2019 Report
First Half

Santander

2019 1st Half Report

Santander

Santander Totta, SGPS

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

Santander Totta, SGPS, SA
Rua do Ouro, 88 - 1100-063 Lisboa - Portugal
Share Capital: 1.972.962.079,58 €
Registered at Lisbon Commercial Registry under the number 507 096 851 and tax identification number 507 096 851
LEI: 5493005RLLC1P7VSVC58

Highlights

“First half results lend continuity to the Bank’s sustained growth, with net income amounting to €276 million, 4.6% 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 4.6%. 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
Operating Income **€699.2 mn** (+6.2%)	Mortgage loans +1.4% Customer deposits +4,4% **Change YoY:**	NPE Ratio **3.3%**	Participatory Donation **25 projects**
Net income **€275.9 mn** (+4.6%)	Main Bank Customers **768,000** (+4.9%)	Cost of Credit **-0.1%**	Santander Advance **128 training grants**
RoE **13.4%** (+0.2 pp)	Digital Customers **756,000** (+12.6%)	CET1 Ratio **16.4%**	Social Responsibility **19,120 beneficiaries**

Table of Indicators

BALANCE SHEET AND RESULTS (million euro)	1H 2019	1H 2018	Chg.
Total Net Assets	**56,747**	55,972	+1.4%
Loans and advances to customers (net)	**39,753**	40,086	-0.8%
Customers' Resources	**41,809**	39,989	+4.6%
Total shareholders' equity	**4,249**	4,005	+6.1%
Net Interest Income	**428.7**	444.1	-3.5%
Net Fees and Other Income	**177.9**	172.0	+3.4%
Net Income from Banking Activities	**699.2**	658.6	+6.2%
Net Operating Income	**396.2**	345.5	+14.6%
Income before taxes and non-controlling interests*	**410.7**	353.5	+16.2%
Consolidated net income attributable to the shareholders of ST, SGPS	**275.9**	263.6	+4.6%

RATIOS	1H 2019	1H 2018	Chg.
ROE	**13.4%**	13.2%	+0.2 p.p.
ROA	**1.0%**	0.9%	+0.1 p.p.
Efficiency ratio	**43.3%**	47.5%	-4.2 p.p.
CET I ratio**	**16.4%**	12.5%	+3.9 p.p.
Tier I ratio**	**19.6%**	15.2%	+4.4 p.p.
Capital ratio**	**19.9%**	15.5%	+4.4 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 (tranformation ratio)	**114.3%**	120.3%	-6.0 p.p.

RATING	1H 2019	1H 2018
FitchRatings	**BBB+**	BBB+
long term	**Baa3**	Ba1
Standard & Poor´s	**BBB**	BBB-
long term	**A**	A

Other Data	1H 2019	1H 2018	Chg.
Employees	**6,411**	6,778	-367
Employees in Portugal	**6,388**	6,745	-357
Branches	**553**	672	-119
Total Branches and Corporate Centers in Portugal	**543**	662	-119

* Excludes non-recurrent results

** Fully implemented with results net of payout

Corporate Culture

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

Simple I Personal I 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

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, social corporate 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; ESIG/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.

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.

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.

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.

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.

Santander Totta SGPS 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	Pedro Aires Coruche Castro e Almeida
Deputy-chair	José Carlos Brito Sítima
Members	Manuel António Amaral Franco Preto

Audit Board

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

Statutory Auditor

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

Executive Committee

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

Company Secretary

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

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 "*Brexiteer*" 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 that reside in Portugal having the status of non-habitual residents.

The main function of the customers resident abroad area is to support the Bank's individuals & businesses commercial networks in the creation of strong commercial and proximity ties with the communities of Portuguese and Portuguese descendants living abroad, through its representation office network in 7 countries (South Africa, Germany,

Canada, France, United Kingdom, Switzerland and Venezuela), as well in as in promoting and attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.

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 are, 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 customer needs diagnosis and presentation of offerings that meet those needs.

Santander Proteção 365

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 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
€275.9 million (+4.6%)

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 6 p.p. of the transformation ratio, to a large extent through the growth of customer deposits (4.4% 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, Santander Totta, SGPS, returned net income in the amount of €275.9 million, a growth of 4.6% year-on-year.

Return on equity (RoE) stood at 13.4% and the cost-to-income ratio stood at 43.3%, as a result of the 6.2% growth of operating income and the 3.2% 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 €41.8 billion, an annual increase of 4.6%, with a 4.4% increase of deposits and a 5.3% increase of off-balance sheet resources.

The fully loaded Common Equity Tier 1 ratio stood at 16.4%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process.

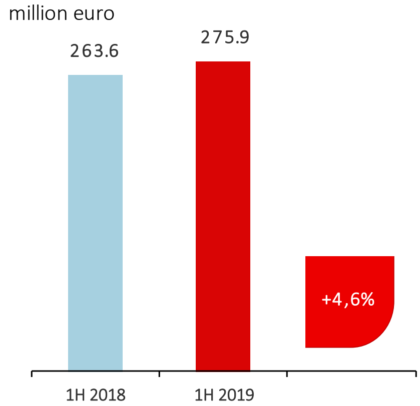
The reserve of assets available to immediately obtain liquidity totalled €10 billion at the end of the first half of 2019.

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 ST, SGPS



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	1H 2019	1H 2018	Chg.
Net interest income	**428.7**	**444.1**	**-3.5%**
Income from equity instruments	1.6	1.3	+25.3%
Net fees	192.8	182.2	+5.8%
Other operating results	(26.9)	(20.4)	+31.8%
Insurance activity	12.0	10.2	+17.3%
Commercial revenue	**608.3**	**617.5**	**-1.5%**
Gain/losses on financial assets	91.0	41.2	+121.0%
Net income from banking activities	**699.2**	**658.6**	**+6.2%**
Operating costs	(303.1)	(313.1)	-3.2%
Staff Costs	(174.2)	(180.0)	-3.2%
General Administrative Costs	(104.5)	(112.2)	-6.8%
Depreciation in the year	(24.4)	(20.9)	+16.5%
Net operating Income	**396.2**	**345.5**	**+14.6%**
Impairment, net provisions and other results *	10.0	2.4	+319.2%
Result from Associates	4.5	5.6	-18.6%
Income before taxes and non-controlling interests	**410.7**	**353.5**	**+16.2%**
Taxes *	(134.7)	(110.0)	+22.5%
Income after taxes and before non-controlling interests	**276.0**	**243.5**	**+13.3%**
Non-controlling interests	(0.1)	0.1	-228.1%
Non recurrent results	0.0	20.1	-100.0%
Consolidated net income attributable to the shareholders of ST, SGPS	**275.9**	**263.6**	**+4.6%**

* Excludes non-recurrent results

(1) Proforma 2018 results with reallocations of some accounting concepts between various income statement headings, for greater comparability with 2019 accounts

Net interest income stood at €482.7 million, down 3.5% 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 €192.8 million, a growth of 5.8% 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 -€26.9 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).

Insurance-linked activity totalled €12 million, a 17.3% increase year-on-year, evidencing the uptrend of financial insurance products.

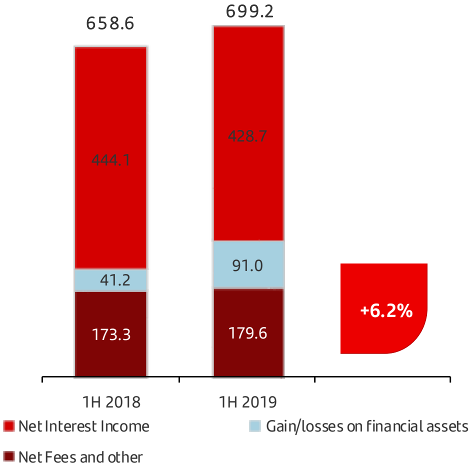
The commercial margin totalled €608.3 million, 1.5% less than the figure recorded a year earlier.

Results of financial operations amounted to €91.0 million, an increase of 121.0% 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 €699.2 million, up 6.2% 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 €303.1 million, a 3.2% reduction y-o-y.

Personnel costs amounted to €174.2 million, a year-on-year decrease of 3.2%, reflecting the restructuring of the organisational structure, with the reduction of 367 employees.

General administrative overheads totalled €104.5 million, a 6.8% 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.

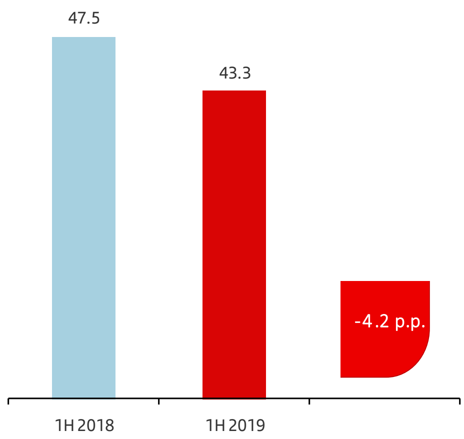
Depreciation and amortisation amounted to €24.4 million, up 16.5% compared to the end of June 2018, influenced by the adoption of IFRS 16, with effect from January 1, 2019.

OPERATING COSTS (million euro)	1H 2019	1H 2018	Chg.
Staff costs	(174.2)	(180.0)	-3.2%
General Administrative Costs	(104.5)	(112.2)	-6.8%
Depreciation in the year	(24.4)	(20.9)	+16.5%
Operating costs	**(303.1)**	**(313.1)**	**-3.2%**
Efficiency ratio	**43.3%**	**47.5%**	**-4.2 p.p.**

Operational efficiency has evolved favourably, with the efficiency ratio standing at 43.3%, an improvement of 4.2 percentage points compared to 47.5% determined a year earlier, resulting from 6.2% growth of operating income and the 3.2% decrease of operating costs.

EFFICIENCY RATIO

%



Operating income amounted to €396.2 million, reflecting a y-o-y growth of 14.6%.

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 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 €4.5 million, an increase of 18.6%, when 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 to real-estate asset portfolio management operations.

Taxes (excluding non-recurrent results) stood at €134.7 million, a year-on-year increase of 22.5%. Taxes include the special contribution on the banking sector which totalled €28.3 million in June 2019 (€22.7 million in the previous year).

Income before taxes and non-controlling interests (excluding non-recurring results) amounted to €410.7 million, equivalent to a 16.2% increase compared to the first half of 2018.

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, Santander Totta, SGPS returned net income in the amount of €275.9 million, a growth of 4.6% year-on-year.

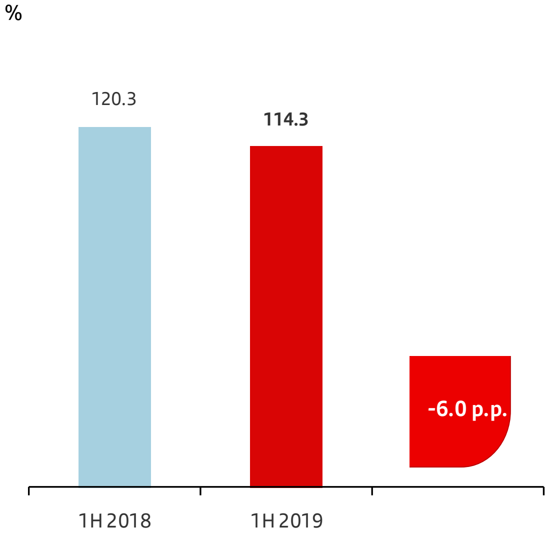
Balance Sheet and Business

At the end of June 2019, business volume amounted to €82.5 billion, a y-o-y growth of 1.2%, reflecting the 4.6% increase of customer resources, which offset the 2.0% decrease of loans and advances to customers.

BUSINESS VOLUME (million euro)	**1H 2019**	**1H 2018**	**Chg.**
Business Volume	**82,527**	**81,549**	**+1.2%**
Loans and advances to customers (gross)	40,718	41,560	-2.0%
Customers' Resources	41,809	39,989	+4.6%

The transformation ratio measured by the relationship between loans and deposits stood at 114.3% in June 2019, 6.0 percentage points less than the 120.3% 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 and advances 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 and advances to customers would have been stable compared to the figure recorded in June 2018.

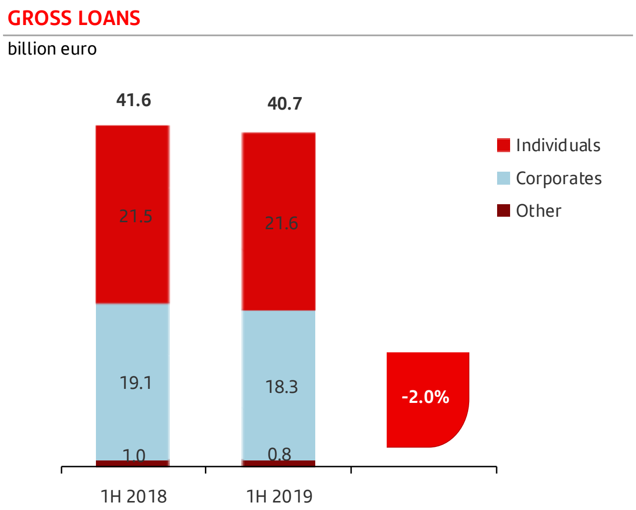
LOANS (million euro)	1H 2019	1H 2018	Chg.
Loans and advances to customers (gross)	**40,718**	**41,560**	**-2.0%**
of which			
Loans to individuals	21,603	21,546	+0.3%
of which			
Mortgage	19,535	19,268	+1.4%
Consumer	1,626	1,617	+0.5%
Loans to corporates	18,286	19,055	-4.0%

Note: Loans to corporates include credit to institutional 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. Market share for the production of new mortgage loans stood at 18.9%. 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 an d 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. Market share for the production of new loans to corporates stood at 20.3%. 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.



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	Chg.
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 resources amounted to €41.8 billion, a growth of 4.6% compared to the same period last year.

RESOURCES (million euro)	1H 2019	1H 2018	Chg.
Customers' resources	**41,809**	**39,989**	**+4.6%**
On-balance sheet resources	34,795	33,330	+4.4%
Deposits	34,795	33,330	+4.4%
Off-balance sheet resources	7,014	6,658	+5.3%
Investment funds	2,809	2,702	+4.0%
Insurance and other resources	4,204	3,957	+6.3%

Deposits stood at €34.8 billion, an increase of 4.4% compared to the amount observed at the end of June 2018, accounting for 83% 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.

Off-balance sheet resources stood at €7.0 billion, up 5.3% over June 2018 figure. 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 16.4% (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	Chg.
Common Equity Tier I	**3,073**	**2,704**	**+13.6%**
Tier I Capital	3,673	3,304	+11.2%
Total Capital	3,735	3,350	+11.5%
Risk Weighted Assets (RWA)	**18,765**	**21,674**	**-13.4%**
CET I ratio	16.4%	12.5%	+3.9 p.p.
Tier I ratio	19.6%	15.2%	+4.4 p.p.
Total Capital Ratio	19.9%	15.5%	+4.4 p.p.

Minimum requirements for own funds and eligible liabilities

From January 1st 2019, a requirement for total loss-absorbing capacity (TLAC) was introduced, as defined by the Financial Stability Board. In the EU TLAC requirements were implemented via EU regulation 2019/876 (also known as CRR II) that came into force in June 2019. This new regulation includes the new framework for the minimum requirements for eligible liabilities (MREL).

According with article 92a of EU regulation 2019/876, this requirement is applied to institutions considered a G-SII or that are part of a G-SII. Given the fact that Santander Totta SPGS, SA is almost fully owned by Banco Santander SA (considered a G-SII), this requirement is also applicable to Santander Totta SGPS, SA.

MREL includes own funds and eligible liabilities that can be written down or converted into capital in order to absorb losses or recapitalize the bank in the event of its failure. With this new framework new information disclosure is also included. Since final formats of this disclosure are still pending for final approval, the disclosures made on this section are done accordingly with the formats made available by the Basel Committee for the Pilar 3 disclosures requirements.

Santander Totta SGPS, SA's requirement is

- 16% of total consolidated RWAs;
- 6% of total consolidated leverage exposure

Key metrics (KM2)

	Santander Totta SGPS	June 2019	March 2019	December 2018	September 2018	June 2018
1	Total Loss Absorbing Capacity (TLAC) available	3,772	3,572	3,427	3,355	3,350
1a	Fully loaded ECL accounting model TLAC available	3,772	3,572	3,427	3,355	3,350
2	Total RWA at the level of the resolution group	18,765	19,925	20,052	20,816	21,677
3	TLAC as a percentage of RWA (row1/row2) (%)	20.1%	17.9%	17.1%	16.1%	15.5%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	20.1%	17.9%	17.1%	16.1%	15.5%
4	Leverage exposure measure at the level of the resolution group	54,697	54,588	52,990	52,753	54,783
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	6.9%	6.5%	6.5%	6.4%	6.1%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model Leverage exposure measure (%)	6.9%	6.5%	6.5%	6.4%	6.1%

TLAC Composition (TLAC1)

	Regulatory capital elements of TLAC and adjustments	June 2019
1	Common Equity Tier 1 capital (CET1)	3,110
2	Additional Tier 1 capital (AT1) before TLAC adjustments	600
3	AT1 ineligible as TLAC as issued out of subsidiaries to third parties	0
4	Other adjustments	0
5	AT1 instruments eligible under the TLAC framework	600
6	Tier 2 capital (T2) before TLAC adjustments	12
7	Amortised portion of T2 instruments where remaining maturity > 1 year	0
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties	0
9	Other adjustments	-50
10	T2 instruments eligible under the TLAC framework	62
11	TLAC arising from regulatory capital	3,772
	Non-regulatory capital elements of TLAC	
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	0
13	External TLAC instruments issued directly by the bank which are not subordinated to excluded liabilities but meet all other TLAC term sheet requirements	0
14	Of which: amount eligible as TLAC after application of the caps	0
15	External TLAC instruments issued by funding vehicles prior to 1 January 2022	0
16	Eligible ex ante commitments to recapitalise a G-SIB in resolution	0
17	TLAC arising from non-regulatory capital instruments before adjustments	0
	Non-regulatory capital elements of TLAC: adjustments	
18	TLAC before deductions	3,772
19	Deductions of exposures between MPE resolution groups that correspond to items eligible for TLAC (not applicable to SPE G-SIBs)	0
20	Deduction of investments in own other TLAC liabilities	0
21	Other adjustments to TLAC	0
22	TLAC after deductions	3,772
	Risk-weighted assets and leverage exposure measure for TLAC purposes	
23	Total risk-weighted assets adjusted as permitted under the TLAC regime	18,765
24	Leverage exposure measure	54,697
	TLAC ratios and buffers	
25	TLAC (as a percentage of risk-weighted assets adjusted as permitted under the TLAC regime)	20.10%
26	TLAC (as a percentage of leverage exposure)	6.90%
27	CET1 (as a percentage of risk-weighted assets) available after meeting the resolution group's minimum capital and TLAC requirements	4.10%

Creditors ranking (TLAC3)

		Creditor ranking			
1	Description of creditor ranking (free text)	Capital	AT1 instruments	Subordinated Debt	**TOTAL**
2	Total capital and liabilities net of credit risk mitigation	3,645	600	12	**4,257**
3	Subset of row 2 that are excluded liabilities	0	0	0	**0**
4	Total capital and liabilities less excluded liabilities (row 2 minus row 3)	3,645	600	12	**4,257**
5	Subset of row 4 that are potentially eligible as TLAC	3,645	600	12	**4,257**
6	Subset of row 5 with 1 year ≤ residual maturity < 2 years	0	0	0	**0**
7	Subset of row 5 with 2 years ≤ residual maturity < 5 years	0	0	0	**0**
8	Subset of row 5 with 5 years ≤ residual maturity < 10 years	0		8	**8**
9	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	0	0	0	**0**
10	Subset of row 5 that is perpetual securities	3,645	600	4	**4,250**

Main features of own funds instruments of the creditors ranking (TLAC2)

	EUR Million				June 30, 2019
1	**Issuer**	Santander Totta SGPS, S.A.	Santander Totta SGPS, S.A.	Banco Santander Totta, S.A.	Banco Santander Totta, S.A.
2	Unique identifier (eg CUYesP, IYesN or Bloomberg identifier for private placement)	PTSTOBOM0008	PTSTOAOM0009	PTBSREOM0028	PTCPPOOE0004
3	Regulatory Treatment				
	Governing law(s) of the instrument	Portuguese Law	Portuguese Law	Portuguese Law	Portuguese Law
4	TranYestional CRR rules	Level 1 Equity	Level 1 Equity	Level 2 Equity	Level 2 Equity
5	Post-tranYestional CRR rules	Admissible	Admissible	Admissible	Admissible
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Consolidated Portugal Group	Consolidated Portugal Group	Consolidated Portugal Group	Consolidated Portugal Group
7	Instrument type (types to be specified by each jurisdiction)	Level 1 Equity Instruments	Level 1 Equity Instruments	Level 2 Equity Instruments	Level 2 Equity Instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	300	300	8	4
9	Nominal amount of instrument	EUR 100,000	EUR 100,000	EUR 1,000	EUR 1,000
9a	Issue price	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%
10	Accounting clasYesfication	Equity - dividends	Equity - dividends	Net Income - interest payable	Net Income - interest payable
11	Original date of issuance	22/06/2016	30/12/2015	6/10/2016	23/02/2001
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date	6/10/2026	No maturity date
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	22/06/2021	17/01/2020	At any time	At any time
16	Subsequent call dates, if applicable	Annual	Annual	n.a.	n.a.
	Coupons & dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Floating
18	Coupon rate and any related index	10.50%	9.90%	7.50%	6 month Euribor + 1.60% for the first twenty periods 6 month Euribor + 1.75% for the subsequent
19	Existence of a dividend stopper	Yes	Yes	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, converYeson trigger(s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a
26	If convertible, converYeson rate	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional converYeson	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a
30	Write-down features	Sim	Sim	n/a	n/a
31	If write-down, write-down trigger(s)	Trigger Level: MinCET1 8%	Trigger Level: MinCET1 8%	n/a	n/a
32	If write-down, full or partial	Depend on the reduction amount. May be in full or partial	Depend on the reduction amount. May be in full or partial	n/a	n/a
33	If write-down, permanent or temporary	Temporary	Temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	If the issuer reports positive results may, subject to the maximum distributable amount (MDA), increase the instrument's nominal value on a pro-rata basis with equivalent instruments (loss absorbing and allows write down) up to the maximum amount of the replenishement. Any replenishement, may not exceed the original nominal value of the instrument.	If the issuer reports positive results may, subject to the maximum distributable amount (MDA), increase the instrument's nominal value on a pro-rata basis with equivalent instruments (loss absorbing and allows write down) up to the maximum amount of the replenishement. Any replenishement, may not exceed the original nominal value of the instrument.	n/a	n/a
35	PoYestion in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Level 2 Equity Instruments	Level 2 Equity Instruments	Other liabilities not convered by deposit protection regimes	Other liabilities not convered by deposit protection regimes
36	Non-compliant tranYestioned features	No	No	No	No
	If yes, specify non-compliant features				

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

Credit risk parameters

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

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

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

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

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

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

Credit risk cycle

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

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

Planning and establishing limits

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

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

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

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

Study of the risk, transaction decision and monitoring and control

The study of the risk is a prerequisite of the authorisation of any loan operation at Banco Santander 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.

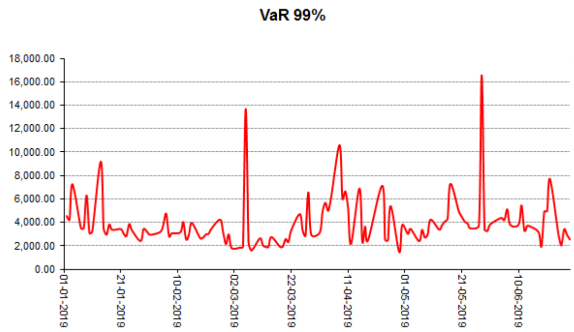
Limits

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

Treasury shares movement

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

On December 31, 2018, Santander Totta, SGPS, S.A., held 105,942,258 treasury shares corresponding to 0.054% of its share capital. During the first half of 2019, the Bank did purchase treasury shares.

TRANSACTION WITH OWN SHARES - 1st half 2019

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2018	105,942,258	0.02	2,283,853	0.054%
Share Purchases	-	-	-	-
Share Disposals	-	-	-	-
30/06/2019	105,942,258	0.02	2,283,853	0.054%

Alternative Performance Indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Declaration 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 Santander Totta, S.G.P.S., S.A., 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 Santander Totta, S.G.P.S., S.A., 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

Pedro Aires Coruche Castro e Almeida

Deputy-Chair

José Carlos Brito Sítima

Deputy-Chair

Manuel António Amaral Franco Preto

Member

Consolidated Financial Statements

The accounts for the first half of 2019 have been submitted neither to limited audit nor to the respective opinion of the Bank's auditors.

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros - tEuros)

ASSETS	Notes	30-06-2019 Amounts before impairment and depreciation	30-06-2019 Impairment and depreciation	30-06-2019 Net assets	31-12-2018 Net assets
Cash and deposits at central banks	5	2,405,139	-	2,405,139	1,655,732
Balances due from other banks	6	531,674	-	531,674	850,898
Financial assets held for trading	7	1,121,419	-	1,121,419	1,204,674
Other financial assets mandatory at fair value through profit or loss	8	3,129,648	-	3,129,648	3,053,810
Other financial assets at fair value through other comprehensive income	9	6,763,074	3	6,763,071	5,995,070
Financial assets at amortised cost					
Loans and advances to credit institutions	10	833,107	40	833,067	675,031
Credit granted and other balances receivable at amortized cost	10	40,717,871	964,505	39,753,366	39,597,126
Hedging derivatives	11	91,856	-	91,856	73,464
Value adjustments on assets included in hedging operations	43	255,770	-	255,770	60,024
Investment in associated companies excluded from consolidation	12	108,467	1,918	106,549	111,376
Investment properties	13	290,114	-	290,114	297,625
Other tangible assets	14	646,243	269,339	376,904	346,813
Intangible assets	14	93,058	59,699	33,359	30,617
Tax assets	15	684,580	-	684,580	683,733
Technical reserves	16	39,102	-	39,102	40,365
Other assets	17	365,854	100,164	265,690	332,759
Non-current assets held for sale	18	92,236	26,175	66,061	30,022
		58,169,212	1,421,843	56,747,369	55,039,139

LIABILITIES AND SHAREHOLDERS EQUITY	Notes	30-06-2019	31-12-2018
Liabilities			
Financial liabilities held for trading	7	1,136,222	1,239,713
Other financial liabilities mandatory at fair value through profit or loss	19	3,442,194	3,175,960
Financial liabilities at amortised cost			
Resources from central banks	20	3,043,848	3,050,040
Resources from other credit institutions	20	3,782,472	3,539,911
Resources from customers and other debts	20	34,795,189	33,382,504
Debt securities	20	3,479,026	4,322,597
Other financial liabilities	20	318,845	200,336
Hedging derivatives	11	376,489	90,556
Value adjustments on assets included in hedging operations	43	3,740	10,399
Provisions	21	280,184	297,992
Technical provisions	16	762,039	742,857
Tax liabilities	15	442,866	254,269
Equity representative instruments	22	69,188	69,560
Other liabilities	23	566,286	490,707
Total liabilities		52,498,588	50,867,401
Shareholders' equity			
Share capital	24	1,972,962	1,972,962
Other equity instruments	24	600,000	600,000
Accumulated comprehensive income reserves	24	22,510	(235,157)
Other reseves and retained earnings	24	1,377,851	1,434,376
(Own shares)	24	(2,284)	(2,284)
Net income attributable to the shareholders of ST SGPS	25	275,875	499,964
Prepaid dividends	24	-	(100,000)
Shareholders' equity attributable to the shareholders of ST SGPS		4,246,914	4,169,861
Non-controlling interests	26	1,867	1,877
Total shareholders' equity		4,248,781	4,171,738
Total liabilities and shareholders' equity		56,747,369	55,039,139

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

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF INCOME

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2019	30-06-2018
Interest income	28	607,275	624,723
Interest charge	29	(178,561)	(180,574)
Net interest income		428,714	444,149
Income from equity instruments	30	1,637	1,306
Income from services and commissions	31	241,629	224,737
Charges with services and commissions	32	(48,792)	(40,348)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	33	28,555	3,010
Other Financial assets at fair value through other comprehensive income	33	57,695	26,599
Exchange revaluation	33	4,976	4,762
Disposal of other assets	33	(267)	(3,831)
Gross margin of life insurance in which the risk is borne by the policy holder	34	6,874	5,853
Gross margin in insurance activity	34	5,089	4,344
Other operating results	35	(26,868)	(20,103)
Net income from banking activities		699,242	650,478
Staff costs	36	(174,215)	(178,810)
General administrative costs	37	(104,482)	(116,506)
Depreciation in the year	14	(24,384)	(20,922)
Provisions, net of reversals	21	(9,241)	(306,510)
Impairment on financial assets at amortised cost	21	16,497	14,607
Impairment on other financial assets net of reversals and recoveries	21	(7,488)	(24,620)
Results from associates	38	4,546	5,587
Results from non-current assets held for sale	39	10,236	3,782
Income before taxes and non-controlling interests		410,711	27,086
Taxes	15	(134,733)	236,481
Income after taxes and before non-controlling interests		275,978	263,567
Non-controlling interests		(103)	80
Consolidated net income attributable to the shareholders of ST, SGPS		275,875	263,647
Number of ordinary shares outstanding		197,190,265,700	197,194,357,634
Earnings per share (in Euros)	25	0.0014	0.0013

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

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	30-06-2019		30-06-2018	
	Attributable to the shareholders' of ST SGPS	Attributible to non-controlling interests	Attributable to the shareholders' of ST SGPS	Attributible to non-controlling interests
Consolidated net income for the period	275,875	(103)	263,647	80
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations in pensions:				
. Gross amount	39,571	17	(7,769)	(1)
. Tax effect	-	-	-	-
Items that may be reclassified subsequently to the income statement:				
. Exchange rate changes in subsidiaries abroad		-	-	-
. Transfers to results of the period from exchange rate variations in subsidiaries abroad		-	-	-
. Revaluation reserves of associated companies valued by the equity method of changes in fair value of financial assets at fair value through comprehensive income:				
. Fair value	1,051	-	508	-
. Tax effect	(75)	-	(141)	-
. Changes of financial assets at fair value through comprehensive income:				
. Fair value	397,325	147	68,195	17
. Tax effect	(118,732)	(53)	(18,621)	(5)
. Changes in fair value of cash flows hedging derivatives:				
. Fair value	(60,092)	(26)	41,502	18
. Tax effect	18,629	8	(12,865)	(6)
. Changes in shadow reserve:				
. Fair value	(23,296)	-	1,904	-
. Tax effect	3,286	-	(436)	-
	257,667	93	72,277	23
Consolidated comprehensive income for the period	533,542	(10)	335,924	103

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

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros - tEuros)

	Share Capital	Own Shares	Other Equity Instruments	Accrued income reserves			Other reserves and Retained Earnings	Prepaid Dividends	Net Income for the period	Non-controlling interests	Total
				Fair Value	Deferred Taxes	Sub-total					
Balances as at December 31, 2017	**1,972,962**	**(2,166)**	**600,000**	**(384,047)**	**79,482**	**(304,565)**	**1,477,498**	**(150,000)**	**436,337**	**2,166**	**4,032,232**
Appropriation of net income											
. Distribution of dividends	-	-	-	-	-	-	125	150,000	(392,015)	(275)	(242,165)
. Transfer to reserves	-	-	-	-	-	-	44,322	-	(44,322)	-	-
Income distribution - "Aditional Tier 1 Instruments"	-	-	-	-	-	-	(61,200)	-	-	-	(61,200)
Distribution of prepaid dividends	-	-	-	-	-	-	-	(100,000)	-	-	(100,000)
Impact from the application of IFRS9	-	-	-	-	-	-	(26,196)	-	-	-	(26,196)
Long-term incentives - shares	-	-	-	-	-	-	343	-	-	-	343
Purchase of own shares by Santander Totta, SGPS	-	(118)	-	-	-	-	-	-	-	-	(118)
Others	-	-	-	-	-	-	(516)	-	-	(30)	(546)
Consolidated comprehensive income for the year 2018	-	-	-	99,810	(30,402)	69,408	-	-	499,964	16	569,388
Balances as at December 31, 2018	**1,972,962**	**(2,284)**	**600,000**	**(284,237)**	**49,080**	**(235,157)**	**1,434,376**	**(100,000)**	**499,964**	**1,877**	**4,171,738**
Appropriation of net income											
. Distribution of dividends	-	-	-	-	-	-	-	-	(394,788)	-	(394,788)
. Transfer to reserves	-	-	-	-	-	-	5,176	100,000	(105,176)	-	-
Income distribution - "Aditional Tier 1 Instruments"	-	-	-	-	-	-	(61,200)	-	-	-	(61,200)
Long-term incentives - shares	-	-	-	-	-	-	(332)	-	-	-	(332)
Others	-	-	-	-	-	-	(169)	-	-	-	(169)
Consolidated comprehensive income for the first half year 2019	-	-	-	354,559	(96,892)	257,667	-	-	275,875	(10)	533,532
Balances as at June 30, 2019	**1,972,962**	**(2,284)**	**600,000**	**70,322**	**(47,812)**	**22,510**	**1,377,851**	**-**	**275,875**	**1,867**	**4,248,781**

The accompanying notes form an integral of the Consolidated statements of changes in Shareholders' Equity for the the six-month period ended June 30, 2019

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AS OF JUNE 30, 2019 AND 2018

(Amounts expressed in thousands of Euros)

	30-06-2019	31-12-2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	741,923	1,578,703
Payment of interest and commissions	(208,227)	(399,081)
Payment to staff and suppliers	(311,639)	(650,342)
Contributions to the pension funds	-	(46,534)
Foreign exchange and other operating results	(9,400)	93,805
Recovery of uncollectable loans	4,034	9,176
Receivables/(Payments) of insurance premiums	18,240	89,505
Cash flows before changes is operational assets and liabilities	234,931	675,232
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	(158,407)	148,512
Financial assets held for trading	83,346	305,297
Credit granted and other balances receivable at amortized cost	(112,564)	342,846
Assets and liabilities at fair value through profit or loss	282,739	638,877
Non-current assets held for sale	(49,287)	65,633
Investment properties	7,512	56,332
Other assets	83,228	261,263
	136,567	1,818,760
Increase / (decrease) in operating liabilities		
Resources from financial institutions	236,249	(842,000)
Resources from customers and other debts	1,472,007	2,020,988
Financial liabilities held for trading	(103,493)	(873,437)
Other liabilities	203,316	(230,156)
	1,808,079	75,395
Net cash flow from operating activities before income tax	2,179,577	2,569,387
Income tax paid	(43,737)	(92,228)
Net cash flow from operating activities	2,135,840	2,477,159
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1,637	1,674
Purchase of financial assets at fair value through other comprehensive income	(1,091,174)	(1,299,965)
Sale of financial assets at fair value through other comprehensive income	743,701	688,612
Sale of investments held to maturity	(75,839)	(490,570)
Income from financial assets at fair value through other comprehensive income	83,115	119,864
Acquisition of tangible and intangible assets	(61,451)	(66,285)
Sale of tangible assets	13,081	13,036
Acquisition of Eurovida	-	(88,000)
Net cash flow from investment activities	(386,930)	(1,121,634)
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	(394,788)	(341,890)
Issuance / (redemption) of cash bonds and other	(16,223)	(231,987)
Remuneration paid on cash bonds and other	(849,024)	(34,697)
Income Distribution - "Aditional Tier 1 Instruments"	(61,200)	(61,200)
Remuneration paid on subordinated liabilities	-	(570)
Net cash flow from financing activities	(1,321,235)	(670,344)
Net increase / (Decrease) in cash and cash equivalents	427,675	685,181
Cash and cash equivalents at the beginning of the period	2,582,053	1,821,449
Cash and cash equivalents at the end of the period	3,009,728	2,506,630

The accompanying notes form an integral part of the consolidated statement of cash flows
for the six-month ended June 30, 2019

INTRODUCTION

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

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif – Group Internacional do Funchal, SA (Banif), the Group acquired the banking business and a set of assets, liabilities, off-balance-sheet items and assets under management of this entity. Following the decision of the Single Resolution Board with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, SA (BAPOP).

In view of the restructuring of the business of 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.

Santander Totta is part of the Santander 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 42.

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

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

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

The accounting policies used by the Group in the preparation of its consolidated financial statements as at June 30, 2019, are consistent with those used in the preparation of the 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 implementation of the IFRS as required 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 group 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 teste 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 26).

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

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

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

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

On the other hand, the Group manages assets held by investment funds whose units are held by third parties. The financial statements of the investment funds are not included in the Group's consolidation perimeter, except when it has control of those funds, especially when it has more than

50% of its units, in which cases those funds are consolidated using the full consolidation method. According to the requirements of IAS 32 and IFRS 10, the amount corresponding to the third-party holding in the investment funds consolidated using the full consolidation method is carried as a liability under Equity instruments. The non-controlling interests of the Novimovest Fund are recognised as a deduction from Other operating income given the nature of the main income earned by the fund.

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

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

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

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

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

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

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

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

On the other hand, the Group decided to cancel, on the date of transition to the IAS/IFRS (January 1, 2004), the reserve arising from exchange-rate fluctuations caused by the translation of the financial statements of subsidiary and associate companies with 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

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

b) Foreign currency transactions

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

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

c) Financial instruments

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

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

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

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

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

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

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

<u>Repo Operations</u>

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.

<u>Secondary market transactions</u>

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

Hedge accounting

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

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

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy, including the following aspects:

  . Identification of the hedging instrument;
  . Identification of the hedged item;
  . Identification of the type of risk hedged; and
  . Definition of the form of measuring the effectiveness of the hedge and subsequent monitoring;

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

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

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

<u>Fair-value hedges</u>

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.

<u>Cash flow hedge</u>

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

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

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

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

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

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

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

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

Loan impairment

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

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

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

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

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

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

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

<u>Impaired financial assets</u>

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

<u>Purchased or originated credit-impaired (POCI) financial assets</u>

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

Significant increase of the credit risk

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

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

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

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

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

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

Credit risk parameters

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

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

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

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

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

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

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

Collective analysis

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

d) Other tangible assets

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

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

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

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

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

e) Intangible assets

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

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

In the first half of 2019 the Group 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 Group essentially recognises under Non-current assets held for sale real estate, equipment and other assets received by way of payment in kind or auction for the payment of overdue loan transactions when they are available for immediate sale in their present condition and there a likelihood of their sale with a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 17).

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

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

h) Provisions

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

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

i) Employee post-employment benefits

Banco Santander Totta SA

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

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

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

Employees of the former Totta have always been enrolled in Social Security, and therefore the

Bank's liability with regard to the defined-benefit plan in respect of those employees has consisted of payment of supplements.

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

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

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

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

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

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

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

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

The Bank's liabilities for retirement with pensions are calculated by external experts (Mercer (Portugal), Limitada) 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 €38.21 in the case of pensioners); and
ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit, because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

Santander Totta Seguros ("Company")

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

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

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

Application of IAS 19

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

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

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

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

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

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

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

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

j) Corporation tax

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

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

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 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 taxable profit/loss of the Group corresponds to the sum of the taxable profit/loss that had been determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, BST, Santander Totta Seguros and Gamma - controlled companies.

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

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

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

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

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

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

Banking sector contribution

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

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

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

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

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

k) Technical provisions

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

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

- Provision for unearned premiums and deferred acquisition costs

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

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

- Mathematical provision for life business

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

- Provision for rate commitments

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

- Provisions for claims

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

  i) Based on the analysis of claims outstanding at the end of the period and on the resulting estimate of the liability existing at that date;
  ii) By the estimate of the amounts required to meet the liabilities for claims incurred but not reported (IBNR);
  iii) By the estimate of the administrative costs to be incurred in the future settlement of claims currently under management.

- Provision for profit-sharing to be attributed

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

  The determination of the share of the profit to be allocated to the policyholders is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. In this sense, for the purpose of preparation of the consolidated financial statements, such financial assets are classified under Other financial assets at fair value through other comprehensive income, and the respective unrealised gains and losses, net of taxes, are carried under

Reserves for accumulated comprehensive income under consolidated equity. Additionally, the policyholders' part is carried under Technical provisions of liabilities (provision for profit-sharing to be attributed – shadow reserve), with a contra-entry under Reserves for other accumulated comprehensive income under consolidated equity, in order to avoid distortions at the level of the income statement and consolidated equity (shadow accounting provided for in IFRS 4).

- Provision for allocated profit sharing

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

- Technical provisions for reinsurance ceded

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

- Provision for risks in progress

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

- Liabilities adequacy test

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

l) Adjustments of receipts pending collection

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

m) Recognition of income and expenses - insurance

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

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

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

n) Long-term share incentive plans

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

Recording these plans consists of recognising the right of the Group'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.

o) Treasury shares

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

p) Cash & cash equivalents

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

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

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

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

Employee post-employment benefits

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

The 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 Group independent of the trading function, taking the following aspects into account:

- For financial instruments transacted on active markets, closing price on the reporting date;
- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:

  i) Bid prices disclosed by financial-information disclosure means, such as Bloomberg and Reuters, including market prices available for recent transactions;
  ii) Bid prices obtained from financial institutions operating as market makers; and
  iii) Valuation models that take into account market data that would be used in setting a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortised cost:

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

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

Determination of impairment losses

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

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, 2019, 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 Group's lawyers/legal advisors and decisions of the courts to date, which, however, might not come about.

Determination of liabilities for insurance contracts

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

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

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at June 30, 2019, of the liabilities to which it is bound.

Reinsurance ceded

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Business Banking:

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

Insurance Management:

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

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

Corporate Activities:

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

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

	30-06-2019					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	41,008	260,623	50,851	235	75,997	428,714
Income from equity instruments	-	-	-	(2)	1,639	1,637
Financial margin	**41,008**	**260,623**	**50,851**	**233**	**77,636**	**430,351**
Net commissions	24,913	162,963	12,639	(2,164)	(5,514)	192,837
Other results from banking activity	-	1,471	-	656	(28,995)	(26,868)
Insurance activity	-	-	-	11,963	-	11,963
Commercial margin	**65,921**	**425,057**	**63,490**	**10,688**	**43,127**	**608,283**
Results from financial operations	8,625	2,595	587	16,134	63,018	90,959
Net income from banking activities	**74,546**	**427,652**	**64,077**	**26,822**	**106,145**	**699,242**
Operating costs	(12,666)	(239,872)	(18,236)	(6,630)	(1,293)	(278,697)
Depreciation and amortization	(1,430)	(22,148)	(536)	(270)	-	(24,384)
Net operating income	**60,450**	**165,632**	**45,305**	**19,922**	**104,852**	**396,161**
Impairment and provisions, net of reversals	1,757	4,126	(11,754)	-	5,639	(232)
Results from associate companies	-	-	-	4,134	412	4,546
Results from non-current assets held for sale	-	-	-	-	10,236	10,236
Income before taxes	**62,207**	**169,758**	**33,551**	**24,056**	**121,139**	**410,711**
Taxes	(19,284)	(52,625)	(10,401)	(6,434)	(45,989)	(134,733)
Non-controlling interests	-	-	-	-	(103)	(103)
Net income for the period	**42,923**	**117,133**	**23,150**	**17,622**	**75,047**	**275,875**

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

	30-06-2018					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	43,337	243,590	58,805	973	97,444	444,149
Income from equity instruments	-	-	-	73	1,233	1,306
Financial margin	**43,337**	**243,590**	**58,805**	**1,046**	**98,677**	**445,455**
Net commissions	23,330	156,958	14,777	(2,346)	(8,330)	184,389
Other results from banking activity	-	2,271	-	98	(22,472)	(20,103)
Insurance activity	-	-	-	10,197	-	10,197
Commercial margin	**66,667**	**402,819**	**73,582**	**8,995**	**67,875**	**619,938**
Results from financial operations	7,058	2,089	925	1,795	18,673	30,540
Net income from banking activities	**73,725**	**404,908**	**74,507**	**10,790**	**86,548**	**650,478**
Operating costs	(12,667)	(247,996)	(18,924)	(6,806)	(8,923)	(295,316)
Depreciation and amortization	(1,430)	(18,702)	(451)	(339)	-	(20,922)
Net operating income	**59,628**	**138,210**	**55,132**	**3,645**	**77,625**	**334,240**
Impairment and provisions, net of reversals	12,424	(5,732)	(1,558)	-	(321,657)	(316,523)
Results from associate companies	-	-	-	3,238	2,349	5,587
Results from non-current assets held for sale	-	-	-	-	3,782	3,782
Income before taxes	**72,052**	**132,478**	**53,574**	**6,883**	**(237,901)**	**27,086**
Taxes	(22,336)	(41,321)	(16,608)	(677)	317,423	236,481
Non-controlling interests	-	-	-	-	80	80
Net income for the period	**49,716**	**91,157**	**36,966**	**6,206**	**79,602**	**263,647**

As at June 30, 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 Group's Management for decision-making, is as follows:

	30-06-2019					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Loans and advances to customers						
Mortgage loans	-	19,534,779	-	-	-	19,534,779
Consumer loans	-	1,625,814	-	-	-	1,625,814
Other loans	3,736,915	6,026,729	8,829,129	-	-	18,592,773
Total allocated assets	**3,736,915**	**27,187,322**	**8,829,129**	**-**	**-**	**39,753,366**
Non-allocated assets						16,994,003
Total Assets						**56,747,369**
Liabilities						
Customer resources and other loans	2,365,941	26,618,055	5,811,193	-	-	34,795,189
Debt securities	-	-	-	-	3,479,026	3,479,026
	2,365,941	**26,618,055**	**5,811,193**	**-**	**3,479,026**	**38,274,215**
Non-allocated liabilities						14,224,373
Total Liabilities						**52,498,588**
Guarantees and sureties (Note 27)	**294,631**	**557,360**	**671,941**	**-**	**-**	**1,523,932**

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

	31-12-2018					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Loans and advances to customers						
Mortgage loans	-	19,462,199	-	-	-	19,462,199
Consumer loans	-	1,634,821	-	-	-	1,634,821
Other loans	3,643,962	6,121,874	8,734,270	-	-	18,500,106
Total allocated assets	**3,643,962**	**27,218,894**	**8,734,270**	**-**	**-**	**39,597,126**
Non-allocated assets						15,442,013
Total Assets						**55,039,139**
Liabilities						
Customer resources and other loans	1,852,262	26,217,509	5,312,733	-	-	33,382,504
Debt securities	-	-	-	-	4,322,597	4,322,597
	1,852,262	**26,217,509**	**5,312,733**	**-**	**4,322,597**	**37,705,101**
Non-allocated liabilities						13,162,300
Total Liabilities						**50,867,401**
Guarantees and sureties (Note 27)	**303,378**	**541,721**	**722,322**	**-**	**-**	**1,567,422**

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.

(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:

	Direct Participation (%)		Effective Participation (%)		Total Assets (net)		Shareholder's Equity		Net income for the period	
Entity	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
SANTANDER TOTTA, SGPS,S.A.	Headquarters	Headquarters	100.00	100.00	3,947,840	3,900,018	3,874,283	3,866,379	443,838	629,671
BANCO SANTANDER TOTTA, S.A.	99.96	99.96	99.96	99.96	56,467,851	55,173,578	3,484,074	3,404,774	249,510	475,535
TOTTA (IRELAND), PLC (2)	-	-	99.96	99.96	512,496	491,050	466,561	460,759	7,972	2,790
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.96	201,149	239,145	128,738	25,662	3,316	(4,092)
TAXAGEST,SGPS,SA	1.00	1.00	99.96	99.96	55,745	55,740	55,743	55,739	4	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	79.99	79.67	354,916	356,123	346,345	344,366	2,941	8,685
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.96	7,145	7,130	6,545	6,807	26	62
HIPOTOTTA NO. 4 PLC	-	-	-	-	664,815	700,965	(5,367)	(3,481)	(1,628)	1,011
HIPOTOTTA NO. 5 PLC	-	-	-	-	647,177	679,746	(10,684)	(7,007)	(3,380)	(2,678)
HIPOTOTTA NO. 4 FTC	-	-	-	-	601,226	632,736	596,766	633,160	320	2,196
HIPOTOTTA 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
Operações de Securitização geridas pela GAMMA, STC	-	-	100.00	99.96	3,389,142	3,591,682	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.79	25.79	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.85	365,718	347,331	88,951	107,282	6,778	20,234
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	25.76	106,544	105,824	100,302	100,304	(3)	2,010
BANIF INTERNACIONAL BANK, LTD	-	-	99.96	99.96	654	596	184	96	89	36
PRIMESTAR SERVICING, S.A.	-	-	79.96	79.96	1,519	1,539	1,268	1,269	(0)	(169)
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	4,474,361	4,177,813	131,419	110,874	17,416	17,757
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	92,508	98,531	26,012	31,114	5,409	12,273
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	37,042	33,137	20,011	16,580	3,027	2,714
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	100.00	-	100.00	100.00	19,815	20,455	9,195	9,364	(169)	217

(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	Head office	Consolidation Method
Santander Totta, SGPS, S.A.	Holding Company	Portugal	Headquarters
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Full
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	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
Operações de Securitização geridas pela GAMMA, STC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real estate fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans fund	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real estate fund	Portugal	Equity
PRIMESTAR SERVICING, S.A.	Investment management	Portugal	Full
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Full

(1) As at June 30, 2019, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k granted during the first half of 2019.

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

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

As at June 30 2019 and December 31, 2018, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	30-06-2019			31-12-2018		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and deposits	4,207	4,189	8,396	2,313	4,385	6,698
Available-for-sale financial assets	58,892	25,830	84,722	64,272	21,226	85,498
Other tangible assets	23	-	23	45	-	45
Other intangible assets	6,657	4,466	11,123	7,158	4,361	11,519
Technical reserves for reinsurance ceded	12,393	156	12,549	14,822	649	15,471
Other debtors for insurance and other transactions	10,286	2,282	12,568	9,896	2,373	12,269
Assets - taxes and levies	-	-	-	-	88	88
Accruals and deferrals	35	119	154	12	55	67
Other assets	15	-	15	13	-	13
	92,508	37,042	129,550	98,531	33,137	131,668
Technical reserves	48,115	8,468	56,583	48,802	8,380	57,182
Other financial liabilities	6,998		6,998	8,000	-	8,000
Other creditors for insurance and other transactions	6,501	5,445	11,946	5,795	5,802	11,597
Liabilities - taxes and levies	2,698	1,707	4,405	3,092	1,412	4,504
Accruals and deferrals	2,184	1,411	3,595	1,728	963	2,691
Share Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	1,559	624	2,183	837	86	923
Deferred tax reserves	(405)	(156)	(561)	(218)	(21)	(239)
Other reserves	11,949	5,341	17,290	10,722	5,069	15,791
Retained earnings	-	3,675	3,675	-	1,232	1,232
Net income for the year	5,409	3,027	8,436	12,273	2,714	14,987
	92,508	37,042	129,550	98,531	33,137	131,668

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
	354,916	356,123
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
	354,916	356,123

As at June 30, 2019 & 2018, the consolidated net income includes a profit of €2,353k and €3,614k, respectively, attributable to the Novimovest Fund.

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

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Cash	245,326	287,671
Demand deposits at Central Banks:		
European Central Bank	2,159,813	1,368,061
	2,405,139	1,655,732

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

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Balances due from domestic banks		
Demand deposits	26,872	195,767
Balances due from foreign banks		
Demand deposits	504,802	655,131
	531,674	850,898

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.

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

7. FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Financial assets held for trading		
Derivatives with positive fair value	1,118,040	1,201,295
Securities - Participating units	3,379	3,379
	1,121,419	1,204,674
Financial liabilities held for trading		
Derivatives with negative fair value	1,136,222	1,239,713

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

	30-06-2019			31-12-2018		
	Asset	Liabilities	Net (Note 11)	Asset	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	1,035,442	1,056,064	(20,622)	1,115,664	1,143,613	(27,949)
Equity swaps	11,422	2,952	8,470	2,868	7,170	(4,302)
Options						
Foreign exchange options	1,007	996	11	1,877	1,846	31
Equity options	1,928	1,837	91	2,186	2,216	(30)
Caps & Floors	65,720	64,961	759	75,844	75,308	536
	1,118,040	1,136,222	(18,182)	1,201,295	1,239,713	(38,418)

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 43.

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.

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

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

The composition of this heading is as follows:

	30-06-2019	31-12-2018
Debt instruments		
Issued by residents		
Treasury Bonds	1,142,785	1,160,936
Subordianted debt		56,755
Unsubordinated debt	117,512	125,232
Issued by non-residents		
Foreign public issuers	418,124	296,928
Other non-resident issuers	705,328	674,332
Equity instruments		
Issued by residents	222,380	279,185
Issued by non-residents	523,519	460,442
	3,129,648	3,053,810

Interest and the results of the appreciation of these financial assets at fair value were reflected in the income statement under Results of financial transactions (Note 33).

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

	30-06-2019					31-12-2018				
	"Unit link" products		Other products			"Unit link" products		Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair Value	Capital	Interest receivable	Capital	Interest receivable	Fair Value
Debt instruments										
Issued by residents										
Treasury Bonds	1,126,667	16,118			1,142,785	1,142,510	18,426	-	-	1,160,936
Subordianted debt	-	-	-	-	-	-	-	56,745	10	56,755
Unsubordinated debt	116,189	1,323	-	-	117,512	123,032	2,200	-	-	125,232
Issued by non-residents										
Foreign public issuers	414,253	3,871			418,124	294,558	2,370	-	-	296,928
Unsubordinated debt	697,081	8,247	-	-	705,328	660,955	13,377	-	-	674,332
Equity instruments										
Issued by residents	57,756	-	164,624	-	222,380	102,629	-	176,556	-	279,185
Issued by non-residents	522,158	-	1,361	-	523,519	458,547	-	1,895	-	460,442
	2,934,104	29,559	165,985	-	3,129,648	2,782,231	36,373	235,196	10	3,053,810

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

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

The breakdown of this heading is as follows:

	30-06-2019						
			Fair Value Reserve				
	Acquisition cost	Interest receivable	Positive reserve	Negative reserve	Total	Impairment	Book value
Debt Instruments						(Note 21)	
Issued by residents							
Treasury bonds	5,007,864	61,984	755,133	(88)	755,045	-	5,824,893
Other residents							
Unsubordinated debt	19,937	150	367	(22)	345	(3)	20,429
Issued by non-residents							
Foreign public issuers	712,762	7,537	57,469	(274)	57,195	-	777,494
Other non-residents	56,733	386	1,628	(10)	1,618	-	58,737
	5,797,296	70,057	814,597	(394)	814,203	(3)	6,681,553
Equity instruments							
Issued by residents							
Measured at fair value	79,084	-	871	-	871	-	79,955
Issued by non-residents							
Measured at fair value	1,563	-	-	-	-	-	1,563
	80,647	-	871	-	871	-	81,518
	5,877,943	70,057	815,468	(394)	815,074	(3)	6,763,071

	31-12-2018							
			Fair Value Reserve					
	Acquisition cost	Interest receivable	Positive reserve	Negative reserve	Total	Impairment	Book value	
Debt Instruments						(Note 21)		
Issued by residents								
Treasury bonds	4,535,206	83,915	395,533	(100)	395,433	-	-	5,014,554
Other residents								
Unsubordinated debt	70,937	1,564	225	(72)	153	-	(3)	72,651
Issued by non-residents								
Foreign public issuers	742,006	5,383	23,917	(1,914)	22,003	-	-	769,392
Other non-residents	57,296	476	506	(244)	262	-	-	58,034
	5,405,445	91,338	420,181	(2,330)	417,851	-	(3)	5,914,631
Equity instruments								
Issued by residents								
Measured at fair value	13,835	-	581	-	581	64,328	-	78,744
Issued by non-residents								
Measured at fair value	1,695	-	-	-	-	-	-	1,695
	15,530	-	581	-	581	64,328	-	80,439
	5,420,975	91,338	420,762	(2,330)	418,432	64,328	(3)	5,995,070

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

Treasury Bonds headings had the following characteristics:

	30-06-2019				31-12-2018			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Treasury bonds - Portugal								
Maturing in 1 year	4,521	9	75	4,605	3,179	82	18	3,279
Maturing between one and three years	14,885	63	369	15,317	18,718	267	542	19,527
Maturing between three and five years	86,108	2,045	5,736	93,889	72,834	503	3,301	76,638
Maturing between five and ten years	4,832,101	59,005	740,467	5,631,573	4,203,814	76,035	382,434	4,662,283
Maturing over ten years	70,249	862	8,398	79,509	236,661	7,028	9,138	252,827
	5,007,864	61,984	755,045	5,824,893	4,535,206	83,915	395,433	5,014,554
Treasury bonds - Spain								
Maturing in 1 year	9,682	65	292	10,039	17,252	239	332	17,823
Maturing between one and three years	56,878	745	1,461	59,084	37,049	769	1,277	39,095
Maturing between three and five years	44,063	872	1,629	46,564	71,781	1,464	1,317	74,562
Maturing between five and ten years	415,773	4,237	35,318	455,328	451,780	2,267	8,838	462,885
Maturing over ten years	46,533	1,115	5,246	52,894	10,024	210	245	10,479
	572,929	7,034	43,946	623,909	587,886	4,949	12,009	604,844
Treasury bonds - Other								
Maturing in 1 year	19,041	1	291	19,333	33,289	1	1,247	34,537
Maturing between one and three years	17,588	53	323	17,964	17,506	49	263	17,818
Maturing between three and five years	49,731	310	2,099	52,140	45,904	251	1,355	47,510
Maturing between five and ten years	40,688	116	3,439	44,243	44,912	121	1,845	46,878
Maturing over ten years	12,785	23	7,097	19,905	12,509	12	5,284	17,805
	139,833	503	13,249	153,585	154,120	434	9,994	164,548
	5,720,626	69,521	812,240	6,602,387	5,277,212	89,298	417,436	5,783,946

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 20).

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

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

	30-06-2019					31-12-2018				
Description	Acquisition cost	Interest receivable	Gain/loss	Impairment	Book value	Acquisition cost	Interest receivable	Gain/loss	Impairment	Book value
Unsubordinated debt										
CGD 3% 2014/2019	-	-	-	-	-	50,000	1,442	29	(3)	51,468
Altri / Celbi Foating Rate	701	5	(8)	-	698	701	5	(8)	-	698
BCP 0.75	2,092	1	54	-	2,147	2,091	9	32	-	2,132
Celulose Beira Industria Foating Rate	450	4	-	-	454	450	4	-	-	454
Celulose Beira Industria Foating Rate	695	7	(6)	-	696	695	7	(9)	-	693
Brisa Concessao Rodov Sa 1,875	199	1	15	-	215	199	3	5	-	207
Cp Comboios De Portugal 4,17	254	7	(1)	-	260	258	2	-	-	260
Caixa Geral De Depositos 1	3,631	15	82	-	3,728	3,636	33	44	-	3,713
Refer-Rede Ferroviaria 4,25	1,287	28	25	-	1,340	1,301	2	22	-	1,325
Galp Energia Sgps Sa 1	994	4	19	-	1,017	994	9	(35)	-	968
Galp Gas Natural Distrib 1,375	1,996	21	78	-	2,095	1,996	8	(11)	-	1,993
Hovione Farmaciencia Sa Foating Rate	608	4	(7)	-	605	609	4	(8)	-	605
Jose De Mello Saude Foating Rate	-	-	-	-	-	251	1	-	-	252
Jose De Mello Saude Foating Rate	287	1	1	-	289	286	1	1	-	288
Jose De Mello Saude 4	700	7	20	-	727	700	7	8	-	715
Parpublica 3,75	714	26	37	-	777	716	13	42	-	771
Saudacor Sa Foating Rate	904	1	1	-	906	907	1	-	-	908
Saudacor Sa Foating Rate	798	1	12	-	811	800	1	13	-	814
Sprhi Sa Foating Rate	733	7	12	-	752	735	7	14	-	756
Parpublica 3,567	374	10	11	-	395	376	4	15	-	395
OB.HEFESTO STC SA SERIE-1 CL-R	2,520	-	-	(3)	2,517	3,100	-	-	-	3,100
Other	-	-	-	-	-	136	1	(1)	-	136
	19,937	150	345	(3)	20,429	70,937	1,564	153	(3)	72,651

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

As at June 2019, and December 31, 2018, Debt instruments – Other non-resident issuers included the following securities:

	30-06-2019				31-12-2018			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Santan Consumer Finance 0.875 %	7,521	28	150	7,699	7,524	61	(5)	7,580
Adif Alta Velocidad 1,875	5,275	74	150	5,499	5,297	26	74	5,397
Edp Finance Bv 1,125	3,009	13	164	3,186	3,006	30	(1)	3,035
Santan Consumer Finance 1	2,121	2	23	2,146	2,125	13	3	2,141
Banco Bilbao Vizcaya Arg 0,75	1,994	12	41	2,047	1,994	5	(26)	1,973
Ren Finance Bv 1,75	1,905	3	118	2,026	1,905	19	57	1,981
Criteria Caixa Sa 1,5	1,899	4	66	1,969	1,899	18	(41)	1,876
Critéria Caixa Sa 1.625	1,813	6	56	1,875	1,815	20	(8)	1,827
Nykredit 0.,75	1,506	11	13	1,530	1,508	5	-	1,513
Banco Bilbao Vizcaya Arg 0,625	1,499	4	29	1,532	1,499	9	5	1,513
Banco Bilbao Vizcaya Arg 1	1,419	6	6	1,431	1,424	13	(3)	1,434
Edp Finance Bv 4,875	1,327	48	-	1,375	1,351	18	(1)	1,368
Banco De Sabadell 0,875	1,195	3	16	1,214	1,195	9	(54)	1,150
Adif Alta Velocidad 3,5	1,095	3	71	1,169	1,102	21	36	1,159
Cassa Depositi Prestiti 2,75	1,089	2	12	1,103	1,095	17	4	1,116
Adif Alta Velocidad 0,8	1,092	9	43	1,144	1,091	4	19	1,114
Volkswagen Leasing Gmbh 2,375	1,053	19	9	1,081	1,059	8	(23)	1,044
State Grid Europe Develo 1,5	999	6	33	1,038	999	14	24	1,037
Aurizon Network Pty Ltd 2	996	16	77	1,089	995	6	29	1,030
Bharti Airtel International 3,375	952	4	44	1,000	952	20	3	975
Dexia Credit Local 0,625	898	2	37	937	898	5	17	920
Achmea Hypotheekbank Nv 2,75	871	8	19	898	876	20	18	914
Caixabank Sa 1,125	799	1	28	828	799	6	(16)	789
Spp Distribucia As 2,625	712	-	22	734	714	10	21	745
Santander Consumer Bank 0,75	700	4	11	715	700	1	(8)	693
Dvb Bank Se 1,25	700	2	6	708	699	6	7	712
Cassa Depositi Prestiti 0 75	699	3	(8)	694	699	1	(26)	674
Cellnex Telecom 3,125	638	17	6	661	643	8	(7)	644
Edp Finance Bv 1,875	637	9	35	681	638	3	10	651
Ep Energy As 5,875	606	6	6	618	612	6	14	632
Mylan Nv 1,25	604	5	2	611	605	1	(1)	605
Cores 1,5	599	5	35	639	599	1	28	628
Intesa Sanpaolo Spa 0,5	598	1	3	602	597	1	(3)	595
Ren Finance Bv 2,5	523	5	30	558	525	11	3	539
SANTAN 4% 7/4/20	507	5	9	521	512	15	14	541
Pko Fin Ab (Pko Bank Pl) 2,324	-	-	-	-	500	11	-	511
British Sky Broadcasting 1,875	500	6	40	546	500	1	22	523
Other	6,383	34	216	6,633	6,345	33	77	6,455
	56,733	386	1,618	58,737	57,296	476	262	58,034

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

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

	30-06-2019			31-12-2018			
Description	Acquisition cost	Gain/loss	Book value	Acquisition cost	Gain/loss	IFRS 9	Book value
SIBS - SGPS, S.A.	68,313	-	68,313	3,985	-	64,328	68,313
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3,218	-	3,218	3,218	-	-	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. - PS	3,218	-	3,218	3,218	-	-	3,218
VISA INC series C	1,375	-	1,375	1,431	-	-	1,431
NORGARANTE - SOC. GARANTIA MUTUA S.A.	807		807	1,296			1,296
PORTUGAL CAPITAL VENTURES - SOC. DE CAP. DE RISCO, SA	850	-	850	850	-	-	850
LISGARANTE - SOC. GARANTIA MUTUA S.A.	398		398	517			517
GARVAL - SOC.DE GARANTIA MUTUA S	410	112	522	287	27	-	314
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	471	745	274	491	-	765
AGROGARANTE- SOC. GARANTIAS MUTUAS	1,344	267	1,611	106	50	-	156
Other	440	21	461	348	13	-	361
	80,647	871	81,518	15,530	581	64,328	80,439

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	Interest receivable	Negative reserve	Book value	Acquisition cost	Interest receivable	Negative reserve	Book value
Debt instruments								
Between 0% and 25%	36,232	154	-250	36,136	130,609	703	(2,330)	128,982
Between 25% and 50%	69	-	(20)	49	-	-	-	-
Between 50% and 100%	124	-	(124)	-	-	-	-	-
	36,425	154	(394)	36,185	130,609	703	(2,330)	128,982

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

10. FINANCIAL ASSETS AT AMORTISED COST

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

	30-06-2019	31-12-2018
Loans and advances to other domestic banks		
Deposits	5,934	102,218
Loans	71,017	87,354
Interest receivable	120	497
	77,071	190,069
Loans and advances to other foreign banks		
Very short-term loans and advances	94,129	66,292
Deposits	317,496	270,562
Other applications	344,392	148,180
Interest receivable	19	12
	756,036	485,046
	833,107	675,115
Impairment losses (Note 21)	(40)	(84)
	833,067	675,031

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.

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

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

	30-06-2019	31-12-2018
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	173,575	138,330
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	2,125,654	2,148,876
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 loans	7,758	7,254
To individuals		
Mortgage loans	442,089	437,347
Consumer credit and other loans	70,109	64,694
	31,499,086	31,156,861
Securitized loans		
Non-subordinated debt securities	4,129,697	4,081,130
Non-derecognized securitized assets - individuals - mortagage loans	4,125,814	4,419,095
Overdue loans and interest		
Up to 90 days	20,778	23,768
More than 90 days	502,153	599,360
	522,931	623,128
	40,277,528	40,280,214
Interest receivable		
Unsecuritized loans	116,632	75,366
Securitized loans	20,609	16,463
Non-derecognized securitized assets	3,054	3,138
Deferred expenses	92,494	86,999
Cheques for collection	72,915	75,423
Debtors	278,198	297,961
Commissions associated with amortized cost (net)	(143,559)	(128,952)
	440,343	426,398
	40,717,871	40,706,612
Impairment of loans and advances to customers (Note 21)	(964,505)	(1,109,486)
	39,753,366	39,597,126

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

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 21).

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 20).

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

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
	522,931	623,128

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			30-06-2018		
	Gross value	Provisions	Coverage	Gross value	Provisions	Coverage
Stage 1	37,278,767	(68,924)	0.18%	36,709,012	(79,592)	0.22%
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%
	40,717,871	(964,505)		40,706,612	(1,109,486)	

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

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	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 sales	-	(105,342)	(105,342)	-	(21,001)	(21,001)
	91,856	(376,489)	(284,633)	73,464	(90,556)	(17,092)

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

	30-06-2019								
		Notional amounts						Notional amounts	
Type of financial instrument	Book value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	More than 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	258	165,713	33,906	70,675	31,690	-	301,984	153,705	148,279
Sold		165,533	33,841	70,656	31,663	-	301,693	145,804	155,889
Currency swaps									
Purchased	(7,221)	1,590,955	1,335	84	-	-	1,592,374	398,406	1,193,968
Sold		1,597,194	1,380	88	-	-	1,598,662	1,199,913	398,749
Interest rate swaps	(20,622)	62,319	185,735	44,111	4,401,095	18,684,903	23,378,163	23,342,722	35,441
Cross currency swaps									
Purchased	72	30,751	1,123	3,310	-	-	35,184	35,184	-
Sold		30,948	1,094	3,310	-	-	35,352	35,352	-
Equity swaps	8,470	-	-	-	-	370,281	370,281	370,281	-
Currency options									
Purchased	11	70,341	70,385	26,362	10,545	-	177,633	-	177,633
Sold		70,341	70,385	26,362	10,545	-	177,633	-	177,633
Equity options									
Purchased	91	50,284	40,409	146,926	-	-	237,619	237,619	-
Sold		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	-
	(18,182)	4,324,436	480,104	590,244	4,927,066	19,730,798	30,052,648	27,765,056	2,287,592
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Financial assets at fair value through other comprehensive income	(47,104)	-	-	-	-	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 flow	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	-
	(284,633)	171,703	1,575,606	4,463,942	5,858,106	5,031,713	15,021,069	16,913,570	187,499

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

	31-12-2018								
		Notional amounts						Notional amounts	
Type of financial instrument	Book value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	More than 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	340	183,469	118,303	10,622	32,524	136	345,054	171,021	174,033
Sold		183,335	118,190	10,600	32,503	136	344,764	171,619	173,145
Currency swaps									
Purchased	(7,048)	744,584	-	400	-	-	744,984	1,301	743,683
Sold		750,876	-	417	-	-	751,293	749,943	1,350
Interest rate swaps	(27,949)	41,837	1,881,966	263,484	2,562,893	21,339,402	26,089,582	26,052,761	36,821
Cross currency swaps									
Purchased	4	7,631					7,631	7,631	-
Sold		7,631					7,631	7,631	-
Equity swaps	(4,302)	138,295	-	-	-	378,934	517,229	517,229	-
Currency options									
Purchased	31	52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold		52,276	50,603	101,607	5,240	-	209,726	-	209,726
Equity options									
Purchased	(30)	64,728	49,450	90,693	146,926	-	351,797	351,797	-
Sold		64,728	49,450	90,693	146,926	-	351,797	351,797	-
Caps & Floors	536	257,600	773,410	440,105	265,011	889,194	2,625,320	2,625,320	-
	(38,418)	2,549,266	3,091,974	1,110,228	3,197,263	22,607,802	32,556,533	31,008,050	1,548,483
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Financial assets at fair value through other comprehensive income	(5,795)	-	-	-	-	80,000	80,000	80,000	-
Liabilities and loans	(51,635)	-	19,078	58,152	804,385	2,504,626	3,386,241	3,200,390	185,851
Equity swaps	(1,694)	26,619	16,136	30,126	35,565	-	108,446	140	108,306
Cash flow hedge									
Interest rate swaps									
Cash flow	63,033	56,746	192,081	1,102,594	9,000,000	-	10,351,421	10,351,421	-
Forwards sale	(21,001)	377,402	-	558,511			935,913	935,913	-
	(17,092)	460,767	227,295	1,749,383	9,839,950	2,584,626	14,862,021	14,567,864	294,157

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

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

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

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

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

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

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

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

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

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

12. INVESTMENT IN ASSOCIATED COMPANIES EXCLUDED FROM CONSOLIDATION

The composition of this heading is as follows:

	30-06-2019		31-12-2018	
	Effective Participation (%)	Book Value	Effective Participation (%)	Book Value
Domestic				
AEGON Santander Portugal Não Vida	49.00	31,128	49.00	16,268
AEGON Santander Portugal Vida	49.00	17,949	49.00	33,627
Benim - Sociedade Imobiliária, S.A.	25.81	1,918	25.81	1,918
Real Estate Investment Fund Lusimovest	25.77	25,847	25.77	25,847
Unicre - Instituição Financeira de Crédito, S.A.	21.86	31,626	21.86	35,634
		108,467		113,294
Impairment of investments in associates (Note 21)				
Benim - Sociedade Imobiliária, S.A.		(1,918)		(1,918)
		106,549		111,376

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 Real Estate Fund	290,114	297,625

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

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:

	30-06-2019	31-12-2018
Land		
Urbanized	13,972	14,643
Non-urbanized	1,128	1,141
Finished constructions		
Rented	217,281	222,946
Not rented	39,915	41,070
Other construction projects	17,818	17,825
	290,114	297,625

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:

	30-06-2019	30-06-2018
Rents (Note 35)	6,726	7,798
Condominium expenses	(623)	(578)
Maintenance and repair expenses	(6)	(542)
Insurances	(80)	(106)
	6,017	6,572

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

	2019				
	Balances at 31-12-2018	Increases	Fair value valuation	Sales	Balances at 30-06-2019
Properties held by Novimovest Real Estate Fund	297,625		(1,590)	(5,921)	290,114

	2018				
	Balances at 31-12-2017	Increases	Fair value valuation	Sales	Balances at 30-06-2018
Properties held by Novimovest Real Estate Fund	353,957	-	(682)	(23,093)	330,182

Investment properties held by the Group are valued every two years, or more frequently if an event occurs in the meantime giving rise to doubts as to the value of the latest valuation conducted by specialised, independent entities in accordance with the method described in Note 18.

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

As at 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:

	Level 3	
	30-06-2019	31-12-2018
Investment properties	290,114	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:

Property description	Use	Amount in 30-06-2019	Amount in 31-12-2018	Valuation tecnique	Relevant inputs
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 Terrenos in Matosinhos	Urbanized	41,780	41,694	Income method / Comparative market method	Taxa de capitalização Land value and cost of construction and marketing per m2
Galerias Saldanha Residence Centro Comercial in Lisboa	Leased Out	26,474	26,365	Income method / Comparative market method	Lease value per m2 Capitalization rate
Armazém em Perafita Armazém 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	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 e G2 Golf course in Loulé	Leased Out	12,128	12,128	Income method / Cost method	Lease value per m2 Capitalization rate
Alfena - Valongo Terrenos Terrenos em Valongo	Non-urbanized	10,576	10,576	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		164,308	**164,683**		

If there is an increase of the amount of rent per m^2 or an increase of the occupancy rate or a decrease of the capitalisation rate, the fair value of the investment properties will be increased. On the other hand, in the event of an increase of construction or marketing costs, an increase of the capitalisation rate, a decrease in the value of rent per square metre or a decrease in occupancy rate, the fair value of the investment properties will be decreased.

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

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

30-06-2019	31-12-2018				Write-offs and sales		Transfers: From/to other assets		Transfers: Between tangible/intangible assets		Depreciation	30-06-2019			
	Gross amount	Accumulated depreciation	Impairment (Note 21)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net amount
Tangible assets															
Properties															
Properties for own use	432,145	141,814	6,147	2,459	-	-	(5,622)	(1,918)	176	-	4,541	429,158	144,437	6,147	278,574
Leasehold expenditure	28,310	21,144	-	525	308	252	-	-	(182)	-	812	28,345	21,704	-	6,641
Other real estate	166	78	-	-	-	-	-	-	-	-	1	166	79	-	87
	460,621	163,036	6,147	2,984	308	252	(5,622)	(1,918)	(6)	-	5,354	457,669	166,220	6,147	285,302
Equipment															
Furniture and fixtures	11,251	4,435	-	648	582	582	-	-	(43)	(43)	591	11,274	4,401	-	6,873
Machinery and tools	1,911	979	-	267	55	54	-	-	6,280	6,280	171	8,403	7,376	-	1,027
Computer hardware	70,034	60,869	-	2,317	1,125	1,125	-	-	(6,062)	(6,062)	1,940	65,164	55,622	-	9,542
Indoor facilities	34,755	11,959	-	3,921	242	195	(91)	(34)	5	(1)	1,854	38,348	13,583	-	24,765
Vehicles	18,296	7,188	-	445	965	614	-	-	(52)	(19)	1,077	17,724	7,632	-	10,092
Security equipment	6,095	4,969	-	102	949	949	-	-	(181)	(181)	215	5,067	4,054	-	1,013
Other equipment	2,460	1,113	-	116	106	88	-	-	(22)	(22)	138	2,448	1,141	-	1,307
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	144,811	91,512	-	7,816	4,024	3,607	(91)	(34)	(75)	(48)	5,986	148,437	93,809	-	54,628
Other tangible assets															
Work of art	2,063	-	-	-	-	-	-	-	-	-	-	2,063	-	-	2,063
Other	51	38	-	-	-	-	-	-	26	26	3	77	67	-	10
	2,114	38	-	-	-	-	-	-	26	26	3	2,140	67	-	2,073
Own use rights IFRS 16															
Properties	-	-	-	37,997	-	-	-	-	-	-	3,095	37,997	3,095	-	34,902
	607,546	254,586	6,147	48,797	4,332	3,859	(5,713)	(1,952)	(55)	(22)	14,438	646,243	263,191	6,147	376,905
Intangible assets															
Software purchased	72,820	45,839	-	10,256					2,486	22	9,700	85,562	55,561	-	30,001
Unfiniched intangible assets	492	-	-	2,400					(2,432)	-	-	460	-	-	460
Business tranfers	4,385	3,892	-	-					-	-	246	4,385	4,138	-	247
Consolidation differences	2,651	-	-	-					-	-	-	2,651	-	-	2,651
	80,348	49,731	-	12,656	-	-	-	-	54	22	9,946	93,058	59,699	-	33,359

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

	30-06-2018																	
									Transfers									
									From/to other assets		Between tangible/intangible assets							
	31-12-2017			Eurovida Merger			Write-offs and sales							Depreciation	30-06-2018			
	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment	in the period	Gross amount	Accumulated depreciation	Impairment	Net amount
Tangible assets																		
Properties																		
Properties for own use	471,696	168,907	6,281	-	-	4,108	-	-	(3,641)	(1,532)	(4,020)	(1,076)	-	4,306	468,143	170,605	6,281	291,257
Leasehold expenditure	161,641	154,846	-	-	-	1	-	-	(246)	(246)	4,020	1,076	-	1,197	165,416	156,873	-	8,543
Other real estate	307	11	20	-	-	-	-	-	(141)	-	-	-	(20)	1	166	12	-	154
	633,644	323,764	6,301	-	-	4,109	-	-	(4,028)	(1,778)	-	-	(20)	5,504	633,725	327,490	6,281	299,954
Equipment																		
Furniture and fixtures	28,684	23,189	-	141	141	1,174	7	7	-	-	-	-	-	531	29,992	23,854	-	6,138
Machinery and tools	6,973	5,921	-	19	19	49	5	5	-	-	268	268	-	132	7,304	6,335	-	969
Computer hardware	107,865	97,161	-	308	304	1,114	235	235	-	-	-	-	-	2,075	109,052	99,305	-	9,747
Indoor facilities	36,830	19,794	-	26	21	3,812	22	13	(16)	(8)	(7)	(10)	-	1,441	40,623	21,225	-	19,398
Vehicles	19,973	8,897	-	13	13	674	3,829	2,814	-	-	-	-	-	1,061	16,831	7,157	-	9,674
Security equipment	19,511	18,185	-	-	-	103	-	-	-	-	-	-	-	217	19,614	18,402	-	1,212
Other equipment	7,821	6,626	-	-	-	202	-	-	-	-	(256)	(258)	-	136	7,767	6,504	-	1,263
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	227,666	179,773	-	507	498	7,128	4,098	3,074	(16)	(8)	5	-	-	5,593	231,192	182,782	-	48,410
Other tangible assets																		
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of art	2,048	-	-	3	-	12	-	-	-	-	-	-	-	-	2,063	-	-	2,063
Other	3,463	3,463	-	-	-	-	-	-	-	-	-	-	-	-	3,463	3,463	-	-
	5,792	3,744	-	3	-	12	-	-	-	-	-	-	-	-	5,807	3,744	-	2,063
	867,102	507,281	6,301	510	498	11,249	4,098	3,074	(4,044)	(1,786)	5	-	(20)	11,097	870,724	514,016	6,281	350,427
Intangible assets																		
Software purchased	446,378	413,221	-	2,280	2,185	3,292	5	5	-	-	490	-	-	9,789	452,435	425,190	-	27,245
Unfiniched intangible assets	213	-	-	92	-	1,109	102	-	-	-	(496)	-	-	-	816	-	-	816
Business tranfers	3,345	3,345	-	-	-	-	-	-	-	-	1,040	475	-	36	4,385	3,856	-	529
Other	1,040	475	-	-	-	-	-	-	-	-	(1,040)	(475)	-	-	-	-	-	-
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	453,627	417,041	-	2,372	2,185	4,401	107	5	-	-	(6)	-	-	9,825	460,287	429,046	-	31,241

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

15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

The breakdown of these headings is as follows:

	30-06-2019	31-12-2018
Current tax assets	59,029	34,909
Deferred tax assets	625,551	648,824
	684,580	683,733
Current tax liabilities	76,534	10,310
Deferred tax liabilities	366,332	243,959
	442,866	254,269
Deferred taxes	259,219	404,865

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

	30-06-2019	30-06-2018
Current taxes	(85,842)	78,534
Deferred taxes	(48,891)	157,947
	(134,733)	236,481

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.

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

The Bank records under Provisions under Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 21).

Of the Bank's tax losses €51,655k can be used up until 2026 and €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, BST, Santander Totta Seguros and Gama - controlled companies.

16. TECHNICAL RESERVES

The breakdown of these headings is as follows:

	30-06-2019	31-12-2018
Mathematical reserve for direct insurance	667,411	664,573
Unearned premiums reserve from direct insurance	3,727	3,244
Rate commitment reserve	6,722	6,580
Direct insurece claims reserve - life and non-life	29,668	37,180
Reserve for profit sharing attributed from direct insurance	2,855	3,131
Reserve for profit sharing to be attributed from direct insurance	49,259	25,466
Unearned premiums reserve - non-life	2,397	2,683
Total technical provisions for direct insurance	762,039	742,857
Mathematical reserve for reinsurance ceded	(11,087)	(11,034)
Reserves for profit sharing in ceded insurance	(1,949)	(1,979)
Unearned premiums reserve for reinsurance ceded	(4,346)	(3,949)
Claims reserve for reinsurance ceded	(21,720)	(23,403)
Total technical reserves for reinsurance ceded	(39,102)	(40,365)

The mathematical provisions set up for life-insurance contracts represent, as a whole, the commitments entered into with the insured, which include those relating to the profit-sharing, the right to which they have acquired. These provisions were calculated using the PF60/64, GKF80, GRF95 and GRM95 mortality tables for life insurance and the PM60/64, and GKM80 GKM95 for insurance in the event of death. The technical interest rates (discount rates) were 3% and 4%, respectively.

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

17. OTHERS ASSETS

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Debtors and other applications		
Debtors for loan interest subsidies receivable	5,730	5,672
Promises and other assets received as settlement of defaulting assets received as settlement of defaulted loans	287,214	356,659
Gold, other precious metals, coins and medals	3,145	3,145
Other available funds	772	447
Other income receivables	21,483	18,010
Deferred costs	1,845	2,864
Other	45,665	55,445
	365,854	442,242
Impairment losses (Note 21):		
Debtors and other applications	(149)	(149)
Promises and other assets received as settlement of defaulting assets received as settlement of defaulted loans	(100,015)	(109,334)
	(100,164)	(109,483)
	265,690	332,759

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 (Note 23)	Other assets	Other liabilities
Cheques, values in transit and other transactions to be settled	21,762	(61,103)	29,309	(58,888)
Balances to be settled in ATM's	55	(225,089)	-	(117,895)
Tranfers within SEPA	1,599	(40)	2,720	-
Other	22,249	(28,556)	23,416	(26,919)
	45,665	(314,788)	55,445	(203,702)

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

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

	2019											
	December 31, 2018						Impairment (Note 21)			June 30, 2019		
	Gross amount	Impairment	Net amount	Increases	Sales	Transfers	Allocation	Reversal	Utilization	Gross amount	Impairment	Net amount
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 property	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)	-
Own properties for sale	44,773	(23,624)	21,149	39	(1,993)	3,761	(7,902)	392	871	46,580	(30,263) -	*16,317*
	356,659	(109,334)	247,325	22,556	(48,169)	(43,832)	(15,273)	22,417	2,175	287,214	(100,015)	187,199

18. NON-CURRENT ASSETS HELD FOR SALE

The composition 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
	92,236	48,190
Impairment (Note 21)	(26,175)	(18,168)
	66,061	30,022

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

	2019										
	31-12-2018					Impairment (Note 21)			30-06-2019		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Transfers	Allocation	Reversal	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Properties:											
Received as settlement of defaulting	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
	48,190	(18,168)	8,341	(11,888)	47,593	(21,244)	6,612	6,625	92,236	(26,175)	66,061

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.

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

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

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

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

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

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

19. OTHER FINANCIAL LIABILITIES MANDATORY AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities for life insurance where the risk lies with the policyholder are carried under this heading.

Liabilities for life insurance where the risk lies with the policyholder corresponds to amounts received from customers for subscription of Unit link products of the Group's Insurer and the subsequent gains and losses on the financial investments in which the amounts received were invested.

	30-06-2019	31-12-2018
Liabilities for life insurrance where the risk rests with the policyholder	3,442,194	3,175,960

20. FINANCIAL LIABILITIES AT AMORTISED COST

The composition of the resources of central banks sub-heading is as follows:

	30-06-2019	31-12-2018
Resources from the European Central Bank		
Deposits	3,039,289	3,045,472
Deposits from other Central Banks		
Deposits	4,559	4,568
	3,043,848	3,050,040

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

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

	30-06-2019	31-12-2018
Resources of domestic credit institutions		
Deposits	185,304	192,207
Other resources	1,010	792
Interests payable	12	6
Deferred income revenues	1,108	44
	187,434	193,049
Resources of foreign credit institutions		
Sale operations with repurchase agreement	2,200,368	1,957,342
Consigned resources	900,000	900,000
Deposits	399,818	376,488
Other resources	17,218	35,995
Very short-term resources	77,329	76,856
Interests payable	305	181
	3,595,038	3,346,862
	3,782,472	3,539,911

As at June 30, 2019 and December 31, 2018, Amounts owed to credit institutions abroad – Repo operations, is broken down by type of asset underlying the repo operations:

	30-06-2019			
Type of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	654,982	(301)	(1,089)	653,592
Unsubordinated debt	1,052,629	(19)	(19)	1,052,591
Bond issued by non-residents	494,185	-	-	494,185
	2,201,796	(320)	(1,108)	2,200,368

	31-12-2018			
Type of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	311,387	(46)	(28)	311,313
Unsubordinated debt	1,263,379	(62)	(16)	1,263,301
Bond issued by non-residents	382,728	-	-	382,728
	1,957,494	(108)	(44)	1,957,342

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

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

	30-06-2019	31-12-2018
Term deposits	17,076,779	16,363,723
Demand deposits	16,400,919	15,136,872
Structured deposits	467,986	968,480
Savings deposits	814,127	875,550
	34,759,811	33,344,625
Interests payable	12,631	15,243
Financial insurance products without profit sharing	22,747	22,636
	35,378	37,879
	34,795,189	33,382,504

The debt securities sub-heading comprises the following:

	30-06-2019	31-12-2018
Debt securities		
Covered bonds		
Issued	6,950,000	7,700,000
Repurchased	(4,200,000)	(4,200,000)
Interest payable and other costs	(9,885)	(11,222)
Bonds issued in securitization operations		
Issued	4,556,873	4,898,563
Repurchased	(3,767,622)	(4,010,288)
Interest payable and other accruals	(59,075)	(62,904)
	3,470,291	4,314,149
EMTN Programme and others - Issued		
Issued	711	711
Interest payable and other costs	7	2
	718	713
Other subordinated liabilities		
Issued	296,139	296,139
Repurchased	(288,540)	(288,540)
Interest payable	418	136
	8,017	7,735
	3,479,026	4,322,597

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

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

The conditions of the mortgage bonds, of the bonds issued within the scope of securitisation, of cash bonds and of other subordinated liabilities are presented in Annexes I and II, respectively.

Between May 2008 and June 2019, BST undertook twenty-three covered-bond issues under the €12,5000,000,000 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 to customers (Note 10)	9,424,717	8,937,341
Interests on loans	8,017	7,220
Commissions	(52,895)	(46,134)
Deferred expenses	4,463	2,518
Derivatives	(71,754)	(65,587)
	9,312,548	8,835,358

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

	Bonds in circulation		EMTN Program
	Issued	Repurchased	Issued
Balance at December 31, 2017	7,701,072	(4,200,000)	25,744
. Issues repurchased	(1,072)	-	(25,033)
Balance at December 31, 2018	7,700,000	(4,200,000)	711
. Issues repurchased	(750,000)	-	-
Balance at June 30, 2019	6,950,000	(4,200,000)	711

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

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

	Bonds	
	Issued	Repurchased
Balance at December 31, 2017	3,249,292	(2,155,135)
Issued	2,266,000	-
Reimbursement	(616,729)	584,189
Repurchased		
. Hipototta 13	-	(2,266,000)
. Hipototta 4 e 5	-	(172,842)
. Azor mortgages B	-	(500)
	1,649,271	(1,855,153)
Balance at December 31, 2018	4,898,563	(4,010,288)
Reimbursement	(341,690)	242,666
Balance at June 30, 2019	4,556,873	(3,767,622)

The debt 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 through operations with futures	8,150	3,140
Adminsitrative public sector	24,032	32,519
Creditors through factoring contracts	51,979	50,442
Other	140,742	57,822
	318,845	200,336

21. PROVISIONS

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

	2019					
	Balance at 31-12-2018	Increase	Reversals	Utilization	Other	Balance at 30-06-2019
Provisions for tax contingencies	17,465	-	-	-	(208)	17,257
Provision for pensions and other charges	129,571	162	-	(26,170)	-	103,563
Impairment and provisions for guarantees		-	-	-	-	
and other sureties given	53,160	4,843	-	-	-	58,003
Other provisions	97,796	16,010	(11,774)	(879)	208	101,361
	297,992	21,015	(11,774)	(27,049)	-	280,184

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

	2018							
	Balance at 31-12-2017	IFRS 9	EUROVIDA merger	Increases	Reversals	Utilization	Other	Balance at 31-12-2018
Provisions for tax contingencies	17,525	-	167	-	-	-	-	17,692
Provision for pensions and other charges	39,931	-	1,500	116,180	-	(14,624)	1,684	144,671
Impairment and provisions for guarantees								
and other sureties given	24,022	35,062	-	12,233	(12,128)	-	-	59,189
Other provisions	96,795	-		204,203	(13,978)	(6,841)	(5,554)	274,625
	178,273	35,062	1,667	332,616	(26,106)	(21,465)	(3,870)	496,177

	2019						
	Balance at 31-12-2018	Increase	Reversals of impairment losses	Utilization and other	Balance at 30-06-2019	Recovery of past due loans	Gain/loss from loan sales
Impairment on financial assets							
Impairment for applications on credit institutions (Note 10)	84	2	(46)	-	40	-	-
Impairment losses on financial assets at amortized cost (Note 10)	1,109,486	138,483	(147,242)	(136,222)	964,505	(5,612)	(2,082)
Impairment losses on other financial assets							
at fair value through other comprehensive income (Note 9)	3	-	-	-	3	-	-
Impairment of investments in associates (Note 12)	1,918	-	-	-	1,918	-	-
	1,111,491	138,485	(147,288)	(136,222)	966,466	(5,612)	(2,082)
Impairment losses in non-financial assets							
Non-current assets held for sale (Note 18)	18,168	21,244	(6,612)	(6,625)	26,175	-	-
Intangible assets (Note 14)	6,147	-	-	-	6,147	-	-
Other assets (Note 17)	109,483	15,273	(22,417)	(2,175)	100,164	-	-
	133,798	36,517	(29,029)	(8,800)	132,486	-	-

	2018								
	Balance at 31-12-2017	IFRS 9	Eurovida merger	Increase	Reversals of impairment losses	Utilization and other	Balance at 31-12-2018	Recovery of past due loans	Gain/loss from loan sales
Impairment on financial assets									
Impairment losses on financial assets at amortized cost	1,740,865	28,142	-	186,159	(185,692)	(295,356)	1,474,118	(3,721)	(11,308)
Impairment losses on other financial assets									
at fair value through other comprehensive income	64,094	-	-	1,705	(1,750)	(63,774)	275	-	-
Impairment of investments in associates	5,532	-	-	-	-	(3,679)	1,853	-	-
	1,810,491	28,142	-	187,864	(187,442)	(362,809)	1,476,246	(3,721)	(11,308)
Impairment in non-financial assets									
Non-current assets held for sale	42,856	-	-	1,476	(447)	(6,426)	37,459	-	-
Intangible assets (Note 14)	6,301	-	-	2,472	(2,472)	(20)	6,281	-	-
Other assets	200,730	-	792	28,162	(4,571)	(47,039)	178,074	-	-
	249,887	-	792	32,110	(7,490)	(53,485)	221,814	-	-

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 plan	87,953	103,166
Retirement bonus BAPOP	1,684	1,684
Supplementary pension plan of the Board of		
Directors (Note 41)	13,926	24,721
	103,563	129,571

22. 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.

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

23. OTHER LIABILITIES

The breakdown of this heading is as follows:

	30-06-2019	31-12-2018
Personnel costs		
Vacation and vacation subsidies	31,284	39,758
Christmas subsidy	9,461	-
Other variable remuneration	24,014	29,692
Other personnel costs	880	1,208
Other	180,242	182,370
Liabilities with pensions and other benefits (Note 40)		
Bank responsabilities	973,742	972,776
Fair value of the Bank's Pension Fund	(998,389)	(979,892)
Responsabilities-London branch	44,509	44,509
Fair value of London branch Pension Fund	(38,891)	(38,891)
Responsabilities former Banif	133,084	133,084
Fair value of former Banif Pension Fund	(100,641)	(100,641)
Responsabilitie from former-Popular	160,369	163,111
Fair value of former-Popular Pension Fund	(170,765)	(163,475)
Other deferred income	2,599	3,396
Liability operations to be settled (Note 17)	314,788	203,702
	566,286	490,707

24. SHAREHOLDERS' EQUITY

As at June 30, 2019 and December 31, 2018, the share capital of Santander Totta, SGPS, SA, was represented by 197,296,207,958 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	30-06-2019		
	Number of shares	Participation (%)	Amount
Santander Group	196,996,017,344	99.85%	1,969,960
Other	194,248,356	0.10%	1,943
Own shares	105,942,258	0.05%	1,059
	197,296,207,958	100.00%	1,972,962

During 2018, the Company purchased 5,760,940 treasury shares for the amount of €118k. In the first half of 2019, there were no purchases of treasury shares.

During 2018 the Company distributed dividends in the amount of €392,165k (amount net of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00198 per share. Of this amount €150,000 were distributed in 2017 as interim dividends.

During 2019 the Company distributed dividends in the amount of €494,788k (amount net of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00250 per share. Of this amount €100,000k were distributed in 2018 as interim dividends.

Other capital instruments

On December 30, 2015, the Company issued "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). The issuance of this instrument was carried out following the redemption of the TAF preference shares and after approval by the European Central Bank.

On June 20, 2016, the Company made a second issue of "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). The issuance of this instrument was carried out following the redemption of the BST Porto Rico preference shares and after approval by the European Central Bank.

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

Reserves for accumulated comprehensive income

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

	30-06-2019	31-12-2018
Revaluation reserves		
Reserves resulting from the fair value valuation:		
From other financial assets at fair value through other comprehensive income	807,065	409,740
Available-for-sale financial assets of companies under equity method	3,170	2,119
Cash-flow hedging instruments	(28,170)	31,922
Eurovida merger		
Valuation of insurance liabilities (shadow reserve)	(41,040)	(17,744)
Actuarial gains and losses		
Pension Fund of BST	(658,801)	(685,863)
Pension Fund of the Lond branch of BST	(12,109)	(12,109)
Pension fund of Former Banif	(8,515)	(8,515)
Pension fund of BAPOP	11,756	(753)
Actuarial gains and losses of companies under the equity method	(3,034)	(3,034)
	70,322	(284,237)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
From other financial assets at fair value through other comprehensive income	(242,829)	(124,097)
Available-for-sale financial assets of companies under equity method	(617)	(542)
Cash-flow hedging instruments	8,733	(9,896)
Valuation of insurance liabilities (shadow reserve)	7,496	4,210
Tax impact of actuarial gains and losses	181,610	181,610
Tax impact from the change in accounting policies of companies under the equity method	942	942
Relating to the revaluation of tangible assets	(3,147)	(3,147)
	(47,812)	49,080
	22,510	(235,157)

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.

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

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

	30-06-2019	31-12-2018
Legal reserve	320,054	257,087
Merger reserve	640,575	640,575
Consolidated reserve		
Companies consolidated under the full method	536,901	672,308
Companies consolidated under the equity method	17,940	9,817
Retained earnings	(137,619)	(145,411)
	1,377,851	1,434,376

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company sets aside a legal reserve until it equals the share to capital or sum of the free reserves formed and retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated loses or to increase the share capital.

Merger reserve

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

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

25. CONSOLIDATED PROFIT FOR THE YEAR

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

	30-06-2019		30-06-2018	
	Net income for the period	Contribution to the consolidated net income	Net income for the period	Contribution to the consolidated net income
Net income of ST SGPS (individual basis)	443,838	443,838	642,511	642,511
Net income of other Group companies:				
Banco Santander Totta, S.A.	249,510	249,401	237,283	237,179
Totta Ireland, Plc.	5,182	5,180	6,571	6,568
Unicre, Instituição Financeira de Crédito, S.A.	6,778	1,481	8,607	1,881
Santander Totta Seguros, S.A.	17,416	17,416	4,819	4,819
Totta Urbe, Empresa de Administração e Construções, S.A.	3,316	3,315	(1,107)	(1,107)
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	5,409	2,651	5,218	2,557
Novimovest - Fundo de Investimento Imobiliário Aberto	2,941	2,353	4,540	3,614
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	3,027	1,483	1,390	681
Taxagest, S.A.	4	4	-	-
Banif International Bank, LTD	89	89	33	33
Lusimovest Fundo de Investimento Imobiliário	(3)	(1)	1,816	468
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	26	26	-	-
Primestar servicing	-	-	3	2
Eurovida - Companhia de Seguros de Vida	-	-	1,711	1,711
Popular Seguros	(169)	(169)	525	525
		283,229		258,931
Elimination of dividends:				
Banco Santander Totta, S.A.		(422,688)		(618,324)
Totta Ireland PLC		-		(10,795)
Unicre - Instituição Financeira de Crédito, S.A.		(5,200)		-
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(5,412)		(2,889)
		(433,300)		(632,008)
Adjustments related with securitization operations		(6,009)		5,061
Annulment of provisions for securities and intragroup shareholdings		(6,245)		(6,548)
Other		(5,638)		(4,300)
		(17,892)		(5,787)
		275,875		263,647

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

	30-06-2019	30-06-2018
Consolidated net income attributable to the shareholders of ST, SGPS	275,875	263,647
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	105,942,258	101,850,324
Weighted average number of ordinary shares outstanding	197,190,265,700	197,194,357,634
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euro)	0.0014	0.0013

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

Basic earnings per share are the same as diluted earnings per share since there are no contingently issuable common shares, including options, warrants or equivalent financial instruments as of the reporting date.

26. NON-CONTROLLING INTERESTS

As at June 30, 2019, and December 31, 2018, the value of non-controlling interests in the balance sheet and income statement corresponds to the proportion of the holdings of third-parties in the Bank's share capital.

27. OFF-BALANCE-SHEET ACCOUNTS

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

	30-06-2019	31-12-2018
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,523,932	1,567,422
Documentary credits	402,918	388,488
Contingent assets:		
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
	12,912,919	12,446,826
Commitments		
Credit lines		
Revocable	5,125,744	5,229,923
Irrevocable	772,723	1,035,032
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,110	7,954
Other revocable commitments	214	216
	5,973,760	6,342,094
Liabilities for services rendered		
Deposit and custodial services	29,043,970	27,348,561
Amounts received for collection	175,061	172,451
Other amounts	46,267	33,685
	29,265,298	27,554,697

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

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

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

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 unpaid amount accumulated as at June 30, 2019, and December 31, 2018, for which this commitment was entered into totalled €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 35).

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.

28. INTEREST INCOME

The breakdown of this heading is as follows:

	30-06-2019	30-06-2018
Interest on cash and deposits		
In credit institutions	328	623
Interests 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	292,502	315,168
Foreign loans	9,393	7,306
Other loans and receivables (commercial paper)	36,184	39,050
Securitized assets not derecognized	19,602	19,991
Income from comissions received associated to amortized cost	27,230	31,632
Interest on overdue loans and advances	3,437	4,240
Interest and similar income on other financial assets		
Other financial assets at fair value through other comprehensive income	61,865	56,015
Other financial assets at fair value through profit and loss	404	555
Held to maturity investments	141,526	122,622
	7,773	24,779
	607,275	624,723

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

29. INTEREST CHARGE

The breakdown of this heading is as follows:

	30-06-2019	30-06-2018
Interest on resources from the central banks	-	63
Resources from other credit institutions		
Domestic	174	111
Foreign	2,953	1,920
Customer deposits		
Deposits		
Residents	22,784	26,339
Non-residents	3,015	2,813
Other resources	14	15
Interests on debt securities		
Bonds	21,394	22,899
Other liabilities on debt securities	4	57
Interest on subordinated liabilities	282	281
Interest on hedging derivatives	118,257	119,238
Other	9,684	6,838
	178,561	180,574

30. INCOME FROM EQUITY INSTRUMENTS

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

	30-06-2019	30-06-2018
SIBS – Sociedade Interbancária de Serviços, S.A.	1,634	1,159
Unicampos-Fundo Especial de Invest. Imobiliário Fechado	-	67
Other	3	80
	1,637	1,306

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

31. INCOME FROM SERVICES & COMMISSIONS

The composition of this heading is as follows:

	30-06-2019	30-06-2018
On guarantees given		
Guarantees and sureties	7,823	8,734
Documentary credits	1,629	1,711
On commitments to third parties	402	1002
For banking services provided		
Card transactions	45,272	43,500
Demand deposits	39,915	32,370
Credit operations	26,313	24,542
Annuities	15,111	12,976
Real estate and mutual fund management	12,957	13,346
Asset management and collection	6,100	6,423
Cheques	4,674	4,749
Deposit and custody services	3,031	2,122
Other banking services rendered	1,395	7,598
On operations carried out on behalf of third parties		
On securities	7,585	8,655
Other	86	1,151
Other commission received		
Insurance	50,562	47,588
Other	18,774	8,270
	241,629	224,737

32. CHARGES WITH SERVICES & COMMISSIONS

The composition of this heading is as follows:

	30-06-2019	30-06-2018
On guarantees received		
Guarantees and sureties	2,233	1,220
On banking services rendered by third parties		
Customer transactions	34,450	25,382
Credit operations	3,959	7,093
Asset management and collection	2,267	1,650
Other banking services rendered	1,423	1,008
On operations carried out by third parties		
Securities	928	1,400
Other operations carried out by third parties	2,909	1,031
Other commissions paid	623	1,564
	48,792	40,348

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

33. GAINS/LOSSES ON FINANCIAL ASSETS

The financial 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:

	30-06-2019	30-06-2018
Financial assets held for trading		
Equity instruments	90	106
Derivative instruments		
Swaps		
Currency swaps	(116)	344
Interest rate swaps	10,226	(6,622)
Equity swaps	1,400	(2,700)
Options		
Currency swaps	42	58
Equity swaps	5,526	4,294
Interest Rate Guarantee Agreements	(6,982)	(792)
	10,186	(5,312)
Other financial assets and liabilities mandatory at fair value through profit or loss		
Debt instruments	16,005	6,464
Equity instruments	2,364	1,872
	18,369	8,336
Hedging derivatives		
Swaps		
Interest rate swaps	(205,150)	(15,061)
Equity swaps	826	(130)
Autocallable options	-	133
Value adjustments of hedge assets and liabilities	204,324	15,044
	-	(14)
	28,555	3,010

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

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

	30-06-2019			30-06-2018		
	Gains	Losses	Net	Gains	Losses	Net
Debt instrumentos						
National public issuers	57,029	-	57,029	25,529	(40)	25,489
Foreign public issuers	-	-	-	775	-	775
Other	671	(5)	666	335	-	335
	57,700	(5)	57,695	26,639	(40)	26,599

The currency revaluation sub-heading comprises the following:

	30-06-2019	30-06-2018
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)
	4,976	4,762

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

	30-06-2019	30-06-2018
Gains on other tangible assets	267	9,513
Gains on the sale of investments in subsidiaries and associates	-	85
Other gains on financial operations	-	667
Other gains on non-financial operations	-	779
	267	11,044
Losses on other tangible assets	(418)	(7,277)
Other losses on financial operations	-	(23)
Other gains on non-financial operations	(116)	(7,575)
	(534)	(14,875)
	(267)	(3,831)

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

34. GROSS MARGIN IN INSURANCE

The composition of the gross margin of insurance is as follows:

	30-06-2019	30-06-2018
Commissions and profit sharing on reinsurance ceded	14,254	14,754
Gross written premiums net of reinsurance	9,433	34,923
Costs with claims net of reinsurance	(25,144)	(23,444)
Change in technical reserves net of reinsurance	1,310	(26,368)
Interests and net income of assets allocated to technical reserves	5,950	5,781
Net gains of assets allocated to technical reserves	643	979
Charges for services and commissions associated with technical reserves	(1,357)	(2,281)
	5,089	4,344
Gross margin on life insurance where the investment risk rests with the policyholder	6,874	5,853

Technical provisions include liabilities for insurance contracts and financial liabilities for investment contracts with discretionary profit-sharing.

Financial liabilities for investment contracts without discretionary profit-sharing are not considered when determining the gross margin of the insurance business.

35. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	30-06-2019	30-06-2018
Income from services rendered	1,471	1,743
Rents earned	7,155	8,113
Contributions to the Deposit Guarantee Fund (Note 26)	(50)	(44)
Contributions to the Resolution Fund	(32,597)	(22,220)
Charges related to transactions made by customers	(3,626)	(3,135)
Other	779	(4,560)
	(26,868)	(20,103)

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 (Note 13).

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 €7,554k, respectively.

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

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

36. STAFF COSTS

The composition of this heading is as follows:

	30-06-2019	30-06-2018
Remuneration		
Management and supervisory boards	4,121	4,691
Employees	114,551	118,817
Stock plan	-	191
Other variable remuneration	16,556	14,835
	135,228	138,534
Mandatory social charges		
Charges on remuneration	30,463	32,321
Pensions and other benefits (Note 40)	2,854	3,382
Other mandatory social charges	626	704
	33,943	36,407
Other staff costs		
Staff assignments	644	687
Supplementary pension plan	291	291
Other	4,109	2,891
	5,044	3,869
	174,215	178,810

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

37. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	30-06-2019	30-06-2018
External supplies:		
Water, electricity and fuel	4,705	5,461
Consumable materials	1,085	1,183
Other	116	181
External services:		
Specialized services	37,426	41,261
Maintenance of software and hardware	27,647	23,544
Communications	5,498	7,122
Maintenance and repairs	2,673	3,667
Advertising and publishing	6,919	7,098
Rents and hires	3,167	7,709
Travel, lodging and entertainment expenses	2,622	2,899
Transportation	2,560	2,413
Insurance	729	771
Other	3,544	5,925
Contributions and donations	3,610	3,557
Other taxes	2,181	3,715
	104,482	116,506

38. RESULTS OF ASSOCIATES

The composition of this heading is as follows:

	30-06-2019	30-06-2018
AEGON Santander Portugal Não Vida	1,483	681
AEGON Santander Portugal Vida	2,651	2,557
Lusimovest - Real Estate Investment Fund	-	468
Unicre - Credit Institution	412	1,881
	4,546	5,587

39. RESULTS FROM NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	30-06-2019			30-06-2018		
	Gains	Losses	Net	Gains	Losses	Net
Non-current assets held for sale	34,018	(23,782)	10,236	5,429	(1,647)	3,782

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

40. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services of the Bank in respect of employees in service and those already retired, actuarial studies were conducted by Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

BST's liabilities for retirement pensions, health care and death benefits as at June 30, 2019, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

	2019	2018	2017	2016	2015
Estimate of responsibilities 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 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 system (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 financing amount / (not financed)	24,647	7,116	37,417	189	26,508
Actuarial and financial deviations generated in the 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.

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

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at 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:

	30-06-2019	31-12-2018
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
Responsabilities at end of period	973,742	972,776

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 36):

	30-06-2019	30-06-2018
Cost of current services	1,876	2,038
Cost of interests	9,804	9,209
Assets return using discount rate	(9,804)	(9,209)
Defined benefit plan	1,876	2,038
Defined contribution plan	552	555
London branch plan	426	162
Former-BAPOP plan	-	627
	2,854	3,382

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

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

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

Balance at December 31, 2017	658,333
Actuarial gain from pensions	(2,389)
Financial loss from pensions	24,699
Actuarial loss from healthcare, death subsidy and retirement payment	475
Financial loss from healthcare, death subsidy and retirement payment	5,054
Balance at December 31, 2018	686,172
Actuarial gains from pensions	10,182
Financial loss from pensions	(31,476)
Actuarial loss from healthcare, death subsidy and retirement payment	734
Financial gain from healthcare, death subsidy and retirement payment	(6,519)
Balance at June 30, 2019	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:

	30-06-2019	31-12-2018
Current employees[1]	4,523	4,582
Pensioners	1,211	1,175
Retired and early retired staff	5,683	5,689
	11,417	11,446

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

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

Movement occurred in the Bank's Pension Fund during 2018 and in the first half of 2019 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	(48,637)
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	(30,549)
Book value at June 30, 2019	998,389

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:

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

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

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

	30-06-2019	31-12-2018
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
. Foreign shares - listed	33,819	34,030
Derivatives - Options listed	(2,379)	2,288
Other	13,737	21,072
	998,389	979,892

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 43), 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
	710,629	-	239,551	950,180	648,429	-	242,004	890,433

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:

	30-06-2019	31-12-2018
Rented properties	13,875	14,841
Securities (including shares in managed investment funds)	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.

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

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.

<u>Defined benefit pension plan – London Branch</u>

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)
	=====

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
	=====

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

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:

	2018
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 at December 31, 2017	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030

Balance at December 31, 2018	12,109
	=====

As at December 31, 2018, 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

Value of the Fund	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.

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

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 former Banif	Subpopulation former BBCA	Total
Current employees	727	174	901
Retired staff and pensioners	96	161	257
Early retired staff	10	171	181
Former participants with vested rigths	-	69	69
Retired of the defined contribution plan	175	-	175
Total	1,008	575	1,583

Defined contribution pension plans - covered employees

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

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

	31-12-2018				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death subsidy	Retirement bonus	Total
Current employees	21,605	6,155	102	846	28,708
Retired staff and pensioners	74,838	7,484	384	-	82,706
Early retired staff	13,821	3,450	-	-	17,271
Former participants with vested rigths	3,241	1,158	-	-	4,399
Total liabilities for past services	113,505	18,247	486	846	133,084
Book value of the pension fund					100,641
Insufficient fund					(32,443)

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

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

	31-12-2018	
Assets	Total	Relative weight
Debt instruments	64,385	62.49%
Mutual fund	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 transfered	(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.

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

	31-12-2018	31-12-2018
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
	2,201	2,257

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:

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

	30-06-2019			31-12-2018		
	Pensions	SAMS Healthcare and death subsidy	Total	Pensions	SAMS Healthcare and death 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	150,092	10,277	160,369	153,072	10,039	163,111
Book value of the pension fund			170,765			163,475
Over financing			10,396			364

As at June 30, 2019, and December 31, 2018, the breakdown of the BAPOP Pension Fund by type of asset is as follows:

	30-06-2019		31-12-2018	
Assets	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%
	170,765		163,475	

41. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta nº 4 and Hipototta nº 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

The Hipototta Funds (nº 4 and nº 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegator). BST continues manage the loan contracts, delivering to Hipototta Funds (nº 4 and nº 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

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

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.º 5) PLC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (No. 4 and No. 5) PLC, separating the instalments into principal and interest.

As a form of funding, Fundos Hipototta No. 4 and No. 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at June 30, 2019, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

	Amount		Rating			Remuneration	
Issued debt	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	521,650	A	September 2048	December 2014	3 month Euribor + 0.12%	3 month Euribor + 0.24%
Class B	44,240	18,978	A	September 2048	December 2014	3 month Euribor + 0.19%	3 month Euribor + 0.40%
Class C	139,720	59,936	BB-	September 2048	December 2014	3 month Euribor + 0.29%	3 month Euribor + 0.58%
	2,800,000	600,564					
Class D	14,000	14,000	NR	September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	614,564					

Hipototta nº 5 PLC

	Amount		Rating				Remuneration	
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	3 month Euribor + 0.05%	3 month Euribor + 0.10%
Class A2	1,693,000	476,395	A	Aa3	February 2060	February 2014	3 month Euribor + 0.13%	3 month Euribor + 0.26%
Class B	26,000	26,000	A	Aa3	February 2060	February 2014	3 month Euribor + 0.17%	3 month Euribor + 0.34%
Class C	24,000	24,000	A	A1	February 2060	February 2014	3 month Euribor + 0.24%	3 month Euribor + 0.48%
Class D	26,000	26,000	A	Baa2	February 2060	February 2014	3 month Euribor + 0.50%	3 month Euribor + 1.00%
Class E	31,000	31,000	BBB	Ba2	February 2060	February 2014	3 month Euribor + 1.75%	3 month Euribor + 3.50%
	2,000,000	583,395						
Class F	10,000	6,000	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	589,395						

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).

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

The Hipototta nº 4 class D bonds and the Hipototta n° 5 class F bonds constitute the last liability to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and service fee charged by BST, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta n° 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. “Swap Agreements” were also concluded between the Santander Group and securitisation vehicles and between the Bank and the Santander Group intended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Azor Mortgage nº 1

Operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, SA) were ceded. The ceded loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redeption date
Class A	253,000	0	AA	A1	September 2047	3 month Euribor + 0.3%
Class B	19,000	18,099	AA	A1	September 2047	3 month Euribor + 0.76%
Class C	9,000	9,000	BBB	A3	September 2047	3 month Euribor + 1.75%
	281,000	27,099				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	37,099				

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

Atlantes Mortgage nº 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 2, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	349,100	117,811	AA	AA	September 2060	3 month Euribor + 0.33%
Class B	18,400	13,817	A	A+	September 2060	3 month Euribor + 0.95%
Class C	7,500	5,632	BBB-	BBB+	September 2060	3 month Euribor + 1.65%
	375,000	137,260				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	153,385				

Azor Mortgage nº 2

Operation carried out in July 2008, when the mortgage loans originated at the former BBCA were ceded to Gamma STC . To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	253,500	91,046	AA (sf)	A (sf)	December 2065	3 month Euribor + 0.3%
Class B	46,500	43,080	NR	NR	December 2065	3 month Euribor + 0.8%
	300,000	134,126				
Class C	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,750	140,876				

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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	558,600	201,889	AA	AA (sf)	August 2061	3 month Euribor + 0.2%
Class B	41,400	28,953	NR	NR	August 2061	3 month Euribor + 0.5%
	600,000	230,842				
Class C	57,668	51,061	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	281,903				

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

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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	514,250	228,614	AA (sf)	AA	December 2064	3 month Euribor + 0.15%
Class B	35,750	25,176	NR	NR	December 2064	3 month Euribor + 0.3%
	550,000	253,790				
Class C	74,250	69,381	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	323,171				

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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	455,000	187,410	AA	AA	November 2068	3 month Euribor + 0.15%
Class B	45,000	34,601	NR	NR	November 2068	3 month Euribor + 0.3%
	500,000	222,011				
Class C	66,250	62,011	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	284,022				

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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	357,300	148,446	AA-	AA	August 2066	3 month Euribor + 0.15%
Class B	39,700	27,586	NR	NR	August 2066	3 month Euribor + 0.3%
	397,000	176,032				
Class C	63,550	57,206	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	233,238				

Hipototta 13

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

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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redeption date
Class A	1,716,000	1,358,300	NR	A+ (sf)	October 2072	3 month Euribor + 0.6%
Class B	484,000	484,000	NR	NR	October 2072	3 month Euribor + 1%
	2,200,000	1,842,300				
Class C	66,000	56,920	NR	NR	October 2072	Residual income of the securitized portfolio
	2,266,000	1,899,220				
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.

42. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in the first half of 2019 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Taxagest,SGPS,SA	Portugal
Totta Seguros - Compª de Seguros De Vida, SA	Portugal
Gamma STC	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Primestar Servicing	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Fundo de investimento imobiliário - Novimovest	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Entities significantly influenced by the Group	
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
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Polonia
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
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Refundos, SGFIM	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Activos SFIM, SA	Portugal
Santander Global Thechnology, S.L.	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Company's related entities with which it maintained balances or transactions in 2018 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta, S.A.	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Primestar Servicing, S.A.	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitization operations managed by Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Porto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander BackofficesGlobalesEspec. S.A.	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Activos SFIM, SA	Portugal
Santander Global Facilities	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

(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	-	-
Other financial assets mandatorily at fair value through profit or loss	105	-	6,451
Other financial assets at fair value through other comprehensive income	521	-	10,486
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	37,569
Hedging derivatives	2,614	-	-
Investments in associated companies	-	106,549	-
Other assets	7	9,571	1,947
Liabilities:			
Financial liabilities held for trading	(1,106,229)	-	-
Resources of other credit institutions	(826,994)	-	(8,662)
Resources of customers and other debts	(1)	(24,321)	(20,498)
Debt securities	(53,082)	-	-
Hedging derivatives	(54,928)	-	-
Other liabilities	(4,624)	(9,804)	(22,254)
Profit and Loss:			
Interest income	(112,925)	(202)	(182)
Interest charge	115,485	-	11
Income from services and commissions	(234)	(21,166)	(10,055)
Charges with services and commissions	33	-	2,667
Assets and liabilities at fair value through profit or loss	92,133	-	-
Exchange revaluation	1,823	-	(15)
Gross margin of life insurance in which the risk is borne by the policy holder	-		(307)
Gross margin in insurance activity	-	-	(4)
General administrative costs	4,581	-	16,220
Result from associates and joint ventures	-	(4,546)	(26)
Other operating results	-	(96)	(250)
Off balance sheet items:			
Guarantees provided and other contingent liabilities	33,116	22	160,734
Guarantees received	1	-	162
Commitments to third parties	125,000	87	19,307
Currency operations and derivatives	23,901,027	-	-
Responsibilities for services rendered	2,003,643	83,822	1,879,298

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

	2018		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	91,713	-	6,633
Financial assets held for trading	162,071	-	8
Other financial assets mandatorily at fair value through profit or loss	98	-	6,938
Other financial assets at fair value through other comprehensive income	541	-	10,547
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	17	59,126
Hedging derivatives	9,970	-	-
Investments in associated companies	-	111,376	-
Other assets	3,482	4,171	4,757
Liabilities:			
Financial liabilities held for trading	(1,197,394)	-	-
Resources of other credit institutions	(290,308)	-	(21,771)
Resources of customers and other debts	-	(11,448)	(44,900)
Debt securities	(63,824)	-	-
Hedging derivatives	(21,242)	-	(5,795)
Other liabilities	(7,061)	(9,804)	(3,779)
Profit and Loss:			
Interest income	(213,471)	(1,319)	(3,196)
Interest charge	222,404	-	3,416
Income from services and commissions	(408)	(43,064)	(21,206)
Charges with services and commissions	747	-	4,435
Assets and liabilities at fair value through profit or loss	103,600	-	17,247
Exchange revaluation	(1,176)	-	-
Gross margin of life insurance in which the risk is borne by the policy hold	5		(65)
Gross margin in insurance activity	-	-	(82)
General administrative costs	7,061	-	36,494
Impaiment from investments in associated companies	-	65	-
Result from associates and joint ventures	-	(14,467)	-
Other operating results	-	-	7,170
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	78,845
Guarantees received	1	-	162
Commitments to third parties	110,000	29,504	27,893
Currency operations and derivatives	26,406,931	-	82,312
Responsibilities for services rendered	2,004,165	85,689	1,827,723

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 21).

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

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

43. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

BALANCE SHEET

Categories of financial instruments

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

	30-06-2019				
	Measured at fair value	Measured at amortised cost	Measured at historical cost	Impairment	Net value
Assets					
Cash and deposits at central banks	-	2,159,813	245,326	-	2,405,139
Balances due from other banks	-	531,674	-	-	531,674
Financial assets held for trading	1,121,419	-	-	-	1,121,419
Other financial assets mandatory at fair value through profit or loss	3,129,648	-	-	-	3,129,648
Other financial assets at fair value through other comprehensive income	6,763,074	-	-	(3)	6,763,071
Loans and advances to credit institutions	-	833,107	-	(40)	833,067
Credit granted and other balances receivable at amortized cost	3,780,055	36,864,901	72,915	(964,505)	39,753,366
Hedging derivatives	91,856	-	-	-	91,856
	14,886,052	40,389,495	318,241	(964,548)	54,629,240
Liabilities					
Financial liabilities held for trading	1,136,222	-	-	-	1,136,222
Other financial liabilities at fair value through profit or loss	3,442,194	-	-	-	3,442,194
Resources of central banks	-	3,043,848	-	-	3,043,848
Resources from other credit institutions	-	3,782,472	-	-	3,782,472
Resources from customers and other debts	91,075	34,704,114	-	-	34,795,189
Debt securities	-	3,479,026	-	-	3,479,026
Other liabilities	-	224,903	93,942		318,845
Hedging derivatives	376,489	-	-	-	376,489
	5,045,980	45,234,363	93,942	-	50,374,285

	31-12-2018				
	Measured at fair value	Measured at amortised cost	Measured at historical cost	Impairment	Net value
Assets					
Cash and deposits at central banks	-	1,368,061	287,671	-	1,655,732
Balances due from other banks	-	850,898	-	-	850,898
Financial assets held for trading	1,204,674	-	-	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,053,810	-	-	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,995,073	-	-	(3)	5,995,070
Loans and advances to credit institutions	-	675,115	-	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,281,500	37,349,689	75,423	(1,109,486)	39,597,126
Hedging derivatives	73,464	-	-	-	73,464
	13,608,521	40,243,763	363,094	(1,109,573)	53,105,805
Liabilities					
Financial liabilities held for trading	1,239,713	-	-	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources from central banks	-	3,050,040	-	-	3,050,040
Resources from other credit institutions	-	3,539,911	-	-	3,539,911
Resources from customers and other debts	257,276	33,125,228	-	-	33,382,504
Debt securities	-	4,322,597	-	-	4,322,597
Other liabilities	-	143,923	56,413	-	200,336
Hedging derivatives	90,556	-	-	-	90,556
	4,763,505	44,181,699	56,413	-	49,001,617

The credit extended and other receivables at amortised coast and customer funds and other borrowings headings include financial assets and liabilities to which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

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

As at June 30, 2019 and December 31, 2018, Other financial liabilities at fair value through profit or loss corresponds to the valuation of the life insurance products marketed by the Group in which the risk lies with the policyholder (Note 19).

Life insurance in which the risk lies with the policyholder corresponds to collective-investment funds, comprising securities or baskets of securities subscribed through the acquisition of units. The securities that make up the collective-investment funds are carried under Other financial assets at fair value through profit or loss, the valuation of which as at June 30, 2019, and December 31, 2018, amounts to €2,963,663k and €2,818,604k, respectively (Note 8).

The Group's liabilities towards the holders of units upon maturity of the products are covered by the income of the securities in the portfolio allocated to the said products.

As at June 30, 2019, and December 31, 2018, Customer funds and other borrowings includes €22,747k and €22,636k, respectively, in respect of the financial products without profit-sharing (Note 20).

INCOME STATEMENT

In the periods ended June 30, 2019, and December 31, 2018, the breakdown of net gains and losses on financial instruments was a follows:

	30-06-2019					
	By corresponding entry to profit or loss			By corresponding entry of equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	397,948	(387,762)	10,186	-	-	-
Other financial assets mandatory at fair value through profit or loss	409,705	(212,210)	197,495	-	-	-
Other financial assets at fair value through other comprehensive income	170,009	(158)	169,851	397,421	-	397,421
Cash and deposits at central banks and credit institutions	7,359	-	7,359	-	-	-
Credit granted and other balances receivable at amortized cost	747,322	(156,338)	590,984	-	-	-
Hedging derivatives	142,352	(323,408)	(181,056)	-	(60,092)	(60,092)
Other financial liabilities at fair value through profit or loss	316,673	(488,388)	(171,715)	-	-	-
Resources of central banks and from credit institutions	-	(3,127)	(3,127)	-	-	-
Resources of customers and other debts	56,367	(27,015)	29,352	-	-	-
Debt securities	-	(25,540)	(25,540)	-	-	-
	2,247,735	(1,623,946)	623,789	397,421	(60,092)	337,329
Guarantees given	9,452	(2,233)	7,219			
Credit lines	402	-	402			

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

	30-06-2018					
	By corresponding entry to profit or loss			By corresponding entry of equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	602,718	(608,030)	(5,312)	-	-	-
Other financial assets mandatory at fair value through profit or loss	126,130	(101,776)	24,354	-	-	-
Other financial assets at fair value through other comprehensive income	96,704	(2,134)	94,570	68,212	-	68,212
Cash and deposits at central banks and credit institutions	3,365	-	3,365	-	-	-
Loans and advances to customers	649,064	(189,378)	459,686	-	-	-
Hedging derivatives	123,844	(135,518)	(11,674)	41,502	-	41,502
Other financial liabilities at fair value through profit or loss	404,024	(448,758)	(44,734)	-	-	-
Resources from central banks and from credit institutions	-	(2,094)	(2,094)	-	-	-
Resources from customers and other debts	48,310	(29,305)	19,005	-	-	-
Debt securities	589	(27,483)	(26,894)	-	-	-
Tecnical reserves	49,920	(50,290)	(370)	-	-	-
	2,104,668	(1,594,766)	509,902	109,714	-	109,714
Guarantees given	10,445	(1,220)	9,225			
Credit lines	1,002	-	1,002			

The amounts referred to above do not include gains and losses arising from foreign exchange revaluation of the respective financial instruments which, on June 30, 2019 and 2018, corresponded to net gains in the amounts of €4,976k and €4,762k, respectively (Note 33).

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	328	-	-	623	-	623
Other financial assets at fair value through other comprehensive income	62,052	-	-	56,242	-	56,242
Loans and advances to credit institutions	7,031	-	-	2,742	-	2,742
Credit granted and other balances receivable at amortized cost	388,347	(7)	-	417,386	(12)	417,374
	457,758	(7)	-	476,993	(12)	476,981
Liablities						
Resources from central banks	-	-	-	-	(63)	(63)
Resources from other credit institutions	-	(3,127)	(3,127)	-	(2,031)	(2,031)
Resources from customers and other debts	-	(26,190)	(26,190)	-	(29,156)	(29,156)
Debt securities	-	(25,540)	(25,540)	-	(27,483)	(27,483)
	-	(54,857)	(54,857)	-	(58,733)	(58,733)
Guarantees given	9,452	-	9,452	10,445	-	19,921
Credit Lines	402	-	402	1,002	-	749

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 al amortized cost	31,747	(6,868)	24,879	28,979	(8,124)	20,855
Liabilities						
Resources from customers and other debts	54,267	(50)	54,217	45,658	(556)	45,102

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

During the first halves of 2019 and 2018 the Group recognised financial income in respect of Interest income on non-performing loans or in situations of impairment, in the amounts of €3,437k and €4,240k, respectively (Note 28).

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 amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,769,939	3,778,251	208,198	3,986,449	3,769,938	(221,998)
Other financial assets at fair value through other comprehensive income	2,080,000	2,117,356	46,507	2,163,863	2,080,000	(47,104)
Resources from customers and other debts	(90,793)	(91,075)	(2,675)	(93,918)	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
Debt securities	102,564	102,564	-	102,564	102,564	(380)
	16,761,710	16,807,096	252,030	17,058,958	17,101,069	(284,633)

	31-12-2018					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,274,106	3,279,651	47,162	3,326,813	3,283,020	(55,942)
Other financial assets at fair value through other comprehensive income	80,000	89,046	4,493	93,539	80,000	(5,795)
Resources from customers and other debts	(256,611)	(257,276)	(2,030)	(259,306)	211,667	2,615
Cash flow hedge:						
Other financial assets at fair value through other comprehensive income	850,000	850,000	-	850,000	935,913	(21,001)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	63,365
Debt securities	351,422	351,422	-	351,422	351,421	(332)
	14,298,917	14,312,843	49,625	14,362,468	14,862,021	(17,090)

Cash flow hedge

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period are as follows:

	30-06-2019					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	(385)	-	25,587	63,624	-	88,826

	31-12-2018					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	4,802	9,926	21,026	27,279	-	63,033

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

Gains and losses recognised in the income statements for first halves of 2019 and 2018, with fair-value hedge transactions, are 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)
	204,324	(204,324)	-	15,044	(15,058)	(14)

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		
	Measured at fair value	Not measured at fait value	Total
Assets			
Cash and deposits at central banks	-	2,405,139	2,405,139
Balances due from other banks	-	531,674	531,674
Financial assets held for trading	1,121,419	-	1,121,419
Other financial assets mandatory at fair value through profit or loss	3,129,648	-	3,129,648
Other financial assets at fair value through other comprehensive income	6,763,071	-	6,763,071
Loans and advances to credit institutions	-	833,067	833,067
Credit granted and other balances receivable at amortized cost	3,778,251	35,975,115	39,753,366
Hedging derivatives	91,856	-	91,856
	14,884,245	39,744,995	54,629,240
Liabilities			
Financial liabilities held for trading	1,136,222	-	1,136,222
Other financial liabilities at fair value through profit or loss	3,442,194	-	3,442,194
Resources from central banks	-	3,043,848	3,043,848
Resources from other credit institutions	-	3,782,472	3,782,472
Resources from customers and other debts	91,075	34,704,114	34,795,189
Debt securities	-	3,479,026	3,479,026
Other liabilities	-	318,845	318,845
Hedging derivatives	376,489	-	376,489
	5,045,980	45,328,305	50,374,285

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

	31-12-2018		
	Measured at fair value	Not measured at fait value	Total
Assets			
Cash and deposits at central banks	-	1,655,732	1,655,732
Balances due from other banks	-	850,898	850,898
Financial assets held for trading	1,204,674	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,053,810	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,995,070	-	5,995,070
Loans and advances to credit institutions	-	675,031	675,031
Credit granted and other balances receivable at amortized cost	3,279,651	36,317,475	39,597,126
Hedging derivatives	73,464	-	73,464
	13,606,669	39,499,136	53,105,805
Liabilities			
Financial liabilities held for trading	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960		3,175,960
Resources from central banks	-	3,050,040	3,050,040
Resources from other credit institutions	-	3,539,911	3,539,911
Resources from customers and other debts	257,276	33,125,228	33,382,504
Debt securities	-	4,322,597	4,322,597
Other liabilities	-	200,336	200,336
Hedging derivatives	90,556	-	90,556
	4,763,505	44,238,112	49,001,617

Financial assets and liabilities for which hedge accounting was applied were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

As at June 30, 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:

	30-06-2019				
	Acquisition cost	Accrual	Valuation	Impairment	Net book value
Assets					
Financial assets held for trading	2,500	-	1,118,919	-	1,121,419
Other financial assets mandatory at fair value through profit or loss	3,100,089	29,560	(1)	-	3,129,648
Other financial assets at fair value through other comprehensive income	5,877,943	70,058	815,073	(3)	6,763,071
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
	12,750,471	109,734	2,025,847	(1,807)	14,884,245
Liabilities					
Financial liabilities held for trading	-	-	1,136,222	-	1,136,222
Other financial liabilities at fair value through profit or loss	3,442,194	-	-	-	3,442,194
Resources of customers and other debts	90,793	282	-	-	91,075
Hedging derivatives	-	-	376,489	-	376,489
	3,532,987	282	1,512,711	-	5,045,980

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

	31-12-2018				
	Acquisition cost	Accrual	Valuation	Impairment	Net book value
Assets					
Financial assets held for trading	2,500	-	1,202,174	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,020,996	36,383	(3,569)	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,420,975	91,338	482,760	(3)	5,995,070
Credit granted and other balances receivable at amortized cost	3,274,106	7,394	-	(1,849)	3,279,651
Hedging derivatives	-	-	73,464	-	73,464
	11,718,577	135,115	1,754,829	(1,852)	13,606,669
Liabilities					
Financial liabilities held for trading	-	-	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources of customers and other debts	256,610	666	-	-	257,276
Hedging derivatives	-	-	90,556	-	90,556
	3,432,570	666	1,330,269	-	4,763,505

To determine the fair value of financial instruments, the valuation methods consisted of obtaining prices on active markets or other valuation techniques, in particular through updating future cash flows.

As at June 30, 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 measurement methodology:

	30-06-2019			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,118,040	3,379	1,121,419
Other financial assets mandatory at fair value through profit or loss	2,964,346	-	165,302	3,129,648
Other financial assets at fair value through other comprehensive income	4,534,613	2,214,168	14,290	6,763,071
Credit granted and other balances receivable at amortized cost	-	3,778,251	-	3,778,251
Hedging derivatives	-	91,856	-	91,856
	7,498,959	7,202,315	182,971	14,884,245
Liabilities				
Financial liabilities held for trading	-	1,136,222	-	1,136,222
Other financial liabilities at fair value through profit or loss	-	3,442,194	-	3,442,194
Resources from customers and other debts	-	91,075	-	91,075
Hedging derivatives	-	376,489	-	376,489
	-	5,045,980	-	5,045,980

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

	31-12-2018			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,201,295	3,379	1,204,674
Other financial assets mandatory at fair value through profit or loss	2,828,988	56,755	168,067	3,053,810
Other financial assets at fair value through other comprehensive income	3,847,585	2,136,791	10,694	5,995,070
Credit granted and other balances receivable at amortized cost	-	3,279,651	-	3,279,651
Hedging derivatives	-	73,464	-	73,464
	6,676,573	6,747,956	182,140	13,606,669
Liabilities				
Financial liabilities held for trading	-	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	-	3,175,960	-	3,175,960
Resources from customers and other debts	-	257,276	-	257,276
Hedging derivatives	-	90,556	-	90,556
	-	4,763,505	-	4,763,505

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

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

The Bank calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments of financial assets held for trading and hedging derivatives from a standpoint of aggregate exposure by counterparty. In this, the evolution is simulated of the joint exposure of all derivatives with given counterparty, through stochastic processes. This evolution is grouped into time periods that represent the future positive and negative expected future exposures. An expected loss factor and the discount factor of the respective term are applied to these exposures. The CVA and DVA determined for each counterparty thus result from the sum of the expected losses in each term.

Additionally, for the purposes of determination of the Credit Value Adjustments and of the Debit Value Adjustments to the derivative financial instruments, the following inputs were used:

- Counterparties with credit default swaps listed on active markets;

- Counterparties without listed credit default swaps:
  - Prices published on active markets for similar-risk counterparties; or
  - Probability of default determined taking into account the internal rating assigned to the customer (see the credit-risk section of these Notes) x loss given default (specific to project finance customers and 60% for other clients).

- Level 3 – The Bank classifies at this level financial instruments measured through internal models with some inputs that do not correspond to observable market data. In particular, securities not listed on active markets for which the Bank uses extrapolations of market data were classified in this category.

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	Available-for-sale financial assets	Total
	Securities	Derivatives				
December 31, 2017	3,740	-	1,598	-	78,418	83,756
First implementation of IFRS9	(530)	-	77,614	1,334	(78,418)	-
Acquisitions	-	-	120,249	4,757	-	125,006
Sales	-	-	(897)	(3,993)	-	(4,890)
Liquidation	-	-	-	-	-	-
Reclassifications	-	-	36,624	13,510	-	50,134
Changes in fair value	169	-	(67,121)	(4,914)	-	(71,866)
December 31, 2018	3,379	-	168,067	10,694	-	182,140
Acquisitions	-	-	66	3,608	-	3,674
Sales	-	-	-	(2,819)	-	(2,819)
Liquidation	-	-	(2,517)	(580)	-	(3,096)
Reclassifications	-	-	-	3,100	-	3,100
Changes in fair value	-	-	(314)	289	-	(25)
Recognised impairment in the period	-	-	-	(3)	-	(3)
June 30, 2019	3,379	-	165,302	14,290	-	182,971

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

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%

As at June 30, 2019 and December 31, 2018, the carrying amount and fair value of the financial instruments measured at amortised cost or historical cost was as follows:

	30-06-2019		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	2,405,139	2,430,024	24,885
Balances due from other banks	531,674	531,674	-
Loans and advances to credit institutions	833,067	833,090	23
Credit granted and other balances receivable at amortized cost	35,975,115	36,777,490	802,375
	39,744,995	40,572,278	827,283
Liabilities			
Resources of central banks	(3,043,848)	(3,042,174)	1,674
Resources from other credit institutions	(3,782,472)	(3,788,706)	(6,234)
Resources of customers and other debts	(34,704,114)	(34,714,780)	(10,666)
Debt securities	(3,479,026)	(3,616,018)	(136,992)
Other liabilities	(318,845)	(318,845)	-
	(45,328,305)	(45,480,523)	(152,218)

	31-12-2018		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,655,732	1,640,368	(15,364)
Balances due from other banks	850,898	850,898	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,317,475	36,331,859	14,384
	39,499,136	39,498,696	(440)
Liabilities			
Resources from central banks	(3,050,040)	(3,038,968)	11,072
Resources from other credit institutions	(3,539,911)	(3,544,557)	(4,646)
Resources from customers and other debts	(33,125,228)	(33,128,761)	(3,533)
Debt securities	(4,322,597)	(4,355,399)	(32,802)
Other liabilities	(200,336)	(200,336)	-
	(44,238,112)	(44,268,021)	(29,909)

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

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.

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 of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	2,430,024	-	2,430,024
Balances due from other banks	-	531,674	-	531,674
Loans and advances to credit institutions	-	833,090	-	833,090
Credit granted and other balances receivable at amortized cost	-	710,906	36,066,584	36,777,490
	-	4,505,694	36,066,584	40,572,278
Liabilities				
Resources from central banks	-	(3,042,174)	-	(3,042,174)
Resources from other credit institutions	-	(3,788,706)	-	(3,788,706)
Resources from customers and other debts	-	-	(34,714,780)	(34,714,780)
Debt securities	-	(3,616,018)	-	(3,616,018)
Other liabilities	-	-	(318,845)	(318,845)
	-	(10,446,898)	(35,033,625)	(45,480,523)

	31-12-2018			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,640,368	-	1,640,368
Balances due from other banks	-	850,898	-	850,898
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	478,345	35,853,514	36,331,859
	-	3,645,182	35,853,514	39,498,696
Liabilities				
Resources from central banks	-	(3,038,968)	-	(3,038,968)
Resources from other credit institutions	-	(3,544,557)	-	(3,544,557)
Resources from customers and other debts	-	-	(33,128,761)	(33,128,761)
Debt securities	-	(4,355,399)	-	(4,355,399)
Other liabilities	-	-	(200,336)	(200,336)
	-	(10,938,924)	(33,329,097)	(44,268,021)

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.

In accordance with IFRS 4, Santander Totta Seguros conducted adequacy tests on the liabilities of insurance contracts with and without profit-sharing, in which it assumes the investment risk and in which the coverage is greater than one year, in order to assess the adequacy of technical provisions set aside.

RISK MANAGEMENT

CREDIT RISK

Insurance Business

Credit risk arises primarily in debt securities where the issuer’s risk is represented in the credit spread.

In general, limits are defined in light of the rating of the issue/ issuer of existing liabilities in euros and of the terms for all the portfolios managed by Santander Asset Management, with due regard for Regulatory Standards 11/2010 and 3/2011 issued by the Insurance and Pension Funds Supervisory Authority. It should be noted that for guaranteed- or indicative-rate insurance contracts with regard to non-sovereign debt, the acquisition tends to be authorised of securities (Senior, Lower Tier 2 and Corporate) that have minimum ratings of BBB-, with a stable outlook by the Fitch Ratings (or by S&P or by Moody’s if the former is not available).

On the other hand, an upper limit for a particular issuer is set. This limit is set in the light of the degree of knowledge and other conditioning factors relating to the issuer and the market, as well as the investment policy of the portfolios assigned to the products.

The limits may be revised whenever there are events that justify it (for example: alteration of the rating). If there are no events throughout the year justifying a change of limits, they are reviewed only annually.

Final approval of the overall limits and/or those in respect of new issuers is undertaken by the Corporate Risk Committee and complies with diversification and prudential dispersion criteria, a process that is monitored periodically.

In the control of the credit risk, it is important that all assets have a rating and that, in the absence thereof, one can assign a rating level that falls within the approved standards.

The rating consists of classifying an issue of bonds or other debt securities in a risk-notation rating scale, which is intended to reflect a value judgement on the capacity for timely repayment of principal and payment of the interest.

The rating awarded by an agency expresses just its opinion that the higher the rating, the less likelihood of default, though providing no guarantee of any kind. For no rating notation must the likelihood of default be understood as zero, the rating being a measure of the *ex-ante* risk that serves to qualify the creditworthiness of an issuer in relative terms.

The rating used is in respect of the issue, and, whenever an issue has no rating, the following criteria are used:

- For bonds and other debt securities, the default rating is that of the senior debt.
- In the case of vehicles or credit-linked notes, the rating will be taken into account of the collateral or of the issuers referenced via CDS (credit default swap) for the type of debt in question. The rating obtained shall take into account the structure of the asset (pro rata distribution, the lowest reference rating in the case of first-to-default, the rating of the collateral should it be lower than that of the assets referenced via CDS).
- In the case of deposits it is considered that the implicit rating is that of the senior debt of the entities who take them.
- Should it not be possible to assign a rating the issue is considered unrated.

Additionally, the Senior Credit Default Spreads, for 5-year terms, of the various issuers are periodically monitored in order to track the evolution of the credit risk of the counterparties.

With respect to reinsurers, Santander Totta Seguros primarily works with six: Abbey Life, AXA Partners (ex-Genworth), General Cologne Re, Munich Re, RGA Re, Axa Re, Swiss Re, Partners Re. Mafre, SCOR and Hannover Re.

The ratings of the largest reinsurers can be found in the following table:

<u>Ratings of the Reinsurer Groups</u>

Abbey Life Insurance Company Limited	A+
General Cologne Re	AA +
AXA Partners (ex-Genworth)	AA-
Munich Reinsurance Co.	AA-
RGA Insurance Company	AA-
AXA France Vie / Axa France IARD	AA-
Swiss Re	AA-
Partner Re	A+
Mafre Re	A
SCOR	A+
Hannover Re	A+

Banking business and others

Credit risk management at the Bank covers the identification, measurement, integration and evaluation of the various credit exposures and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint and within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, by segmentation of the credit risk in the light of the characteristics of the customers and of the products, and by the scoring systems (applicable to mortgage-loan and consumer-credit operations, credit cards and business) and the rating used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

The risk in derivative positions (called Credit Risk Equivalent) is calculated as the sum of the present value of each contract (or current replacement cost) with the respective Potential Risk, a, component that reflects an estimate of the maximum value expected to maturity, depending on the volatilities of the underlying market factors and flow structure contracted. The credit risk in derivatives positions is captured through determination of the CVA/DVA.

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

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

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:

Department	Weighting
. Demand/Market;	20%
. Partners/Management:	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
. Solvency.	15%

The rating is calculated by the analysts, based on information provided by the customer, general information on the sector and external databases. The final rating is introduced in each of the valuation areas in the Bank's information technology system.

In this way, the Group’s internal rating system can be described as follows:

Rating 1.0 – 3.9: Customer of high-default probability;
Rating 4.0 – 6.0: Customer of moderate-default probability;
Rating 6.1 – 9.3: Customer of low-default probability;

As at 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	2,405,139	2,405,139	1,655,732	1,655,732
Balances due from other banks	531,674	531,674	850,898	850,898
Financial assets held for trading	1,121,419	1,121,419	1,204,674	1,204,674
Other financial assets at fair value through profit or loss	3,129,648	3,129,648	3,053,810	3,053,810
Other financial assets at fair value through other comprehensive income	6,763,071	6,763,071	5,995,070	5,995,070
Loans and advances to credit institutions	833,067	833,067	675,031	675,031
Credit granted and other balances receivable at amortized cost	39,753,366	45,651,833	39,597,126	45,862,081
Hedging derivatives	91,856	91,856	73,464	73,464
Investment in associated companies excluded from consolidation	106,549	106,549	111,376	111,376
	54,735,791	60,634,258	53,217,181	59,482,136
Guarantees provided	1,926,850	1,926,850	1,955,910	1,955,910

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

The maximum exposure in "Loans granted and other balances receivable at amortised cost as at June 30, 2019, included €772,723k and €5,125,744k relating to irrevocable credit lines and revocable credit lines, (€1,035,032k and €5,229,923k as at December 31, 2018, respectively).

In accordance with the requirements set out in Bank of Portugal Instruction nº 4/2018, the Bank 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	39,019,319	(149,233)	0.4%	38,671,209	(176,243)	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%
	1,698,552	(815,272)		2,035,403	(933,243)	
	40,717,871	(964,505)		40,706,612	(1,109,486)	

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%
	1,698,552	590,912		2,035,403	700,718	

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.

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

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%
	1,242,327	(604,010)		1,427,426	(657,306)	
	1,960,751	(634,973)		2,293,738	(696,527)	

LIQUIDITY RISK

Banking business and others

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

Insurance Business

Liquidity risk is the risk of the Company having difficulty in obtaining funds in order to meet its commitments. Liquidity risk can be reflected, for example, in the inability to sell a financial asset quickly for an amount close to its fair value.

The monitoring of the liquidity risk is carried out monthly, balance-sheet management limits being defined with respect to sensitivity to parallel interest-rate shifts for the entire portfolio of financial assets and technical liabilities.

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

Additionally, in order to mitigate the liquidity risk, ratios were established for the maximum concentration of non-liquid assets in accordance with the type of portfolio/ product, which are monitored on a monthly basis.

The main assumptions used in the determination of the forecast cash flows were as follows:

- The forecast cash flows of financial assets and technical liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- The technical assets and financial liabilities associated with unit-linked products are considered payable on demand for the amount of the fair value of these assets and liabilities on each reporting date.

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							
	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	245,326	-	-	-	2,159,813	-	-	2,405,139
Balances due from other banks	604,589	-	-	-	-	-	-	604,589
Financial assets held for trading	1,121,419	-	-	-	-	-	-	1,121,419
Other financial assets mandatory at fair value through profit or loss	-	100	113,964	610,498	427,749	1,201,901	745,899	3,100,111
Other financial assets at fair value through other comprehensive income	2	2,878	1,070,935	348,090	412,319	4,716,879	80,647	6,631,750
Loans and advances to credit institutions	110,747	(592)	44,176	655,017	(18,304)	21,065	-	812,109
Credit granted and other balances receivable at amortized cost	434,535	2,814,142	4,695,640	8,866,250	6,038,951	22,421,178	-	45,270,696
Hedging derivatives	91,856	-	-	-	-	-	-	91,856
Investments in associates	-	-	-	-	-	-	108,467	108,467
	2,608,474	2,816,528	5,924,715	10,479,855	9,020,528	28,361,023	935,013	60,146,136
Liabilities								
Financial liabilities held for trading	1,136,222	-	-	-	-	-	-	1,136,222
Other financial liabilities at fair value through profit or loss	3,442,194	-	-	-	-	-	-	3,442,194
Resources from central banks	4,519	-	2,406,429	618,686	-	-	-	3,029,634
Resources from other credit institutions	656,409	1,334,675	640,192	352,266	499,859	300,000	-	3,783,401
Resources from customers and other debts	16,759,830	6,303,844	7,639,959	3,158,612	979,460	15,081	-	34,856,786
Debt securities	-	40,663	99,854	1,019,931	1,276,638	1,285,418	-	3,722,503
Hedging derivatives	376,489	-	-	-	-	-	-	376,489
Technical provisions	98,394	410,594	16,571	30,901	24,395	109,319	-	690,173
	22,474,055	8,089,775	10,803,005	5,180,397	2,780,352	1,709,818	-	51,037,402

(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	287,671	-	-	-	1,368,061	-	-	1,655,732
Balances due from other banks	850,898	-	-	-	-	-	-	850,898
Financial assets held for trading	1,204,674	-	-	-	-	-	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	-	6,449	90,278	702,984	341,542	1,143,215	736,527	3,020,995
Other financial assets at fair value through other comprehensive income	2	474,854	624,438	297,375	435,665	4,411,196	82,958	6,326,487
Loans and advances to credit institutions	92,955	4,663	114,770	440,916	28	21,199	-	674,531
Credit granted and other balances receivable at amortized cost	144,638	2,584,761	4,673,292	9,208,935	5,884,763	22,278,643	-	44,775,032
Hedging derivatives	73,464	-	-	-	-	-	-	73,464
Investments in associates	-	-	-	-	-	-	113,294	113,294
	2,654,302	3,070,727	5,502,777	10,650,210	8,030,058	27,854,254	932,779	58,695,107
Liabilities								
Financial liabilities held for trading	1,239,713	-	-	-	-	-	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	-	-	-	3,175,960
Resources of central banks	4,517	-	-	3,025,116	-	-	-	3,029,633
Resources of other credit institutions	499,466	1,316,413	575,107	352,944	499,809	300,000	-	3,543,739
Resources of customers and other debts	15,450,485	6,223,706	8,001,085	3,324,819	495,195	13,765	-	33,509,055
Debt securities	-	9,343	818,005	854,633	130,107	2,783,618	-	4,595,706
Hedging derivatives	90,556	-	-	-	-	-	-	90,556
Technical provisions	105,905	441,936	17,835	33,260	26,257	117,664	-	742,857
	20,566,602	7,991,398	9,412,032	7,590,772	1,151,368	3,215,047	-	49,927,219

Determination of the projected cash flow was based on the principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Other financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as other financial assets at fair value through other comprehensive income), other financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of trading assets and liabilities as the transactional value payable on demand;

- Operations relating to credit lines with defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;

- For the subordinated liabilities the date on which the Bank may make early redemption of the bonds that make up this heading was considered;

- The projected flows relating to current accounts have been considered as payable on demand.

- The assets and liabilities associated with unit-linked products of the business of the Group's insurer were considered payable on demand for the amount of the fair value of these assets and liabilities.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The VaR calculated is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions, within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For abnormal market conditions scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of probability of occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate use is made of the basis point value (BPV) – estimated impact in profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the underlying price (delta and gamma), volatility (vega) and time (theta).

Quantitative limits are used for the trading portfolios, which are classified in two groups, in the light of the following objectives:

- Limits intended to control the volume of potential future losses (VaR, equivalent positions and sensitivities); and

- Limits intended to control the volume of effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

With regard to the structural interest-rate risk, they are measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the Bank’s equity. Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

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

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

Interest-rate risk

As at June 30, 2019, and December 31, 2018 the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	30-06-2019				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2,159,813	245,326	-	2,405,139
Balances due from other banks	-	-	531,674	-	531,674
Financial assets held for trading	-	-	3,379	1,118,040	1,121,419
Other financial assets mandatory at fair value through profit or loss	2,254,695	845,394	29,559	-	3,129,648
Other financial assets at fair value through other comprehensive income	5,780,304	97,639	885,128	-	6,763,071
Loans and advances to credit institutions	104,129	718,163	10,775	-	833,067
Credit granted and other balances receivable at amortized cost	8,381,612	31,406,400	(34,646)	-	39,753,366
Hedging derivatives	-	-	-	91,856	91,856
	16,520,740	35,227,409	1,671,195	1,209,896	54,629,240
Liabilities					
Financial liabilities held for trading	-	-	-	1,136,222	1,136,222
Other financial liabilities at fair value through profit or loss	3,442,194	-	-	-	3,442,194
Resources from central banks	3,043,848	-	-	-	3,043,848
Resources from other credit institutions	129,405	3,652,750	317	-	3,782,472
Resources from customers and other debts	17,846,562	16,829,163	119,464	-	34,795,189
Debt securities	2,757,599	789,962	(68,535)	-	3,479,026
Other liabilities	-	-	318,845	-	318,845
Hedging derivatives	-	-	-	376,489	376,489
	27,219,608	21,271,875	370,091	1,512,711	50,374,285

	31-12-2018				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,368,060	287,672	-	1,655,732
Balances due from other banks	-	-	850,898	-	850,898
Financial assets held for trading	-	-	3,379	1,201,295	1,204,674
Other financial assets mandatory at fair value through profit or loss	2,123,526	900,569	29,715	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,386,529	95,675	512,866	-	5,995,070
Loans and advances to credit institutions	102,310	562,642	10,079	-	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,074,851	189,561	-	39,597,126
Hedging derivatives	-	-	-	73,464	73,464
	15,945,079	34,001,797	1,884,170	1,274,759	53,105,805
Liabilities					
Financial liabilities held for trading	-	-	-	1,239,713	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources from central banks	3,050,040	-	-	-	3,050,040
Resources from other credit institutions	153,057	3,386,667	187	-	3,539,911
Resources from customers and other debts	18,146,276	15,172,120	64,108	-	33,382,504
Debt securities	3,500,000	888,986	(66,389)	-	4,322,597
Other liabilities	-	-	200,336	-	200,336
Hedging derivatives	-	-	-	90,556	90,556
	28,025,333	19,447,773	198,242	1,330,269	49,001,617

Banking business and others

Financial Instruments – non-trading

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;

- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;

- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;

- For each aggregate defined above the transactions are grouped by repricing/maturity dates;

- The time intervals intended to measure the interest-rate gap are defined;

- For each aggregate, the cash flows are grouped on the basis of the intervals created;

- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and

- For each interval total flows of assets and liabilities are calculated and, by difference between them, the interest-rate risk gap of each interval.

The interest-rate gap allows an approximation of the sensitivity of the asset value and of the net interest income in the light of market-rate variations. This approach uses the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;

- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and

- It does not consider the different elasticities between the various products.

From the perspective of variation of the asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps and an increase of value in the negative gaps. interest-rate reductions have an opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;

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

- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;

- Indices – the indices defined contractually are considered and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and

- Characteristics of New Business (term, repricing, volumes, spread , index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at June 30, 2019, and December 31, 2018, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2019		31-12-2018	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	(652)	29,343	577	54,845
Other financial assets 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	(742,445)	690,663
	(1,195,701)	804,447	(1,063,609)	1,077,797
Hedging derivatives	193,775	(299,592)	(9,444)	(159,348)
Liabilities				
Resources from central banks	(39,360)	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	(973,635)	362,914	(816,694)	650,259
Debt securities	(147,152)	68,033	(156,317)	143,262
	(1,177,202)	446,021	(1,031,260)	828,836

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.

- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).

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

- 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:

	30-06-2019	31-12-2018
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.

(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				31-12-2018			
	Euros	US Dollars	Other currencies	Total	Euros	US Dollars	Other currencies	Total
Assets								
Cash and deposits at central banks	2,390,467	6,510	8,162	2,405,139	1,648,954	2,785	3,993	1,655,732
Balances due from other banks	211,149	188,197	132,328	531,674	421,812	277,247	151,839	850,898
Financial assets held for trading	1,119,339	1,813	267	1,121,419	1,203,143	1,518	13	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,093,693	35,826	129	3,129,648	2,941,480	112,214	116	3,053,810
Other financial assets at fair value through other comprehensive income	6,763,071	-	-	6,763,071	5,995,070	-	-	5,995,070
Loans and advances to credit institutions	738,905	43,954	50,208	833,067	608,706	17	66,308	675,031
Credit granted and other balances receivable at amortized cost	39,112,472	475,885	165,009	39,753,366	38,950,547	614,968	31,611	39,597,126
Hedging derivatives	91,297	559	-	91,856	67,718	5,746	-	73,464
	53,520,393	752,744	356,103	54,629,240	51,837,430	1,014,495	253,880	53,105,805
Liabilities								
Financial liabilities held for trading	1,134,145	1,812	265	1,136,222	1,238,192	1,520	1	1,239,713
Financial liabilities at fair value through profit or loss	3,442,194	-	-	3,442,194	3,175,960	-	-	3,175,960
Resources from central banks	3,043,848	-	-	3,043,848	3,050,040	-	-	3,050,040
Resources from other credit institutions	3,694,333	87,831	308	3,782,472	3,411,073	128,496	342	3,539,911
Resources from customers and other debts	33,238,460	1,349,458	207,271	34,795,189	31,795,339	1,331,114	256,051	33,382,504
Debt securities	3,479,026	-	-	3,479,026	4,322,597	-	-	4,322,597
Other financial liabilities	318,845	-		318,845	200,336	-	-	200,336
Hedging derivatives	375,112	1,108	269	376,489	88,714	1,728	114	90,556
	48,725,963	1,440,209	208,113	50,374,285	47,282,251	1,462,858	256,508	49,001,617

As at June 30, 2019, and December 31, 2018, the VaR associated with the exchange-rate risk in respect of the Group's banking business corresponded to:

	30-06-2019	31-12-2018
VaR Percentil 99%	(3)	(3)
VaR Weighted Percentil 99%	(1)	(3)

Financial assets and liabilities associated with the insurance business are mostly denominated in euros, the exchange rate risk being immaterial.

Asset price risk

As at June 30, 2019, and December 31, 2018, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

44. SHARE CAPITAL MANAGEMENT

The Group seeks high financial soundness embodied in maintaining a capital adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets.

The profit distribution policy is conditional on the maintenance of capital levels that allow the Group to sustain the performance of its operations within its risk policy.

The Group uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for leasing, factoring, manual operations, Banif portfolio and BAPOP portfolio.

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

In December 2010, the Group began to use the mixed method for the market risk, in particular internal models for the majority of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

In June 2012, the Group began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

As from January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier 1, CET1), in particular through additional deductions and higher weighting in the calculation of the positions at risk.

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as of June 30, 2019, and December 31, 2018, (both in BIS III - Phasing in):

	Jun 19	**Dec 18**
	BIS III Phasing In	BIS III Phasing In
A - LEVEL 1 OWN FUNDS (TIER I)	3,710	3,447
Share Capital (includes addicional instruments elegible as Tier I)	2,571	2,571
Elegible Reserves and Retained earnings (excluding non-controlling interests)	1,393	1,191
Elegible Non-controlling interests	-	-
Deduction to level 1 own funds	(253)	(315)
B - LEVEL 2 OWN FUNDS (TIER II)	62	22
C - DEDUCTIONS TO TOTAL OWN FUNDS	0	0
D - TOTAL OWN FUNDS (A+B+C)	3,772	3,469
E - RISK WEIGHTED ASSETS	18,765	20,052
RATIOS	**Jun 19**	**Dec 18**
TIER I (A/E)	19.8%	17.2%
CORE CAPITAL (CET1)	16.6%	14.2%
TIER II (B/E)	0.3%	0.1%
CAPITAL ADEQUACY RATIO (D/E)	20.1%	17.3%
LEVERAGE	6.8%	6.5%

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 24, 2019.

46. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT JUNE 30, 2019 (NOTE 20)

(Amounts expressed in thousands Euros – tEuros)

Securities issued	Currency	Issue amount Total	Issue amount Subscribed by the Group	Issue amount Consolidated Balance Sheet	Accruals	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Covered Bonds - Mortgage										
Hipotecária XIV	EUR	750,000	750,000	-	-	-	0.75%	04 March 2015	04 March 2022	Fixed Rate
Hipotecária XV	EUR	750,000	-	750,000	(3,876)	746,124	0.88%	27 October 2015	27 October 2020	Fixed Rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	0.84%	24 February 2016	24 February 2022	Fixed Rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	0.90%	15 April 2016	15 April 2023	Fixed Rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	0.65%	26 July 2016	26 July 2023	Fixed Rate
Hipotecárias XX	EUR	750,000	750,000	-	-	-	1.20%	07 December 2017	07 December 2027	Fixed Rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	1.48%	10 April 2017	10 April 2027	Fixed Rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(5,819)	994,181	0.88%	25 April 2017	25 April 2024	Fixed Rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(190)	999,810	1.25%	26 September 2017	26 September 2027	Fixed Rate
		6,950,000	**4,200,000**	**2,750,000**	**(9,885)**	**2,740,115**				
Bonds issued on securitization operations										
Hipotota 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% (until early reimbursement in December de 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipotota 4 - Class B - Notes	EUR	18,978	18,978	-	-	-	Floating	09 December 2005	30 December 2048	Euribor 3m+0.19% (until early reimbursement in December de 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipotota 4 - Class C - Notes	EUR	59,936	59,936	-	-	-	Floating	09 December 2005	30 December 2048	Euribor 3m+0.29% (until early reimbursement in December de 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipotota 4 - Class D - Notes	EUR	14,000	14,000	-	-	-	Floating	09 December 2005	30 December 2048	Residual return generated by securitized portfolio
Hipotota 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% (until early reimbursement in February de 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipotota 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+0.17% (until early reimbursement in February de 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipotota 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	Floating	16 March 2007	28 February 2060	Euribor 3m+0.24% (until early reimbursement in February de 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipotota 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+0.50% (until early reimbursement in February de 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipotota 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	Floating	22 March 2007	28 February 2060	Euribor 3m+1.75% (until early reimbursement in February de 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipotota 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	Floating	22 March 2007	28 February 2060	Residual return generated by securitized portfolio

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT JUNE 30, 2019 (NOTE 20)

(Amounts expressed in thousands Euros – tEuros)

		Issue amount				Total				
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Accruals	Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
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 no. 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 no. 2 - B	EUR	13,817	13,817	-	-	-	Floating	05 March 2008	18 September 2060	Euribor 3m + 0.95%
Atlantes Mortgage PLC no. 2 - C	EUR	5,632	5,632	-	-	-	Floating	05 March 2008	18 September 2060	Euribor 3m + 1.65%
Atlantes Mortgage PLC no. 2 - D	EUR	16,125	16,125	-	-	-	Floating	05 March 2008	18 September 2060	Residual return generated by securitized portfolio
Azor Mortgage PLC no. 2 - A	EUR	91,046	91,046	-	-	-	Floating	24 July 2008	14 December 2065	Euribor 3m + 0.30%
Azor Mortgage PLC no. 2 - B	EUR	43,080	43,080	-	-	-	Floating	24 July 2008	14 December 2065	Euribor 3m + 0.8%
Azor Mortgage PLC no. 2 - C	EUR	6,750	6,750	-	-	-	Floating	24 July 2008	14 December 2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC no. 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 no. 3 - B	EUR	28,953	28,953	-	-	-	Floating	30 October 2008	20 August 2061	Euribor 3m + 0.50%
Atlantes Mortgage PLC no. 3 - C	EUR	51,061	51,061	-	-	-	Floating	30 October 2008	20 August 2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC no. 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 no. 4 - B	EUR	25,176	25,176	-	-	-	Floating	16 February 2009	30 December 2064	Euribor 3m + 0.30%
Atlantes Mortgage PLC no. 4 - C	EUR	69,381	69,381	-	-	-	Floating	16 February 2009	30 December 2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC no. 5 - A	EUR	187,410	187,410	-	-	-	Floating	21 December 2009	23 November 2068	Euribor 3m + 0.15%
Atlantes Mortgage PLC no. 5 - B	EUR	34,601	34,601	-	-	-	Floating	21 December 2009	23 November 2068	Euribor 3m + 0.30%
Atlantes Mortgage PLC no. 5 - C	EUR	62,011	62,011	-	-	-	Floating	21 December 2009	23 November 2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC no. 7 - A	EUR	148,446	148,446	-	-	-	Floating	19 November 2010	23 August 2066	Euribor 3m + 0.15%
Atlantes Mortgage PLC no. 7 - B	EUR	27,586	27,586	-	-	-	Floating	19 November 2010	23 August 2066	Euribor 3m + 0.30%
Atlantes Mortgage PLC no. 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
Hipototta nº13 Class D	EUR	-	-	-	-	-				
		4,556,873	**3,767,622**	**789,251**	**(59,075)**	**730,176**				
Other										
Euro medium Term Note-37ª	EUR	212	-	212	3	215	1.00%	09 August 2016	09 August 2019	Fixed Rate
Euro medium Term Note-38ª	EUR	499	-	499	4	503	1.00%	29 September 2016	29 September 2019	Fixed Rate
		711	**-**	**711**	**7**	**718**				
		11,507,584	**7,967,622**	**3,539,962**	**(68,953)**	**3,471,009**				

SANTANDER TOTTA - SGPS, S.A.

SUBORDINATED LIABILITIES AT JUNE 30, 2019 (NOTE 20)

(Amounts expressed in thousands Euros – tEuros)

		Issue amount			Accrual			Total			
Securities issued	Moeda	Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet	Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from:
Subordinated Perpetual Bonds Totta 2000	EUR	270,447	270,447	-	96	96	-	-	1.45%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds BSP 2001	EUR	13,818	13,818	-	23	23	-	-	1.52%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds CPP 2001	EUR	4,275	4,275	-	73	73	-	-	1.52%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	418	-	418	8,017	7.50%	Perpetual	October 6, 2026
		296,139	**288,540**	**7,599**	**610**	**192**	**418**	**8,017**			