last quarter of the period were used, taking into account the various types;
- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the end of the period;
- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

RISK MANAGEMENT

CREDIT RISK

Credit risk management at the Bank covers the identification, measurement, integration and evaluation of the various credit exposures and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint and within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, by segmentation of the credit risk in the light of the characteristics of the customers and of the products, and by the scoring systems (applicable to mortgage-loan and consumer-credit operations, credit cards and business) and the rating used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

The risk in derivative positions (called Credit Risk Equivalent) is calculated as the sum of the present value of each contract (or current replacement cost) with the respective Potential Risk, a component that reflects

an estimate of the maximum value expected to maturity, depending on the volatilities of the underlying market factors and flow structure contracted. The credit risk in derivatives positions is captured through determination of the CVA/DVA.

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, is underlaid by the degree of risk inherent in the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis.

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:

<u>Department</u>	<u>Weighting</u>
. Demand/Market;	20%
. Partners/Management:	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
. Solvency.	15%

The rating is calculated by the analysts, based on information provided by the customer, general information on the sector and external databases. The final rating is introduced in each of the valuation areas in the Bank's information technology system.

In this way, the Bank's internal rating system can be described as follows:

Rating 1.0 – 3.9: Customer of high-default probability;

Rating 4.0 – 6.0: Customer of moderate-default probability;

Rating 6.1 – 9.3: Customer of low-default probability;

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As at June 30, 2019, and December 31, 2018, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	30-06-2019		31-12-2018	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	2,405,137	2,405,137	1,655,730	1,655,730
Balances due from other banks	519,166	519,166	845,003	845,003
Financial assets held for trading	1,136,324	1,136,324	1,215,956	1,215,956
Other financial assets mandatory at fair value through profit or loss	164,391	164,391	176,878	179,978
Other financial assets at amortized cost through other comprehensive income	6,014,573	6,014,573	5,246,157	5,246,157
Loans and advances to credit institutions	833,040	833,040	675,031	675,031
Credit granted and other balances receivable at amortized cost	39,751,138	45,727,406	39,582,109	45,924,886
Hedging derivatives	91,856	91,856	73,464	73,464
Investment in associated companies	57,473	57,473	61,481	61,481
	<u>50,973,099</u>	<u>56,949,367</u>	<u>49,531,809</u>	<u>55,877,686</u>
Guarantees provided	<u>1,927,449</u>	<u>1,927,449</u>	<u>1,956,508</u>	<u>1,956,508</u>

The maximum exposure in "Loans granted and other balances receivable at amortised cost as at June 30, 2019, included €772,723k and €5,203,545k relating to irrevocable credit lines and revocable credit lines, (€1,035,032k and €5,307,745k as at December 31, 2018, respectively).

In accordance with the requirements set out in Bank of Portugal Instruction nº 4/2018, the Bank began to publish Non Performing Exposures and Deferred Exposures.

In this sense, as at June 30, 2019, and December 31, 2018, the breakdown of performing and non-performing exposures was as follows:

	30-06-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	39,016,359	(148,501)	0.4%	38,655,290	(175,341)	0.5%
Non-performing exposures						
Loans represented by securities	-	-		619	(494)	79.8%
Households	491,136	(197,645)	40.2%	601,095	(233,314)	38.8%
Corporates	1,207,416	(617,627)	51.2%	1,433,689	(699,435)	48.8%
	<u>1,698,552</u>	<u>(815,272)</u>		<u>2,035,403</u>	<u>(933,243)</u>	
	<u>40,714,911</u>	<u>(963,773)</u>		<u>40,690,693</u>	<u>(1,108,584)</u>	

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As at June 30, 2019, and December 31, 2018, the degree of cover of the non-performing exposures by real guarantees was as follows:

	30-06-2019			31-12-2018		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
. Loans represented by securities	-	-	-	619	-	-
. Households	491,136	253,586	51.6%	601,095	319,151	53.1%
. Corporates	1,207,416	337,326	27.9%	1,433,689	381,567	26.6%
	<u>1,698,552</u>	<u>590,912</u>		<u>2,035,403</u>	<u>700,718</u>	

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 June 30, 2019, and December 31, 2018, the breakdown of deferred exposures is as follows:

	30-06-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	718,424	(30,963)	4.3%	866,312	(39,221)	4.5%
Non-performing exposures						
Households	316,085	(125,944)	39.8%	378,604	(139,785)	36.9%
Corporates	926,242	(478,066)	51.6%	1,048,822	(517,521)	49.3%
	<u>1,242,327</u>	<u>(604,010)</u>		<u>1,427,426</u>	<u>(657,306)</u>	
	<u>1,960,751</u>	<u>(634,973)</u>		<u>2,293,738</u>	<u>(696,527)</u>	

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial, Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

As at June 30, 2019, and December 31, 2018, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	30-06-2019							Total
	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	
Assets								
Cash and deposits at central banks	245,325	-	-	-	2,159,812	-	-	2,405,137
Balances due from other banks	592,080	-	-	-	-	-	-	592,080
Financial assets held for trading	1,136,324	-	-	-	-	-	-	1,136,324
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	-	164,391	164,391
Other financial assets at fair value through other comprehensive income	2	2,878	1,033,822	222,743	241,215	4,367,782	80,514	5,948,956
Loans and advances to credit institutions	99,173	(592)	44,176	655,017	(18,304)	21,065	-	800,535
Credit granted and other balances receivable at amortized cost	434,535	2,814,143	4,695,975	8,866,250	6,038,951	22,421,178	-	45,271,032
Hedging derivatives	91,856	-	-	-	-	-	-	91,856
Investment in associated companies	-	-	-	-	-	-	59,391	59,391
	2,599,296	2,816,429	5,773,973	9,744,010	8,421,674	26,810,025	304,296	56,469,703
Liabilities								
Financial liabilities held for trading	1,149,393	-	-	-	-	-	-	1,149,393
Resources from central banks	4,519	-	2,406,429	618,686	-	-	-	3,029,634
Resources from other credit institutions	656,812	1,334,675	640,192	352,266	499,859	300,000	-	3,783,804
Resources from customers and other debts	17,068,667	6,380,105	7,928,896	3,251,514	978,692	3,135	-	35,611,009
Debt securities	-	40,842	104,048	1,028,660	1,285,378	1,780,683	-	4,239,611
Other liabilities	254,097	-	-	-	-	-	-	254,097
Hedging derivatives	376,489	-	-	-	-	-	-	376,489
	19,509,977	7,755,622	11,079,565	5,251,126	2,763,929	2,083,818	-	48,444,037

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

	31-12-2018							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	287,669	-	-	-	1,368,061	-	-	1,655,730
Balances due from other banks	845,003	-	-	-	-	-	-	845,003
Financial assets held for trading	1,215,956	-	-	-	-	-	-	1,215,956
Other financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	176,878	176,878
Other financial assets at fair value through other comprehensive income	2	474,354	568,589	205,728	227,222	4,056,132	82,825	5,614,852
Loans and advances to credit institutions	93,029	4,663	114,770	440,916	28	21,199	-	674,605
Credit granted and other balances receivable at amortized cost	144,638	2,585,775	4,673,292	9,208,935	5,884,763	22,278,643	-	44,776,046
Hedging derivatives	73,464	-	-	-	-	-	-	73,464
Investments in associates	-	-	-	-	-	-	63,399	63,399
	2,659,761	3,064,792	5,356,651	9,855,579	7,480,074	26,355,974	323,102	55,095,933
Liabilities								
Financial liabilities held for trading	1,242,475	-	-	-	-	-	-	1,242,475
Resources of central banks	4,517	-	-	3,025,116	-	-	-	3,029,633
Resources of other credit institutions	499,400	1,316,413	575,107	352,944	499,809	300,000	-	3,543,673
Resources of customers and other debts	15,729,416	6,233,232	8,169,095	3,400,782	494,453	1,929	-	34,028,907
Debt securities	-	9,528	822,353	863,699	139,172	3,287,249	-	5,122,001
	176,206	-	-	-	-	-	-	176,206
Hedging derivatives	90,556	-	-	-	-	-	-	90,556
	17,742,570	7,559,173	9,566,555	7,642,541	1,133,434	3,589,178	-	47,233,451

Determination of the projected cash flow was based on the principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;
- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Other financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as other financial assets at fair value through other comprehensive income), other financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of trading assets and liabilities as the transactional value payable on demand;
- Operations relating to credit lines with defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;
- For the subordinated liabilities the date on which the Bank may make early redemption of the bonds that make up this heading was considered;
- The projected flows relating to current accounts have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The VaR calculated is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions, within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For abnormal market conditions scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of probability of occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate use is made of the basis point value (BPV) – estimated impact in profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the underlying price (delta and gamma), volatility (vega) and time (theta).

Quantitative limits are used for the trading portfolios, which are classified in two groups, in the light of the following objectives:

- Limits intended to control the volume of potential future losses (VaR, equivalent positions and sensitivities); and
- Limits intended to control the volume of effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

With regard to the structural interest-rate risk, they are measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the Bank's equity. Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019
(Expressed in thousands of euros, except where otherwise stated)

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 June 30, 2018, and December 31, 2018, the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	30-06-2018				
	Exposure to		No exposure to		Total
	Fixed rate	Floating rate	interest rate risk	Derivatives	
<u>Assets</u>					
Cash and deposits at central banks	-	2,159,813	245,324	-	2,405,137
Balances due from other banks	-	-	519,166	-	519,166
Financial assets held for trading	-	-	3,379	1,132,945	1,136,324
Other financial assets mandatory at fair value through profit or loss	-	-	164,391	-	164,391
Other financial assets at fair value through other comprehensive income	5,114,636	-	899,937	-	6,014,573
Loans and advances to credit institutions	104,129	718,163	10,748	-	833,040
Credit granted and other balances receivable at amortized cost	8,381,612	31,406,734	(37,208)	-	39,751,138
Hedging derivatives	-	-	-	91,856	91,856
	<u>13,600,377</u>	<u>34,284,710</u>	<u>1,805,737</u>	<u>1,224,801</u>	<u>50,915,625</u>
<u>Liabilities</u>					
Financial liabilities held for trading	-	-	-	1,149,393	1,149,393
Resources from central banks	3,043,848	-	-	-	3,043,848
Resources from other credit institutions	129,405	3,653,153	317	-	3,782,875
Resources from customers and other debts	18,293,031	17,254,302	29,704	-	35,577,037
Debt securities	2,757,599	1,129,100	(118,342)	-	3,768,357
Other liabilities	-	-	254,097	-	254,097
Hedging derivatives	-	-	-	376,489	376,489
	<u>24,223,883</u>	<u>22,036,555</u>	<u>165,776</u>	<u>1,525,882</u>	<u>47,952,096</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	31-12-2018				
	Exposure to		No exposure to		Total
	Fixed rate	Floating rate	interest rate risk	Derivatives	
Assets					
Cash and deposits at central banks	-	1,368,061	287,669	-	1,655,730
Balances due from other banks	-	-	845,003	-	845,003
Financial assets held for trading	-	-	3,379	1,212,577	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	4,690,844	-	555,313	-	5,246,157
Loans and advances to credit institutions	102,310	562,642	10,079	-	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,075,865	173,530	-	39,582,109
Hedging derivatives	-	-	-	73,464	73,464
	<u>13,125,868</u>	<u>33,006,568</u>	<u>2,051,851</u>	<u>1,286,041</u>	<u>49,470,328</u>
Liabilities					
Financial liabilities held for trading	-	-	-	1,242,475	1,242,475
Resources of central banks	3,050,040	-	-	-	3,050,040
Resources of other credit institutions	153,057	3,386,601	186	-	3,539,844
Resources of customers and other debts	17,442,358	16,429,444	65,955	-	33,937,757
Debt securities	3,507,599	1,228,124	(73,779)	-	4,661,944
	-	-	176,206	-	176,206
Hedging derivatives	-	-	-	90,556	90,556
	<u>24,153,054</u>	<u>21,044,169</u>	<u>168,568</u>	<u>1,333,031</u>	<u>46,698,822</u>

Financial Instruments – non-trading

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;
- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;
- For each aggregate defined above the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and
- For each interval total flows of assets and liabilities are calculated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

As at June 30, 2019, and December 31, 2018, the sensitivity of the asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2019		31-12-2018	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
<u>Assets</u>				
Cash and deposits at central banks	(652)	29,343	577	54,845
Other financial assets mandatory at fair value through other comprehensive income	(339,336)	175,116	(321,428)	331,587
Loans and advances to credit institutions	(314)	1,437	(313)	702
Credit granted and other balances receivable at amortized cost	(855,399)	598,551	(742,446)	690,663
	<u>(1,195,701)</u>	<u>804,447</u>	<u>(1,063,610)</u>	<u>1,077,797</u>
Hedging derivatives	<u>193,775</u>	<u>(299,777)</u>	<u>(9,444)</u>	<u>(159,475)</u>
<u>Liabilities</u>				
Resources from central banks	(34,360)	4,727	(49,154)	15,495
Resources from other credit institutions	(17,055)	10,347	(9,095)	19,820
Resources from customers and other debts	(977,353)	363,583	(823,399)	654,418
Debt securities	(149,210)	68,564	(158,567)	144,213
	<u>(1,177,978)</u>	<u>447,221</u>	<u>(1,040,215)</u>	<u>833,946</u>

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.
- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). 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 June 30, 2019, and December 31, 2018, the VaR associated with the interest-rate risk corresponded to:

	<u>30-06-2019</u>	<u>31-12-2018</u>
VaR Percentil 99%	-	-
VaR Weighted Percentil 99%	-	-

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

As at June 30, 2019, and December 31, 2018, the detail of the financial instruments by currency was as follows:

	30-06-2019			Total
	Euros	US Dollars	Other currencies	
Assets				
Cash and deposits at central banks	2,390,465	6,510	8,162	2,405,137
Balances due from other banks	198,640	188,197	132,329	519,166
Financial assets held for trading	1,134,244	1,813	267	1,136,324
Other financial assets mandatory at fair value through profit or loss	164,391	-	-	164,391
Other financial assets at fair value through other comprehensive income	6,014,573	-	-	6,014,573
Loans and advances to credit institutions	738,878	43,954	50,208	833,040
Credit granted and other balances receivable at amortized cost	39,112,645	475,885	162,608	39,751,138
Hedging derivatives	91,298	558	-	91,856
Investments in associates	57,473	-	-	57,473
	<u>49,902,607</u>	<u>716,917</u>	<u>353,574</u>	<u>50,973,098</u>
Liabilities				
Financial liabilities held for trading	1,147,316	1,812	265	1,149,393
Resources from central banks	3,043,848	-	-	3,043,848
Resources from other credit institutions	3,694,736	87,831	308	3,782,875
Resources from customers and other debts	33,969,114	1,352,133	255,790	35,577,037
Debt securities	3,758,357	-	-	3,758,357
Other liabilities	254,097	-	-	254,097
Hedging derivatives	375,112	1,108	269	376,489
	<u>46,242,580</u>	<u>1,442,884</u>	<u>256,632</u>	<u>47,942,096</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

	31-12-2018			Total
	Euros	US Dollars	Other currencies	
Assets				
Cash and deposits at central banks	1,648,952	2,785	3,993	1,655,730
Balances due from other banks	415,917	277,247	151,839	845,003
Financial assets held for trading	1,214,425	1,518	13	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,246,157	-	-	5,246,157
Loans and advances to credit institutions	608,706	17	66,308	675,031
Credit granted and other balances receivable at amortized cost	38,935,530	614,968	31,611	39,582,109
Hedging derivatives	67,718	5,746	-	73,464
Investments in associates	61,481	-	-	61,481
	<u>48,375,764</u>	<u>902,281</u>	<u>253,764</u>	<u>49,531,809</u>
Liabilities				
Financial liabilities held for trading	1,240,954	1,520	1	1,242,475
Resources of central banks	3,050,040	-	-	3,050,040
Resources of other credit institutions	3,411,006	128,496	342	3,539,844
Resources of customers and other debts	32,379,754	1,333,833	224,170	33,937,757
Debt securities	4,661,944	-	-	4,661,944
Other liabilities	176,206	-	-	176,206
Hedging derivatives	88,714	1,728	114	90,556
	<u>45,008,618</u>	<u>1,465,577</u>	<u>224,627</u>	<u>46,698,822</u>

As at June 30, 2019, and December 31, 2018, the VaR associated with the exchange-rate risk corresponded to:

	30-06-2019	31-12-2018
VaR Percentil 99%	(3)	(3)
VaR Weighted Percentil 99%	(1)	(3)

Asset price riskFinancial Instruments – trading

As at June 30, 2019, and December 31, 2018, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 24, 2019.

43. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, SA

DEBT SECURITIES AS AT JUNE 30, 2019 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued			Accrual	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet						
Covered Bonds										
Hipotecária XIV	EUR	750,000	750,000	-	-	-	0.75%	04 March 2015	04 March 2022	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	(3,876)	746,124	0.88%	27 October 2015	27 October 2020	Fixed interest rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	0.84%	24 February 2016	24 February 2022	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	0.90%	15 April 2016	15 April 2023	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	0.65%	26 July 2016	26 July 2023	Fixed interest rate
Hipotecárias XX	EUR	750,000	750,000	-	-	-	1.20%	07 December 2017	07 December 2027	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	1.48%	10 April 2017	10 April 2027	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(5,819)	994,181	0.88%	25 April 2017	25 April 2024	Fixed interest rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(190)	999,810	1.25%	26 September 2017	26 September 2027	Fixed interest rate
		6,950,000	4,200,000	2,750,000	(9,885)	2,740,115				
Bonds issued on securitization operations										
Hipototta 4 - Class A - Notes	EUR	521,650	381,740	139,910	(459)	139,451	Floating	09 December 2005	30 December 2048	Euribor 3m+0,12% (up to early redemption date in December 2014); Euribor 3m+0,24% (After early redemption date)
Hipototta 4 - Class B - Notes	EUR	18,978	18,978	-	-	-	Floating	09 December 2005	30 December 2048	Euribor 3m+0,19% (up to early redemption date in December 2014); Euribor 3m+0,40% (After early redemption date)
Hipototta 4 - Class C - Notes	EUR	59,936	59,936	-	-	-	Floating	09 December 2005	30 December 2048	Euribor 3m+0,29% (up to early redemption date in December 2014); Euribor 3m+0,58% (After early redemption date)
Hipototta 4 - Class D - Notes	EUR	14,000	14,000	-	-	-	Floating	09 December 2005	30 December 2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	476,395	336,093	140,302	(205)	140,097	Floating	22 March 2007	28 February 2060	Euribor 3m+0,13% (up to early redemption date in February 2014); Euribor 3m+0,26% (After early redemption date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+0,17% (up to early redemption date in February 2014); Euribor 3m+0,34% (After early redemption date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	Floating	16 March 2007	28 February 2060	Euribor 3m+0,24% (up to early redemption date in February 2014); Euribor 3m+0,48% (After early redemption date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+0,50% (up to early redemption date in February 2014); Euribor 3m+1,00% (After early redemption date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+1,75% (up to early redemption date in February 2014); Euribor 3m+3,50% (After early redemption date)
Hipototta 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	Floating	22 March 2007	28 February 2060	Residual return generated by securitized portfolio

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DEBT SECURITIES AS AT JUNE 30, 2019 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued			Accrual	Total		Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet		Consolidated Balance sheet					
Azor Mortgage PLC class A	EUR	-	-	-	-	-	Floating	25 November 2004	20 September 2047	Euribor 3m + 0,30%	
Azor Mortgage PLC class B	EUR	18,099	953	17,146	204	17,350	Floating	25 November 2004	20 September 2047	Euribor 3m + 0,76%	
Azor Mortgage PLC class C	EUR	9,000	2,500	6,500	254	6,754	Floating	25 November 2004	20 September 2047	Euribor 3m + 1,75%	
Azor Mortgage PLC class D	EUR	10,000	10,000	-	-	-	Floating	25 November 2004	20 September 2047	Residual return generated by securitized portfolio	
Atlantes Mortgage PLC serie 2 - A	EUR	117,811	-	117,811	(15,574)	102,237	Floating	05 March 2008	18 September 2060	Euribor 3m + 0,33%	
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	Floating	05 March 2008	18 September 2060	Euribor 3m + 0,95%	
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	Floating	05 March 2008	18 September 2060	Euribor 3m + 1,65%	
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	Floating	05 March 2008	18 September 2060	Residual return generated by securitized portfolio	
Azor Mortgage PLC serie 2 - A	EUR	91,046	91,046	-	-	-	Floating	24 July 2008	14 December 2065	Euribor 3m + 0,30%	
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	Floating	24 July 2008	14 December 2065	Euribor 3m + 0,8%	
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	Floating	24 July 2008	14 December 2065	Residual return generated by securitized portfolio	
Atlantes Mortgage PLC serie 3 - A	EUR	201,889	62,921	138,968	(11,164)	127,804	Floating	30 October 2008	20 August 2061	Euribor 3m + 0,20%	
Atlantes Mortgage PLC serie 3 - B	EUR	28,953	28,953	-	-	-	Floating	30 October 2008	20 August 2061	Euribor 3m + 0,50%	
Atlantes Mortgage PLC serie 3 - C	EUR	51,061	51,061	-	-	-	Floating	30 October 2008	20 August 2061	Residual return generated by securitized portfolio	
Atlantes Mortgage PLC serie 4 - A	EUR	228,614	-	228,614	(32,131)	196,483	Floating	16 February 2009	30 December 2064	Euribor 3m + 0,15%	
Atlantes Mortgage PLC serie 4 - B	EUR	25,176	25,176	-	-	-	Floating	16 February 2009	30 December 2064	Euribor 3m + 0,30%	
Atlantes Mortgage PLC serie 4 - C	EUR	69,381	69,381	-	-	-	Floating	16 February 2009	30 December 2064	Residual return generated by securitized portfolio	
Atlantes Mortgage PLC serie 5 - A	EUR	187,410	187,410	-	-	-	Floating	21 December 2009	23 November 2068	Euribor 3m + 0,15%	
Atlantes Mortgage PLC serie 5 - B	EUR	34,601	34,601	-	-	-	Floating	21 December 2009	23 November 2068	Euribor 3m + 0,30%	
Atlantes Mortgage PLC serie 5 - C	EUR	62,011	62,011	-	-	-	Floating	21 December 2009	23 November 2068	Residual return generated by securitized portfolio	
Atlantes Mortgage PLC serie 7 - A	EUR	148,446	148,446	-	-	-	Floating	19 November 2010	23 August 2066	Euribor 3m + 0,15%	
Atlantes Mortgage PLC serie 7 - B	EUR	27,586	27,586	-	-	-	Floating	19 November 2010	23 August 2066	Euribor 3m + 0,30%	
Atlantes Mortgage PLC serie 7 - C	EUR	57,206	57,206	-	-	-	Floating	19 November 2010	23 August 2066	Residual return generated by securitized portfolio	
Hipototta nº13 Class A	EUR	1,358,300	1,358,300	-	-	-	Floating	09 January 2018	23 October 2072	Euribor 3m + 0,6%	
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	Floating	09 January 2018	23 October 2072	Euribor 3m + 1%	
Hipototta nº13 Class C	EUR	56,920	56,920	-	-	-	Floating	09 January 2018	23 October 2072	Residual return generated by securitized portfolio	
		4,556,873	3,767,622	789,251	(59,075)	730,176					

Others

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DEBT SECURITIES AS AT JUNE 30, 2019 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued			Accrual	Total	Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet		Consolidated Balance sheet				
Euro medium Term Note-37 ^a	EUR	212	-	212	3	215	1.00%	09 August 2016	09 August 2019	Fixed interest rate
Euro medium Term Note-38 ^a	EUR	499	-	499	4	503	1.00%	29 September 2016	29 September 2019	Fixed interest rate
		<u>711</u>	<u>-</u>	<u>711</u>	<u>7</u>	<u>718</u>				
		<u>11,507,584</u>	<u>7,967,622</u>	<u>3,539,962</u>	<u>(68,953)</u>	<u>3,471,009</u>				

BANCO SANTANDER TOTTA, SA

SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2018 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued			Accruals			Total	Interest rate	Maturity	Early repayment as from
		Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Consolidated Balance sheet			
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	-	270,447	96	-	96	270,543	1.45%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	-	13,818	73	-	73	13,891	1.52%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	-	4,275	23	-	23	4,298	1.52%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5%	EUR	7,599	-	7,599	418	-	418	8,017	7.50%	Perpetual	October 6, 2026
		296,139	-	296,139	610	-	610	296,749			