2016
Half Year Report

Our purpose is to help people and businesses prosper







Santander Totta

3	Corporate Officers
5	Business Environment
8	Economic & Financial Information
15	Business Areas
19	Risk Management
26	Supplementary Information & Attachments
31	Notes to the Consolidated Financial Statements

BANCO SANTANDER TOTTA, S.A. – Corporate Officers at 30 June 2016

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António Maria Pinto Leite
Secretary	Luís Manuel Baptista Figueiredo

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Deputy Chairman	Enrique Garcia Candelas
Members	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Audit Board

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Mazars & Associados, S.R.O.C. represented byOfficial Appointed Auditor Fernando Vieira
	Ricardo Manuel Duarte Vidal Castro
Alternate Member	Pedro Manuel Alves Ferreira Guerra

Official Auditor

Deloitte & Associados, S.R.O.C., S.A.

Executive Committee

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

Company Secretary

Effective	Luís Manuel Baptista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

On 31 May 2016, the Annual General Meeting of BST shareholders was held and approved, *inter alia*, the change in the Supervisory Body for the Audit Committee and the proposal for the following makeup of the corporate officers, including the members of the General Meeting, of the Board of Directors, of the Audit Board and the Bank's Auditor, for the 2016/2018 period. The duties of the new members of the corporate bodies will commence when their complement is approved or not opposed by the competent supervisory bodies.

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António Maria Pinto Leite
Secretary	Company Secretary

Board of Directors

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

Audit Committee

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	António Basagoiti Garcia-Tuñon
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Official Auditor

PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda.

International Economy

Economic activity during the first half of 2016 was marked by a modest and decelerating rate of growth, and equally affected by a set of shocks that increased uncertainty as to its progress in the following quarters.

As a result of these conditioning factors, the International Monetary Fund, in the July update of the "World Economic Outlook", again reviewed at a lower level its world GDP growth in 2016 and 2017, to 3.1% and 3.4%, respectively (-0.1pp).

The first factor to be considered was the uncertainty, in the first months of the year, concerning growth dynamics in China, which caused additional turbulence in financial markets. Economic data disclosed meanwhile revealed a slightly higher rate of growth than was expected, also resulting from the expansionary measures adopted by the authorities in the latter quarters, and which led the IMF to forecast a gradual growth convergence to approximately 6% in the following years, as compared with the 6.9% recorded in 2015.

The second factor was the British referendum regarding the continuity of the United Kingdom in the European Union. The ballot favouring exit (the "Brexit" scenario) came as a surprise to investors, generating moments of increased volatility in financial markets. This ballot was followed by a change in Government, which will be responsible for the effective exit negotiations. The British Government will have to resort to article No. 50 of the Lisbon Treaty, upon which a two year period will be available to negotiate the exit and the future relations between the two economies.

IMF estimates that the impact on economic growth within a successful negotiation environment may be approximately 0.5 pp during a two to three year period. This also justifies the size of the revisions carried out on the April projections. The heaviest impact, according to the IMF, shall occur on the British economy where, in 2017, growth could decrease by approximately 0.9 pp to 1.3%, significantly aggravating the current slowdown.

The Bank of England, in its post referendum meeting, maintained interest rates and the framework of the monetary policy, although stating it had available all the necessary tools to act, as and when required.

The other most affected economies will probably be those that are more developed, and with which the United Kingdom has stronger economic and financial links. In this context, even within the European Union, impacts will differ, affecting for instance Ireland and The Netherlands more than the remaining countries.

During the first half of the year the euro zone kept to a sustained economic growth rate, although differing amongst the various countries, benefiting from the increase in domestic demand, including capital expenditure. However, with a forecast annual 1.6% growth rate, below potential growth estimates, and with an inflation rate clearly below the objective of "close to, but below 2%", ECB reinforced the stimulus measures for economic activity.

In its March meeting, the ECB decided: (i) to lower the refi rate to 0% and the deposit rate to -0.4%; (ii) to expand the Financial Assets Purchase Programme ("quantitative easing") to 80 billion euros per month (a 20 billion increase); (iii) to include debt issued by non-financial companies in the set of eligible assets in the "quantitative easing" programme; and (iv) to launch a four year series of long-term refinancing operations (TLTRO2), within which banks may obtain finance at the refi rate, and later benefit from a bonus in the interest rate up to the deposit interest rate, depending upon the development of the credit portfolio during the life of the operation.

As a result, short and long term interest rates recorded a further downturn to absolute historical minimums, strengthened by the statement of the ECB Chairman that such operations would remain in place until necessary. In the case of long term interest rates, in some European countries, such as Germany, the yield curve converged to negative levels, including that of 10 year maturities.

In the USA, economic activity evolved at a more moderate rate during the first half-year, having been (once again) particularly affected by adverse climatic conditions which penalized investment. Employment dynamics kept strong, but with a greater monthly volatility which, together with the risks connected with "Brexit", prevented the Federal Reserve from increasing the reference interest rate as it had previously indicated.

The postponement in the increase of the reference interest rates by the USA Federal Reserve also contributed to a depreciation of the dollar versus the euro which, during the whole of the first half-year, fluctuated in an range between 1.10 and 1.15 dollars per euro. Versus the pound sterling, the dollar appreciated to the strongest level in three decades, as a result of "Brexit".

Portuguese Economy

Economic growth in the first half-year of 2016, kept to the decelerating trend commenced in the second half-year of 2015, with homologous variation rates below 1%, versus 1.5% rates in the homologous period.

This slowdown was more marked in investment and exports, also deriving from the increase in global uncertainty which characterized the World economy during this period.

Slowdown in investment, a trend already started in 2015, increased due to the adverse climatic conditions which affected the construction industry. But investment in plant and equipment was already going through a downward trend, with companies postponing production capacity expansion projects when external demand showed signs of slowing down and the utilization levels of installed capacity remained below historical averages.

However, the most recent investment survey, carried out by Statistics Portugal, indicates a strengthening in capital expenditure in manufacturing companies, and particularly in exporting companies.

Exports slowed down during the whole of the first half-year, especially affected by two factors. On the one hand, by the heavy reduction in sales to Angola, whose economy is going through an adjustment process due to the decrease in oil prices. During the first half-year, exports of goods to Angola represented little more than 2% of total exports, a large reduction from the 7% evinced in latter years. Another relevant factor was the preparation for the launching of a new model of automobile to be produced in Auto Europa. A reduction in sales is a frequent occurrence in the transition between models, which is affecting exports to Germany and also to China.

Additional spot factors are related to the export of oil derived products to markets such as the USA. Exports of goods to the European Union, between January and May, grew by 3.5%, whilst exports to non-EU markets decreased by 16.3% in the same period.

Private consumption evolved moderately during the first half-year, after a greater acceleration in 2015, in spite of the gradual ongoing restitution of incomes to Public Servants. An increase in the consumption of durable goods occurred in the first quarter, particularly in the case of motor vehicles, acquisitions being anticipated due to the fiscal changes which came into force in April via the 2016 State Budget, an effect which however melted away in the next quarter. Consumer expenditure benefited from the gradual decrease in unemployment, which fell to 11.2% in June, as well as from the low levels in interest rates, which were reflected in the decrease of the monthly instalments in mortgage loans (approximately 80% of which already corresponds to capital repayments).

Total credit stock to the economy continued decreasing, greatly influenced precisely by the dynamics of mortgage loans (notwithstanding increases in monthly production values), but also by the similar movement in company loans. To be highlighted in this case is the reduction in credit to the construction industry and real estate activities which were jointly responsible for approximately two-thirds of the reduction in credit advanced to companies. In its turn, consumer credit stock recorded a slight increase in the first months of the year.

The budgetary execution of the General Government, in cash terms, improved in the first half-year, with a reduction in the deficit amounting to almost one billion euros, to 2.9 billion euros, relative to the homologous period. This improvement resulted from an increase in fiscal revenue derived from indirect taxation (particularly ISP – tax on oil products and IA – tax on automobiles and, in a lesser degree, VAT), since revenue from direct taxation decreased relative to the same period in 2015, due to the reduction in the supplementary rate in Income Tax and changes in the taxation on investment funds in Company Tax. Expenditure stabilized versus the 2015 volumes, with an increase in personnel expenses (result of salary restitution) to be offset by a greater reduction in expenses in goods and services and in investment.

Throughout the whole of the first half-year the Treasury kept up regular access to the market, launching a new product intended for the retail market, Variable Rate Treasury Bonds – OTRV, with a remuneration corresponding to 6 months Euribor with a 2.05% spread. Demand for "Poupança Mais" Treasury Certificates also remained sound.

In terms of medium and long term debt, the Treasury issued 10.4 billion euros in Treasury Bonds. Public debt increased by approximately 8.5 billion euros during the first half-year, to 240 billion euros (approximately 132% of GDP).

Main risks and uncertainties in the second half of 2016

The risks and uncertainties that may affect business in the second half of 2016 are related to both domestic and external factors.

Internationally, risk factors are related to the process of the United Kingdom's exit from the European Union. After an initial moment of uncertainty, international investors are in a "wait and see mode" and awaiting the formalizing of the process by the British Government. However, since this is an unprecedented process, negotiations are wound in high uncertainty, which could condition both the progress of the global economy and the dynamics of the main financial assets in the world markets. This is reflected in the wide interval of IMF estimates of the potential impacts from "Brexit" becoming materially effective, with a knock-on effect on the remaining European and developed economies, and, at a lesser scale, on the emerging economies.

Domestically, the main sources of risk are, on the one hand, the rate of growth of the economy and respective impacts on the macroeconomic variables that determine the development of the banking business and, on the other, the dynamics of the European economy. Both factors are decisive for GDP growth, specifically for the growth in exports, revival of domestic demand and investment growth.

The budgetary execution in the second half-year but especially the proposal of the State Budget for 2017, are equally relevant for business sentiment and to the regular access to wold financial markets.

Additionally, and regarding the financial industry, the system continues focused on the increase in profitability based upon recurring business. Improvement in the economic cycle may positively influence the need for provisioning credit impairments, but the context of low interest rates and the continuing slowness in the recovery of credit volumes have negative effects on the capacity for generating net interest income.

Consolidated Business Activity

Introduction

At the end of the first half-year of 2016, Banco Santander Totta achieved net income amounting to 192.8 million euros, an increase of 87.8% relative to the homologous period.

The credit portfolio (including guarantees and sureties) stood at 35.4 billion euros, a 27.6% growth as compared with the homologous period in 2015. Loans granted to companies advanced by 38.6%, with an increase in market share and representing approximately 40% of the total credit portfolio. Loans granted to private customers advanced by 16.9% in the last year.

The credit at risk ratio reached 6.9%, compared to 5.6% one year earlier, with a coverage ratio standing at 91.8%, an increase relative to the 80.6% at end-June 2015.

Customers' resources, amounting to 32.8 billion euros, increased by 22.3% versus the homologous period, with deposits advancing by 30.8% in this period.

The transformation ratio, measured by the ratio of net credit to deposits, stood at 109.8%, at end-June 2016, compared with 115.5% reached in June 2015.

The Common Equity Tier 1 (CET 1) ratio, in line with the CRD IV/CRR rules, stood at 16.6%, in a phasing in base, and at 16.5% on a fully implemented base.

At the end of the first half of 2016, net financing obtained with the Eurosystem stood at 1.7 billion, decreasing by 49.7% in the last year, with the improvement in the commercial gap and the increase in customers' deposits.

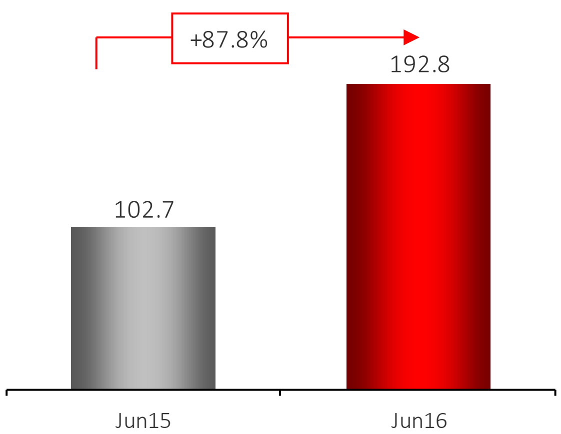
The portfolio of assets eligible as guarantees in financial operations with the Eurosystem increased to 12.9 billion euros.

The LCR Ratio (Liquidity Coverage Ratio), reckoned in line with CRD IV standards, stood at 121.6%, complying with the regulatory demands on a fully implemented basis which will come into force in 2018.

Within the scope of the capital optimization plan, Banco Santander Totta carried out, in March 2016, a 300 million euro increase in share capital, intended to replace an issue of preference shares. This operation was similar to another carried out in December 2015.

The ratings of Banco Santander Totta long term debt are: Fitch – BBB, Moody's – Ba1, S&P – BB+ and DBRS – BBBH.

NET INCOME (million euros)



Results

PROFIT AND LOSS ACCOUNT (million euros)

	Jun16	Jun15	Jun16/Jun15
Net Interest Income (without Dividends)	370.0	282.6	+30.9%
Dividends	0.3	1.1	-70.9%
Net Interest Income	**370.3**	**283.7**	**+30.5%**
Fees and Other Income	151.9	136.9	+10.9%
Commercial Revenue	**522.2**	**420.6**	**+24.2%**
Gain/Losses on Financial Transactions	87.8	25.5	+244.9%
Operating Income	**610.0**	**446.1**	**+36.7%**
Operating Costs	(284.4)	(234.9)	+21.1%
Net Operating Income	**325.6**	**211.2**	**+54.2%**
Impairment and Other Provisions	(53.4)	(65.9)	-19.1%
Results from Associated Companies	2.0	9.0	-77.5%
Income Before Taxes and MI	**274.3**	**154.2**	**+77.9%**
Taxes	(81.5)	(51.5)	+58.1%
Minority Interests	(0.0)	(0.0)	-95.2%
Net Income	**192.8**	**102.7**	**+87.8%**

At end-June 2016, strict net interest income stood at 370.0 million euros, an homologous 30.9% increase, benefiting from the reduction in costs of deposits and from the impact of the business acquired from the former Banif at the end of December 2015.

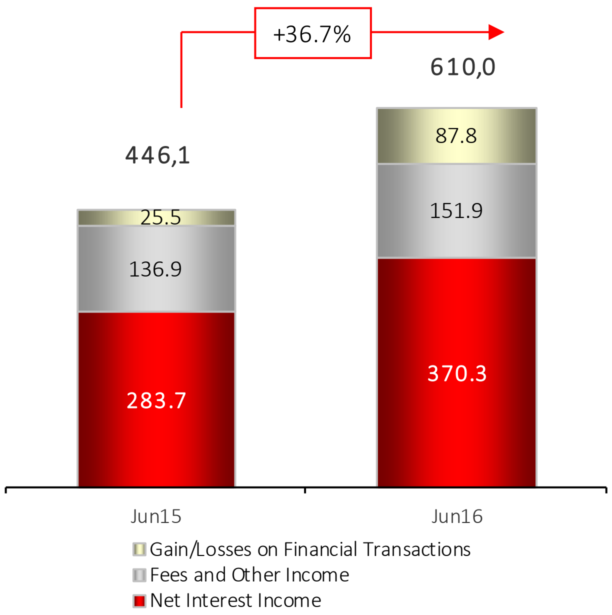
Net commissions and other results from banking business increased by 10.9% in homologous terms to 151.9 million euros, with improvements in account management and maintenance commissions, in insurance, and in business acquired from Banif.

Commercial revenue amounted to 522.2 million euros, recording a 24.2% increase relative to end-June 2015.

Results from financial transactions amounted to 87.8 million euros, evincing an expressive increase relative to the amount obtained in the first half of 2015, with the favourable impact resulting from an adequate management of the credit and public debt portfolio.

Operating income amounted to 610.0 million euros, showing a 36.7% increase, with a transversal positive progress of its components.

OPERATING INCOME (million euros)



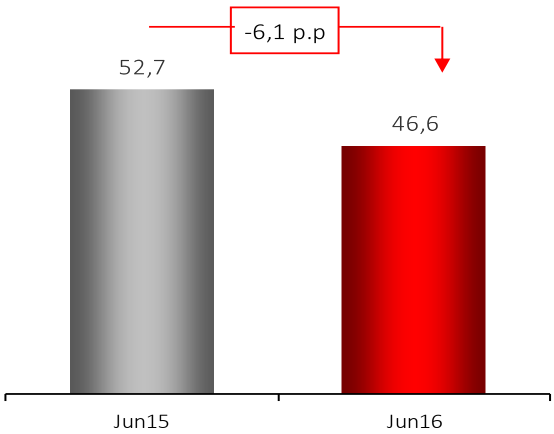
Operating expenses amounted to 284.4 million euros, a 21.1% increase as compared with the amount recorded in the first half-year of 2015, reflecting costs inherent to the acquisition of the former Banif commercial business, with personnel expenses growing by 22.1% and general expenses growing by 32.6%.

OPERATING COSTS AND EFFICIENCY (million euros)

	Jun16	Jun15	Jun16/Jun15
Personnel Expenses	(166.1)	(136.1)	+22.1%
Other Administrative Expenses	(100.6)	(75.9)	+32.6%
Operating Costs	**(266.7)**	**(211.9)**	**+25.8%**
Depreciation	(17.7)	(23.0)	-23.0%
Total Operating Costs	**(284.4)**	**(234.9)**	**+21.1%**
Efficiency Ratio (excludes depreciation)	**43.7%**	**47.5%**	**-3.8 p.p.**
Efficiency Ratio (includes depreciation)	**46.6%**	**52.7%**	**-6.1 p.p.**

In June 2016, the efficiency ratio, which shows operating expenses as a percentage of operating income, decreased by 6.1 pp to 46.6%, relative to the 52.7% obtained in June 2015.

EFFICIENCY RATIO (%)



Net operating income amounted to 325.6 million euros, exceeding the 211.2 million euros recorded in the homologous period (+54.2%).

Impairments and provisions decreased by 19.1% versus the value shown in the same period of the previous year, amounting to 53.4 million euros.

Results in subsidiaries recognized by the equity method, amounting to 2.0 million euros, decreased by 77.5% relative to the value shown one year previously, influenced by the disposal of the shareholding in Banco Caixa Geral Totta Angola in July 2015.

Income before taxes and minority interests amounted to 274.3 million euros and net income reached 192.8 million euros, an 87.8% growth as compared with the amount of 102.7 million euros recorded in the first half of 2015.

Accounts & Business Activity

At end-June 2016, business volume amounted to 68.2 billion euros, a 25.0% increase relative to the value recorded in June 2015.

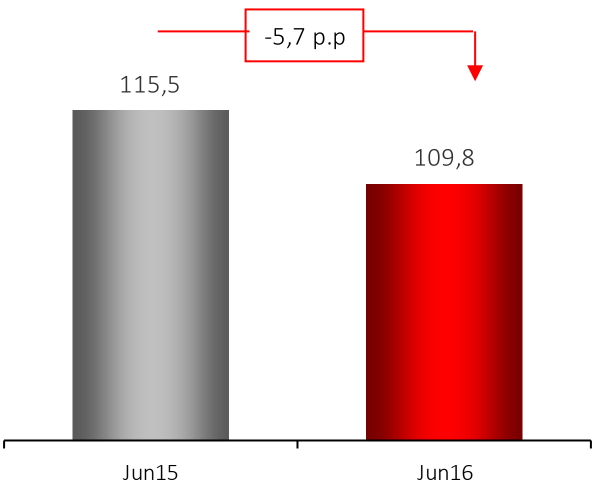
This increment resulted from the evolution shown in gross credit (+27.6%) and in customers' resources (+22.3%).

Business Volume (million euros)

	Jun16	Jun15	Jun16/Jun15
Business Volume	**68,228**	**54,593**	**+25.0%**
Total Gross Loans (includes guarantees)	35,401	27,750	+27.6%
Customers' Resources	32,827	26,843	+22.3%

The credit/deposits ratio stood at 109.8% at end-June 2016, a 5.7 pp reduction relative to the 115.5% shown in June 2015.

LOANS / DEPOSITS (%)

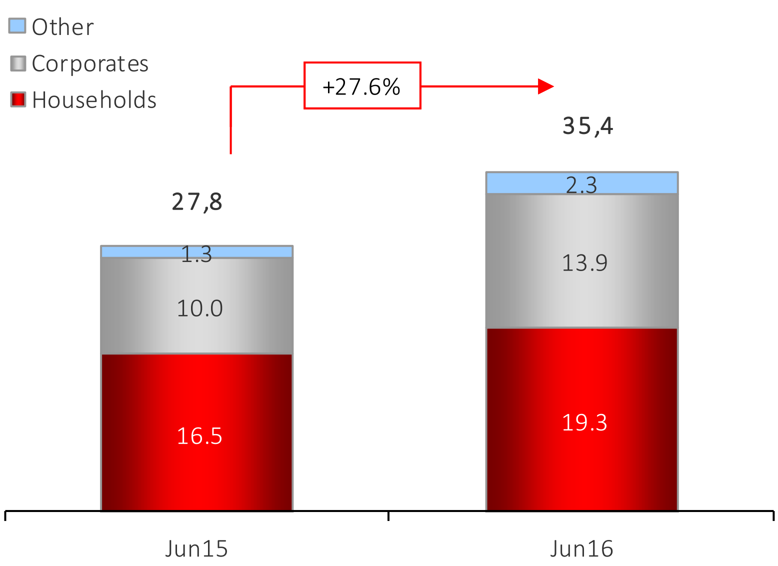


LOANS (million euros)

	Jun16	Jun15	Jun16/Jun15
Total Gross Loans (includes guarantees)	**35,401**	**27,750**	**+27.6%**
Gross Loans	**34,011**	**26,671**	**+27.5%**
of which			
Loans to Individuals	19,268	16,482	+16.9%
of which			
Mortgage	17,044	14,657	+16.3%
Consumer	1,890	1,387	+36.3%
Loans to Corporates	13,853	9,992	+38.6%

The credit portfolio (including guarantees and sureties) stood at 35.4 billion euros at end-June 2016, increasing by 27.6% as compared with the homologous period. Loans granted to companies, amounting to 13.9 billion euros, advanced by 38.6%, resulting from an increase in new production and from the acquisition of the credit portfolio of the former Banif, and now represent approximately 40% of the total Santander Totta credit portfolio. Loans granted to private customers stood at 19.3 billion euros, +16.9% versus end-June 2015. Home loans, amounting to 17.0 billion euros, increased by 16.3% in the last year, not just due to the absorption of the former Banif portfolio, but also resulting from the 66.5% increase in new loans versus the amounts contracted in the first half of 2015, overcoming the natural reduction in existing stock due to repayments.

LOANS (million euros)



At the end of the first half of 2016, the credit at risk ratio increased by 1.3 pp versus June 2015, to 6.9%. Impairments in the accounts covered by 91.8% the credit at risk, as compared with the 80.6% coverage in the homologous period. This evolution shows the fragile credit quality of a significant portion of the portfolio acquired in December 2015, although it is adequately provisioned.

CREDIT RISK RATIOS

	Jun16	Jun15	Jun16/Jun15
Non Performing Loans Ratio	4.6%	4.3%	+0.3 p.p.
Non Performing Loans Ratio (+90 days)	4.2%	4.3%	-0.1 p.p.
Credit at Risk Ratio	6.9%	5.6%	+1.3 p.p.
Restructured Loans / Total Loans	9.5%	9.5%	+0.0 p.p.
Restructured Loans not included in Credit at Risk / Total Loans	6.7%	7.1%	-0.4 p.p.
Non Performing Loans Coverage Ratio	137.0%	103.5%	+33.5 p.p.
Non Performing Loans Coverage Ratio (+90 days)	150.7%	105.6%	+45.1 p.p.
Credit at Risk Coverage Ratio	91.8%	80.6%	+11.2 p.p.

Customers' resources amounted to 32.8 billion euros at end-June 2016, a 22.3% increase versus the amount shown in June 2015.

RESOURCES (million euros)

	Jun16	Jun15	Jun16/Jun15
Customers' Resources	**32,827**	**26,843**	**+22.3%**
On-Balance Sheet Resources	28,447	21,768	+30.7%
Deposits	28,447	21,743	+30.8%
Securities issued	0	25	-100.0%
Off-Balance Sheet Resources	4,380	5,074	-13.7%
Investment Funds	1,514	1,694	-10.6%
Insurance and Other Resources	2,867	3,380	-15.2%

Deposits stood at 28.4 billion euros in the first half of 2016, which compares with an amount of 21.7 billion euros one year previously (+30.8%), showing not just the acquisition of the former Banif deposit portfolio, but also the growth ascertained in the commercial network since the beginning of the year. This increment more than offset the decrease shown in investment funds marketed by the Bank (-10.6%) and in capitalization insurance and other resources (-15.2%).

Solvency Ratio

The Common Equity Tier 1 (CET 1) ratio, in line with the CRD IV/CRR rules stood at 16.6%, reaching 16.5% on a fully implemented base.

CAPITAL (million euros)

	Jun16	Jun15	Jun16/Jun15
Total capital	**3,113**	**2,115**	**+47.2%**
Tier I Capital	3,113	2,510	+24.0%
Tier II capital	3,116	2,510	+24.1%
Risk weighted assets	**18,772**	**16,046**	**+17.0%**
Core Capital Ratio	**16.6%**	**13.2%**	**+3.4 p.p.**
Tier I Ratio	**16.6%**	**15.6%**	**+1.0 p.p.**
Total Capital Ratio	**16.6%**	**15.6%**	**+1.0 p.p.**

Outlook for the second half of 2016

Outlook for the second half of 2016 signals stability in economic activity, as well as in euro zone financial conditions, although within a more uncertain environment, given the scenario of the exit of the United Kingdom from the European Union.

Banks will continue developing their business within an framework of low interest rates, credit spreads under pressure and new regulatory requirements, namely with respect to capital requisites, liquidity and leverage ratios, as well as new regulations regarding resolution mechanisms, with the consequent structural impact in the profitability of financial institutions

Santander Totta has shown a strong capability in revenue generation, maintaining sound capital ratios and a comfortable liquidity situation.

To be maintained, for the second half-year, are the main objectives of increase in market share and customer loyalty, with special reference to those originating from the former Banif network, as well as the increment in the profitability of capital funds, and in the increase in net interest income, through strict management of liability costs, expansion of business volumes, and in the management of the quality of the credit portfolio.

Santander Totta will maintain its strategy in providing support to the revitalization of the Portuguese economy and companies, increasing the relative weight of this segment in its credit portfolio, together with a policy of strict risk control regarding loan granting and follow up.

Simultaneously, the Bank will continue the process of commercial transformation, within the scope of its mission to contribute towards the development of people and companies, aiming to be a **Simple, Personal** and **Fair** Bank. The Bank will pursue simplifying processes; the strengthening of the model of multichannel distribution in order to provide customers with a fuller and easier accessible service; and the streamlining of risk management, with models better adjusted to each customer segment, keeping to a prudent and strict management of assumed risks.

After the acquisition of a number of assets and liabilities of the Banif Bank, following the resolution measure applied by the Bank of Portugal at the end of 2015, Santander Totta proceeded with the immediate integration of its commercial structure and carrying out the rebranding of all the branches. The process should be completed in the second half of 2016, with the integration of the former Banif operational and technological network.

The completion of the process will allow expanding the offer of products and services to more than 300,000 customers, with special focus placed on the autonomous regions of the Azores and Madeira, providing additional leverage for growth in activity and in business volumes.

Commercial Banking

Private and Business Customers

During the first half-year, the Bank continued guiding its actions based on its strategic priorities and in the corporate culture of a Bank which assumes being **Simple, Personal** and **Fair**.

In the current environment of negative interest rates the Bank continued adjusting the offer of its products and portfolio within the market context, endeavouring to keep on rewarding its customers' levels of relationship. As such, and in line with the relation of trust and benefiting from the Bank's soundness, customers' resources recorded a significant increase during the first half of the year.

In home and personal loans, and corresponding to the customers' need to carry out their projects, a 35.6% growth was recorded versus the homologous period.

Credit granted to the Business/SME segment recorded a 3.2% growth relative to the same period in the previous year, which allowed a positive evolution in the segment's credit portfolio.

Mundo 1|2|3 continued being revealed as an important lever in capturing and binding customers. Mundo 1|2|3 is a multi-product solution which provides advantages on the main day-to-day commissions and several insurance covers comprising 24h home assistance, and a number of benefits, via reimbursement in the Mundo 1|2|3 card account. This solution has allowed the Bank to augment the capture of new customers and the strengthen relations with those already on the books. A reinforcement of benefits attributed to customers was carried out in March, namely the increase in the Repsol offer, the inclusion of advantages in the use of Via Verde (automatic toll and parking fees) and in tickets for the Rock in Rio Lisbon events.

The Bank also increased the number of digital customers, which has now exceeded 404,000.

Private Banking and Select

Business in the higher income segments was conditioned by the evolution of the financial markets which, in the first half-year were, as already stated, characterized by fears related to the slowdown in the Chinese economy and, already at the end of this period, by the United Kingdom referendum relative to its continuing in the European Union. These factors gave rise to moments of greater volatility and to a flight towards quality.

The integration of the Private centres of the former Banif network were a further opportunity for the Private Banking area to confirm the strength of its business model, based upon customer proximity, on an open model of consultancy and design, and on its continuing to offer investment solutions adapted to the customers' profile, needs and objectives.

The Private Banking area was distinguished, for the 5th consecutive year, as the "Best Private Banking Services Overall" by Euromoney, which joined the two recognition prizes attributed in 2015 by Global Finance and by the PWM/The Banker partnership, as "Best Private Bank in Portugal".

With regard to the Affluent segment, Santander Totta has now made public the access criteria to this segment. The Bank thus increases transparency in its customer relations and creates conditions for improved commercial dynamics, placing a clear stake on its relations with Affluent customers. Also in this half-year and as a complement to the current Select offer, Global Value is now available to Select and Private Customers. This solution covers a number of services and is thus a further factor supporting client engagement and loyalty.

Companies

The Bank kept on focusing the increase in proximity and relationship with its customers in the Companies segment.

With the motto "A Bank close to your company", the Bank chose as a priority its presence in fairs and industry events, with special reference to the creation of a new concept of proximity and communication: the Santander Advance Empresas Box. This opens up a new concept of proximity between the Bank, companies and universities.

The Santander Advance Empresas strategy comprises the streamlining of the existing integrated offer, in which the non-financial component is particularly relevant, considering its innovatory and distinctive features. Highlighted, as an instance, is the Santander Advance Site with approximately 1.5 million sightings; the Santander Universities Trainee Scholarships Programme, with more than 900 requests for Traineeships since its launching, or the Training (online and personal attendance) attributed to more than 1,300 companies.

The Santander Group was awarded by Euromoney magazine the prize for "World's Best Bank for SMEs", highlighting that the Santander global strategy, within the scope of Santander Advance, runs far beyond financing, since it comprises training solutions, internationalization and connectivity which allow companies to overcome barriers to their activity.

With regard to international business, the Bank strengthened, during the first half-year, its support for companies in terms of external trade and in the process of internationalization. In this period, the Bank: i) expanded the number of companies that regularly carry out their international business with the Bank; ii) obtained significant growth in its market share in trade finance; and iii) increased its revenues, namely in commissions linked to this business.

Promoters and Brokers

The first half of 2016 featured the integration of the former Banif network. Since the beginning of the year the Real Estate Promoters and Brokers area entered into a process of analysis of the real situation existing in that Bank in the Promoters and Brokers Channel, with the objective to assess impacts, identify necessary developments and define procedures aiming towards the expansion of the network of activities carried out in these channels.

It was already possible, during the second quarter, to disclose and implement procedures in order that, on a transitional basis, the Bank's support and follow-up structures of these channels could be made available to the former Banif branch network, thus allowing the streamlining of the protocols which already exist with real estate brokers.

At the same time a process of admittance of new External Promoters was also developed and disclosed, with the objective of swiftly providing the former Banif branches with a minimum number of business partners during the transitional stage.

Throughout the first six months of the year a significant increase was shown in the contribution provided by the Real Estate Brokers to the levels of production achieved.

The Promoter Shop network continues its expansion process, with 24 more shops opened in the first half-year, which increased the national cover of the complementary network to the Branch network.

Supplementary Channels

During the first half of 2016, the Multichannel Strategy and Management area continued the introduction of the Multichannel Implementation Plan, in line with the strategy defined by the Group for direct channels, with the aim of modernizing, simplifying and achieving closer proximity with the customers, enabling and increasing the digital offer of the Bank's services.

In this context, new features were introduced and improvements carried out, in order to widen the offer, to substantially improve customers' experience, and significantly increasing adhesion to online channels and sales effected via these channels.

Several actions and initiatives were implemented towards the integration of the former Banif, which should fully occur during the second half of the year.

SelfBanking

SelfBanking activity was emphasized in the placing into practise of strategy and of activity plans foreseen for the increase in business, focusing on service supplied to customers and implementing the integration plan of the former Banif business network.

In parallel to the progress foreseen in ATM installation, the beginning of the integration of the former Banif resulted in a greater growth in the number of ATM's of the Multibanco network, increasing market share to 15% in equipment numbers and to 16% in transactions carried out.

The use of the equipment network, whilst a communication channel and providing value offers to customers was strengthened, and proved to be an effective generator of commercial leads for the branch network.

The plan for the renewal and technological innovation, and the consolidation, of ATM equipment with recirculation capability continues being the buttress for the increase in the quality of services rendered, as recognized by customers and evinced by a 94% satisfaction level.

Digital Channels

Concerning digital processes, the strategy was maintained to enable the various channels, strengthening their positioning as vehicles for distribution of the Bank's products and services and customer binding with segmented offers. Instances of this are the Select menu – Private segment – and the launching of Mundo Select in the Mobile channel (App). Also implemented was the Mundo 1|2|3 in the Mobile channel, an offer guided towards customers in the Mid&Mass Market segment. Highlighted amongst the several improvements carried out in this channel are the Mobile Touch ID, which allows accessing the Mobile application through a fingerprint, easily, simply and totally secure, as well as enabling the management of the card's limits.

In NetBanco Private, changes were implemented in transfer levels, in order to comply with SEPA standards. Along with the Mobile channel, the segmented offer mastered the improvements implemented in Homebanking, especially with Mundo 1|2|3 and with “My Offers”, where the user may view the offers made available.

Similarly to Private Customers, the SEPA theme was included in the changes and improvements occurred in *NetBanco* Companies, not just with regard to transfers but also with direct debits. The Companies site has an ongoing redesigning plan, which is being implemented and, as for instance in the Cards area (Meal Cards).

Improvements were achieved in the availability and *performance* of *websites* and in the growth of users of digital platforms. Active digital customers recorded, in June, a homologous 19% growth, with those that carried out transactions equally recording an almost equivalent growth in the same period.

Contact Centre

The Bank opened, in the central Lisbon area, in January 2016, a new Contact Centre, provided with road and rail services since it is close to a central transport hub. This centre is equipped with the best Contact Centre technology and its conditions are unique and in line with the best practises available in the industry and in the Group’s contact centres. Working conditions and additional features of leisure and support for the families of the contact centre employees were substantially improved.

This stake and reinforcement in investment aims to improve customer contact experience and to facilitate the transformation of the Contact Centre into a means of revenue for the Bank.

The strategy followed in prior years strengthened the investment in the increase of autonomy and in the swift resolution of all the issues brought about by customers, and is now better focused on commercial transformation, creating the necessary conditions to increment the weight of the Bank’s sales generated by this channel and a greater stake placed on the Companies and Business segment, with very definite projects in this area.

The Companies’ Attendance Centre was concluded; the objective of this centre is to guarantee the follow up of all the operational requests that customers usually place with the Bank’s Company Commercial Departments and, simultaneously, ensure a swifter answer and improved Customer Experience.

The systematic generation of commercial leads to the branch network was strengthened, following the detecting of sales opportunities in customer contacts.

Business in this area, in the first half of 2016 averaged a 20% increase to that obtained in the homologous period, with emphasis placed in the changes in the mix of contacts, with greater weight in the support to digital channels.

In May, the Santander Totta Contact Centre was considered, for the 8th consecutive year, the “Best Contact Centre in Portugal in the Finance Industry”, a prize awarded by the Portuguese Association of Contact Centres.

Social Networks

Throughout the first six months of the year, the Bank implemented several pastimes and disclosure and promotional actions in the social networks, aligned with the Marketing strategy and with the partnerships established by the Bank, namely the half-marathons and the Rock in Rio event, which were targeted with specific media coverage in Facebook.

The Bank’s institutional Facebook page has 350,000 followers and grew by 40% in the first half-year: 100,343 new followers including 57,184 deriving from the merger with the former Banif’s page.

The growth in the number of the Bank’s followers in Facebook results from a consistent investment in publicity and from regular implementation of pastimes and initiatives.

Instagram, with 3,542 new followers in the first half of 2016, was the social network which recorded greater relative growth (306%) versus December 2015.

Banco Santander Totta is available in 6 social networks: Facebook, Twitter, LinkedIn, YouTube, Instagram and Google+.

International Business

Banco Santander Totta’s international business activity in 2016 for retail customers residing abroad has privileged the increase in binding, the capture of new customers and the offer of digital channels, with greater focus placed on NetBanco and Mobile, both of which are strategic priorities, and enable customers to digitally access the Bank’s services.

Within the scope of the Santander Group restructuring operations, the process was concluded in the closing down of two units regulated by USA legislation: Totta Inc. and the BSTI (Porto Rico) subsidiary.

On another hand, actions have been developed via the local authorities for the integration of former Banif external units.

Volume of business in the area of residents abroad recorded a fair growth in terms of credit, but a lower progress in resources, mostly due to low levels in interest rates and the tendency to invest savings in real estate.

With regard to relations with the communities, the Bank attended several events carried out for customers, namely in the "National Day of Portugal", where links with Portugal were strengthened and where the intent was to disclose the Bank's offer and availability for the systematic support of the Portuguese communities residing abroad.

The Bank attended the 12th annual conference of the Luso-British Chamber of Commerce and the Paris Real Estate Exhibition, in both of which a large number of contacts were carried out with the communities, local associations and customers.

The last months of the first half-year witnessed the conclusion of the Summer campaign, which targets preferential attendance for customers who visit us, providing gifts and structured commercial information, thus allowing the welcoming of Portuguese residing abroad. Also strengthened were communications, welcoming in the main branches, in national airports and means of communication, promoting the offer of services and savings solutions.

It was possible to associate, for the first time, an important sports event, the Bicycle Tour of Portugal, with the visit of customers residing abroad, inviting them to take part in events organized in locations to watch the Tour and where they were born or spend their holidays.

As happened in previous years, and within an environment where several traditional transfer channels were reduced, namely in Switzerland and the United Kingdom, streamlining actions were promoted to remind customers of the possibility and advantages of carrying out transfers to Portugal, this having resulted in a market share in excess of 20%.

The London branch has continued evincing good progress in the control of its credit portfolio, maintaining strong support to branches in Portugal to provide services to the Portuguese community that resides and works in the United Kingdom.

Global Banking & Markets

The Structured Financing area has kept up an intense activity, accompanying the trend of companies in exploring new investment opportunities. Standing out in this period was the financing of a portfolio of wind power projects, as well as a new cruise shipping terminal in Lisbon.

Highlighted in the Corporate Finance area are the successful conclusion of the consultancy for the acquisition of a minority participation in a portfolio of wind power assets in Portugal, and the financial consultancy to a national media group in assessing its subsidiaries.

The Fixed Income & FX (FIC) area maintains its support to Portuguese companies through the presentation of mitigating solutions regarding financial risks, providing market information and close follow-up of customers, in connection with the Commercial Networks.

Introduction

For Santander Totta, the quality of risk management is a fundamental basis of operation, within the corporate policy of the Group in which it is comprised. Prudence in risk management allied to the use of advanced management technologies has been a decisive factor in the achievement of the Bank's objectives.

Credit Risk

In the first half of 2016, the activity of the Credit Risk area had the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of both customers and products;
- Reinforcement of the strictness in the admittance criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
- Concerning standardized risks customer proximity was intensified in order to anticipate their credit requirements, review their credit lines and foresee possible issues in their repayment capability. This action and the level of the customers' credit quality allowed maintaining non-performing loans and credit at risk ratios significantly below the average for the industry. On another hand support levels to the business in the capture of good risk customers were intensified and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;
- Regarding the follow up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment, with the objective of mitigating the non-performing loans and slowdown ratios. Permanent reviews carried out in all the portfolios allowed concluding that the portfolio is being analysed with adequate criteria and that the level of estimated impairment is equally adequate;
- Measures in the management of the process of admittance of new credits continued being implemented in the first six months of the year, with the objective of improving the quality of customer service, whenever new business opportunities arise;
- Deriving from the integration of the former Banif network, several tasks were carried out in the identification and assessment of credit risks over credit exposures, with special focus on the main exposures. The integration of the admittance process and follow-up of operations and customers from that network were initiated, following the Banco Santander Totta models;
- With massive treatment (or non-standardized) risks the Bank, aiming towards continuous improvement and efficiency in the admittance procedures, and taking into account the objective of portfolio quality, maintained the automatic decision models, namely scorings and behavioural systems used in the retail Customers and Business segments;
- Still considering the massive treatment risks, focus was kept on maintaining the quality of the portfolio, acting upon the slowdown in management and non-performing loans and continuing to provide a set of products and solutions for debt restructuring which allow adapting customers' expenditure to their current and future repayment capability and available income. With this in mind adequate admittance strategies are being defined in the Bank's decision system and behavioural systems are used to identify prevention and reappointment measures to be offered to customers;
- With the objective to strengthen the commercial involvement and customer cross selling and simultaneously energize the capturing of new customers, several commercial campaigns were continued directed towards the Business segment, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In an adverse macroeconomic scenario, where the ratios of non-performing loans continue increasing, a strong focus was placed on the recoveries activity level, strengthening the swiftness of intervention. To be highlighted is the activity carried out in the management of massive recoveries whilst simultaneously keeping a permanent follow up of special cases and judicial or extra judicial procedures;
- Also continued was the negotiation policy aiming to resolve the number of pledges in order that, when these occur, preference is given to obtain this type of payment in lieu of judicial court actions;
- The process of modernization of the Recoveries area was continued, also based on computer developments judiciously signalled by the users as necessary and that aim to control the total process from the entrance into recoveries, as well as cover relations with attorneys and executive actions;
- Surveillance continued on working methodologies aiming to optimize the several procedures with the objective to "stress" the model, increasing the efficiency of resources and the effectiveness of actions to allow anticipating credit recovery;
- With regard to corporate risk management, a policy to strictly control the credit portfolio was pursued, endeavouring to provide adequate and timely management information, aiming towards a correct management of the Bank's risks;
- Attention was equally kept on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purpose of reckoning the

requirement of own resources as well as their increasing integration in management.

Risk model

Introduction

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

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

- Portfolio customers are those that, fundamentally due to the assumed risk, have been attributed a risk analyst. Included in this group are companies comprised in wholesale banking groups, financial institutions and some of the companies comprised in retail banking groups. Risk assessment of these customers is carried out by the analyst, complemented by decision supporting tools based on internal models of risk evaluation;
- Standardized customers are those that have not been assigned a specific analyst. Included in this group are risks with household customers, self-employed entrepreneurs, and the companies comprised in retail banking groups that are not included in the portfolio. Assessment of these risks is based on internal evaluation models and automatic decision, additionally complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Metrics and tools in risk measurement

Rating/scoring tools

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

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

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

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

For the portfolios of standardized risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented that automatically attribute an evaluation/decision of the transactions submitted. These decision tools are complemented with a behavioural scoring model, a device that allows greater predictability of the assumed risks and which is used both in the pre-sale and in the sale period.

Credit risk parameters

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

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

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

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

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

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

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

Credit risk cycle

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

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

Planning and establishing limits

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

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

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

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

Risk assessment, decision on transactions, follow up and control

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

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

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

Recoveries

Recoveries management in Santander Totta is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are to ensure the collection or regularize the amounts in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal, and, on the other hand, maintain and strengthen relations with the customer, safeguarding his deportment within the commitments contractually assumed with the Bank.

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

Counterparty Risk

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

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

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

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

During the first half of 2016, the present value of operations on interest rates (Euribor) indexing factors recorded a slight increase, reflecting the progress of medium and long term rates.

Balance Sheet Risk

Control of balance sheet risk

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

Methodologies

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

As a complement, other risk indicators are reckoned based on equity values, such as the Value at Risk (VaR) and scenario analyses (stress test).

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

LCR (Liquidity Coverage Ratio), reckoned in line with CRD IV standards stood at 121.6% at end-June 2016.

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

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

Structural balance sheet risk management

Interest rate risk

The interest rate risk in the consolidated accounts is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variations of risk factors and the Bank's positions over assets and liabilities sensitive to interest rate variations. The model in use allows the measuring and control of all the risks associated to the balance sheet's market risk, namely the risk originating directly from the movement of the income curve, given the structure of the indexing factors and existing re-appreciation, which determine the exposure to interest rate risk of the balance sheet components.

Exchange rate risk

The exchange rate risk in commercial activity is measured and controlled through the total position in foreign exchange, the Group's strategy being its full coverage.

Liquidity risk

Liquidity policy followed by the Group is based upon a low liquidity risk and in the continuous diversification in sources of finance, bringing into perspective the volume and nature of the financing tools to be used, in order to allow the achievement and correct development of the established business plan.

By keeping to a conservative profile, the Bank is better protected with respect to potential crises that may affect the business environment.

The policy of a financing mix is always based on an adequate level of liquidity risk, in line with the established limits and will be assessed monthly by ALCO. The limits of liquidity risks are established by an independent management body which, apart from other indicators, demands a reasonable amount of available liquid assets.

Liquidity management is carried out at the consolidated level. The Group's financial policy takes into consideration the variations of the balance sheet components, the structural situations of the maturities of assets and liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenditure related to the funding activity.

Market Risk

Activities subject to market risk

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

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

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

Methodologies

Negotiation activity

The methodology applied in 2016 for negotiation activity, is the Value at Risk (VaR). Used as a basis is the methodology of historic simulation with a 99% level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.

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

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

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

Backtesting

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

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

Limits

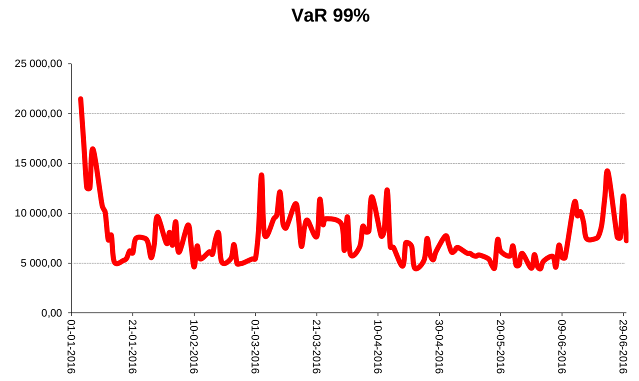
Quantitative limits for negotiation portfolios, which are classified in two groups, are established in line with the following objectives:

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

unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR during the year

Following is the evolution of risk attached to the negotiation activity in financial markets in 2016, quantified through VaR:



VaR was kept at low levels, varying between €4,000 and €21,000.

Operational Risk

Definition and objectives

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

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

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

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

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

Management model

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

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

The management and control of operational risk is the responsibility of all the Bank's areas, since these have the better knowledge of the processes, as well as of those items that are susceptible to cause relevant exposures to operational risk, and are accompanied by a central area, responsible for the implementation and follow up of the project through control and supervision

The different stages of the management model allow:

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

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

- Promotes the development of an operational risk culture;
- Allows a comprehensive and effective management of the operational risk (identification,

measurement/assessment, control/mitigation and information);

- Improves the knowledge of both real and potential operational risks, and their being attributed to business and support lines;
- Information on operational risk contributes towards improving processes and controls, reduce losses and revenue volatility;
- Eases establishing operational risk appetite limits.

.

Compliance and Reputational Risk

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

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

.

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

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

- Corporate values;
- Compliance policy;
- Prevention of money laundering and of financing terrorism;
- Deportment codes;
- Marketing policies and product follow up;
- Financial risks policy;
- Quality policy;
- Social responsibility and environmental defence policies.
- Policy concerning treatment and protection of personal data
- Monitoring and follow up of new regulations
- Liaison with supervisory authorities and following up the actions developed by them
- Employee training policy
- Social responsibility and environmental defence policies

Governance Practises and Internal Control Model

The General Meeting held on 31 May 2016 approved a general reformulation of the company's articles of association, which implied changes in the structure of the company supervision, adopting the model known as the Anglo-Saxon Company Governance, comprising a Board of Directors and an Audit Committee as supervising body.

The general reformulation of the company's articles of association is under suspense whilst awaiting the conclusion of the process of authorization or non-opposition by the competent supervision bodies for the corporate officers proposed for the management and supervision bodies, a process that by 30 June 2016 was still pending.

The remaining structure of the Company Governance as well as the Bank's policies, procedures and internal control bodies suffered no changes relative to 2015..

Shareholder Structure

Shareholder	No. of shares	%
Santander Totta, SGPS, S.A.	1,241,179,513	98,76%
Taxagest - SGPS, S.A.	14,593,315	1,16%

Movement in Own Shares

In line with the decision taken at the Annual General Meeting held on 31 May 2016, Banco Santander Totta, S.A. may, directly on its own or through a subsidiary company, purchase own shares or dispose of those acquired up to the limit and in accordance with the remaining provisions of the respective legislation.

On 31 December 2015, Banco Santander Totta held 290,435 own shares, representing 0.030% of its share capital. In the course of 2016 the Bank did not acquire or dispose of any own shares, closing the half-year with the same number of own shares as stated above, and which now represent 0.023% of its share capital, following the issue of 300,000,000 new shares in March 2016.

TRANSACTIONS OF OWN SHARES IN 1ST QUARTER OF 2016

Banco Santander Totta, S.A.	No. Shares	Average unit price (€)	Nominal Value (€)	% Share Capital
Balance at 31/12/2015	290,435	5.78	1,678,843	0.030%
Purchase of shares	0	-	0	-
Sale of shares	0	-	0	-
Balance at 30/06/2016	290,435	5.78	1,678,843	0.023%

Movements in Shares and Bonds of Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of Company Law, it is hereby declared that no movements were carried out in the first half of 2016 in shares and bonds by the company's Corporate Officers.

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

Item c) of §1 of article no. 246 of the Securities Code determines that each one of the persons responsible for the company issues a declaration the text of which is established therein.

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

"I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 246 of the Securities Code that, to the best of my knowledge, the consolidated financial statements relative to the accounts for the first half-year of 2016 were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of Banco Santander Totta, S.A and of the companies included in the perimeter of consolidation, and that the interim management report truly and fairly presents all the information required under § 2 of article no. 246 of the Securities Code."

The Board of Directors

António Basagoiti Garcia-Tuñon

Chairman

António José Sacadura Vieira Monteiro

Deputy Chairman

Enrique Garcia Candelas

Member

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Member

João Batista Leite

Member

José Carlos Brito Sítima

Member

José Urgel Moura Leite Maia

Member

Luís Filipe Ferreira Bento dos Santos

Member

Manuel António Amaral Franco Preto

Member

Pedro Aires Coruche Castro e Almeida

Member

Glossary

Net Interest Income (Without Dividends)
Interest and similar revenue less Interest and similar expenses

Net Interest Income
Net interest income accrued by dividends

Fees and Other Income
Income from services and commissions less expenses with services and commissions, accrued by other net operating income

Commercial Revenue
Sum total of net interest income, fees and other income from banking business

Gain/Loss on Financial Transactions
Sum total of gains/losses from assets and liabilities assessed at fair value through income, of gains/losses derived from financial assets available for sale, of gains/losses from foreign exchange revaluation and of gains/losses from the disposal of other assets

Operating Income
Commercial revenue accrued by gains/losses on financial transactions

Operating Costs
Personnel expenses accrued by general expenses

Total Operating Costs
Operating costs accrued by year's depreciation

Net Operating Income
Operating income less operating costs

Impairment and Other Provisions
Sum total of provisions net of cancellations, of impairment net of reversions and recoveries and impairment of other assets net of reversions and recoveries

Efficiency Ratio
Ratio of operating costs to operating income

Credit / Deposits Ratio
Measured in line with definitions deriving from the "Memorandum of Understanding"

Loans to Indiduals and to Corporates
Defined in line with management information segmentation (MIS)

Non-performing Loans Ratio
Ratio of the balance of customers' loans with capital instalments or overdue interest to total loans to customers

Non-performing Loans Ratio (+90 days)
Ratio of the balance of customers' loans with capital instalments or overdue interest in excess of 90 days to total customer loans

Credit at risk Ratio
Ratio of customer loans at risk (gross) to total customer loans (gross)

Restructured Loans / Total Loans[1]
Ratio of restructured customer loans to total customer loans.

Restructured Loans not included in Credit at Risk / Total Loans[2]
Ratio of restructured customer loans not included in loans at risk to total customer loans.

Non-performing Loans Coverage Ratio
Ratio of cumulative Impairment for customer loans (balance sheet value) to non-performing loans

Non-performing Loans Coverage Ratio (+90 days)
Ratio of cumulative Impairment for customer loans (balance sheet value) to non-performing 90 day overdue loans

Credit at Risk Coverage Ratio
Ratio of cumulative Impairment for customer loans (balance sheet value) to loans to customers at risk

Deposits
Matches balance sheet heading "Customers' Resources and Other Loans"

Off-Balance Sheet Resources
Sum total of investment funds managed or marketed and of insurance and other resources, information on which is obtained through Santander Asset Management and/or the management information system (MIS)

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

The 2016 half-year accounts were not the object of a limited review or of an opinion from the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS AT JUNE 30, 2016 AND DECEMBER 31, 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated balance sheets originally issued in Portuguese - Note 53)

		June 30, 2016			December 31,2015
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	968 665	-	968 665	3 134 032
Balances due from other banks	6	402 067	-	402 067	463 898
Financial assets held for trading	7	1 679 638	-	1 679 638	1 750 694
Available-for-sale financial assets	8	5 683 685	71 628	5 612 057	6 467 813
Loans and advances to credit institutions	9	1 830 797	-	1 830 797	1 535 436
Loans and advances to customers	10	34 011 457	2 160 581	31 850 876	31 780 965
Investments held to maturity	11	301 730	-	301 730	-
Hedging derivatives	12	126 281	-	126 281	130 292
Non-current assets held for sale	13	297 910	120 983	176 927	190 595
Investment properties	14	380 961	-	380 961	387 193
Other tangible assets	15	744 579	436 791	307 788	300 194
Intangible assets	15	413 746	379 922	33 824	31 054
Investments in associated companies	16	40 163	1 500	38 663	42 957
Current tax assets	17	13 367	-	13 367	16 458
Deferred tax assets	17	385 796	-	385 796	418 317
Other assets	18	670 335	98 191	572 144	279 070
Total assets		47 951 177	3 269 596	44 681 581	46 928 968

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	June 30, 2016	December 31, 2015
Liabilities			
Resources of central banks	19	2 450 427	4 952 679
Financial liabilities held for trading	7	1 687 799	1 721 691
Resources of other credit institutions	20	3 124 569	3 545 229
Resources of customers and other debts	21	28 446 921	27 126 313
Debt securities	22	4 625 993	5 043 445
Hedging derivatives	12	183 854	170 133
Provisions	23	250 385	323 090
Current tax liabilities	17	34 536	37 747
Deferred tax liabilities	17	88 070	122 920
Equity representative instruments	24	69 314	69 309
Subordinated liabilities	25	4 299	4 302
Other liabilities	26	496 351	399 302
Total liabilities		41 462 518	43 516 160
Shareholders' equity			
Share capital	27	1 256 723	956 723
Share premium account	27	193 390	193 390
Other equity instruments	27	135 000	135 000
Revaluation reserves	27	(469 097)	(322 046)
Other reserves and retained earnings	27	1 953 134	1 603 610
(Own shares)		(43 561)	(43 561)
Consolidated net income attributable to the shareholders' of BST	28	192 804	568 377
Shareholders' equity attributable to the shareholders' of BST		3 218 393	3 091 493
Non-controlling interests	29	670	321 315
Total shareholders' equity		3 219 063	3 412 808
Total liabilities and shareholders' equity		44 681 581	46 928 968

The accompanying notes form an integral part of these consolidated balance sheets.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of income originally issued in Portuguese - Note 53)

	Notes	June 30, 2016	June 30, 2015
Interest and similar income	31	574 573	540 798
Interest and similar charges	32	(204 591)	(258 237)
Net interest income		369 982	282 561
Income from equity instruments	33	330	1 134
Income from services and commission	34	190 328	164 807
Charges with services and commission	35	(33 008)	(29 503)
Result of assets and liabilities at fair value through profit or loss	36	(33 519)	(6 913)
Result of available-for-sale financial assets	37	90 519	20 587
Result of foreign exchange revaluation	38	4 402	4 619
Result from the sale of other assets	39	26 389	7 161
Other operating results	40	(5 429)	1 617
Net income from banking activities		609 994	446 070
Staff costs	41	(166 082)	(136 074)
General administrative costs	42	(100 627)	(75 864)
Depreciation	15	(17 673)	(22 952)
Provisions, net of reversals	23	(949)	(12 780)
Loan impairment net of reversals and recoveries	23	(41 266)	(42 931)
Impairment of other financial assets net of reversals and recoveries	23	(2 189)	(459)
Impairment of other assets net of reversals and recoveries	23	(8 948)	(9 767)
Result from associates	43	2 010	8 951
Income before taxes and non-controlling interests		274 270	154 194
Taxes			
Current	17	(37 626)	(26 533)
Deferred	17	(43 840)	(25 009)
Income after taxes and before non-controlling interests		192 804	102 652
Non-controlling interests	29	-	-
Consolidated net income attributable to the shareholders of BST	28	192 804	102 652
Average number of ordinary shares outstanding	28	1 098 432 941	641 858 667
Earnings per share (in Euros)	28	0.18	0.16

The accompanying notes form an integral part of these consolidated statements of income.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of other comprehensive income originally issued in Portuguese - Note 53)

	June 30, 2016		June 30, 2015	
	Attributable to the shareholders' of BST	Attributable to the non-controlling interests	Attributable to the shareholders' of BST	Attributable to the non-controlling interests
Consolidated net income for the period	192 804	-	102 652	-
Items that will not be reclassified subsequently to the income statement				
. Actuarial and financial deviations				
. Fair value	(23 478)	-	8 912	-
. Tax effect	-	-	-	-
Items that can be reclassified subsequently to the income statement				
. Exchange differences relating to foreign subsidiaries	(598)	(6 405)	2 894	19 598
. Transfers to income statement of foreign exchange variation of subsidiaries abroad	(1 717)	-	-	-
. Changes in fair value of financial assets available for sale				
. Fair value	(67 482)	-	(88 338)	-
. Tax effect	17 128	-	25 550	-
. Transfers to income statement of the fair value of financial assets held for sale				
. Fair value	(90 041)	-	(20 603)	-
. Tax effect	26 112	-	5 975	-
. Changes in fair value of cash flow hedging derivatives				
. Fair value	(10 097)	-	(11 032)	-
. Tax effect	2 928	-	3 199	-
Consolidated comprehensive income for the period	45 559	(6 405)	29 209	19 598

The accompanying notes form an integral part of these consolidated statements of other comprehensive income.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of changes in shareholder's equity originally issued in Portuguese - Note 53)

				Revaluation reserves										
	Share capital	Share premium account	Other equity instruments	Legal revaluation	Fair value	Foreign exchange fluctuation	Deferred taxes	Legal reserve	Other reserves	Retained Earnings	Own shares	Net income for the period	Non-controlling interests	Shareholder's equity
Balances as at December 31, 2014	**656 723**	**193 390**	**135 000**	**23 245**	**(393 897)**	**(486)**	**92 400**	**246 107**	**914 649**	**373 840**	**(43 444)**	**165 174**	**595 677**	**2 958 378**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	260	13 447	30 969	54 784	-	(99 460)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(65 714)	-	(65 714)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	(30 168)	-	-	-	-	(30 168)
Long-term incentives	-	-	-	-	-	-	-	-	191	-	-	-	-	191
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)
Other	-	-	-	-	-	-	-	-	(8)	-	-	-	-	(8)
Comprehensive income for the first semester of 2015	-	-	-	-	(111 061)	2 894	34 724	-	-	-	-	102 652	19 598	48 807
Balances as at June 30, 2015	**656 723**	**193 390**	**135 000**	**23 245**	**(504 958)**	**2 408**	**127 384**	**259 554**	**915 633**	**428 624**	**(43 445)**	**102 652**	**615 275**	**2 911 485**
Capital increase	300 000	-	-	-	-	-	-	-	-	-	-	-	-	300 000
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(8 511)	(8 511)
Long-term incentives	-	-	-	-	-	-	-	-	(201)	-	-	-	-	(201)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(116)	-	-	(116)
Redemption of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(300 000)	(300 000)
Comprehensive income for the second semester of 2015	-	-	-	-	42 535	158	(12 818)	-	-	-	-	465 725	14 551	510 151
Balances as at December 31, 2015	**956 723**	**193 390**	**135 000**	**23 245**	**(462 423)**	**2 566**	**114 566**	**259 554**	**915 432**	**428 624**	**(43 561)**	**568 377**	**321 315**	**3 412 808**
Capital increase	300 000	-	-	-	-	-	-	-	-	-	-	-	-	300 000
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	194	51 544	41 066	297 286	-	(390 090)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(178 287)	-	(178 287)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	(40 416)	-	-	-	10 026	(30 390)
Redemption of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(324 266)	(324 266)
Long-term incentives	-	-	-	-	-	-	-	-	44	-	-	-	-	44
Comprehensive income for the first semester of 2016	-	-	-	-	(191 098)	(2 315)	46 168	-	-	-	-	192 804	(6 405)	39 154
Balances as at June 30, 2016	**1 256 723**	**193 390**	**135 000**	**23 245**	**(653 521)**	**251**	**160 928**	**311 098**	**916 126**	**725 910**	**(43 561)**	**192 804**	**670**	**3 219 063**

The accompanying notes form an integral part of these consolidated statements of other comprehensive income.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of cash flows originally issued in Portuguese - Note 53)

	June 30, 2016	June 30, 2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	713 009	648 517
Payment of interest and commission	(250 586)	(274 973)
Payments to staff and suppliers	(292 440)	(231 464)
Contributions to the Pension Fund	-	-
Foreign exchange and other operating results	7 721	10 576
Recovery of uncollectable loans	1 317	1 461
Operating results before changes in operating assets and liabilities	179 021	154 117
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(318 167)	86 034
Financial assets held for trading	71 097	137 634
Loans and advances to customers	(54 164)	6 300
Assets and liabilities at fair value through profit and loss	(3 220)	87 144
Non-current assets held for sale	(4 594)	(18 379)
Investment properties	9 037	35 982
Other assets	(108 830)	1 530
	(408 841)	336 245
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(2 919 086)	(1 631 298)
Resources of customers and other debts	1 356 100	143 144
Financial liabilities held for trading	(33 892)	(101 731)
Other liabilities	69 396	94 131
	(1 527 482)	(1 495 754)
Net cash flow from operating activities before income tax	(1 757 302)	(1 005 392)
Income tax paid	(37 978)	(35 958)
Net cash flow from operating activities	(1 795 280)	(1 041 350)
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	330	1 134
Purchase of available-for-sale financial assets	(2 477 722)	(432 185)
Sale of available-for-sale financial assets	2 615 091	1 522 528
Income from available-for-sale financial assets	144 077	181 656
Purchase of tangible and intangible assets	(28 703)	(20 335)
Sale of tangible assets	1 149	389
Net cash flow from investment activities	254 222	1 253 187
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance/(redemption) of debt securities	(406 439)	(238 859)
Redemption of preference shares	(320 642)	-
Interest paid on bonds issued and other	(80 737)	(63 021)
Dividends paid	(178 286)	(65 715)
Share capital increase	300 000	-
Interest paid on subordinated liabilities	(36)	(41)
Net cash flow from financing activities	(686 140)	(367 636)
Net Increase / (Decrease) in cash and cash equivalents	(2 227 198)	(155 799)
Cash and cash equivalents at the start of the period	3 597 930	1 071 692
Cash and cash equivalents at the end of the period	1 370 732	915 893

The accompanying notes form an integral part of these consolidated statements of other comprehensive income.

INTRODUCTION

Banco Santander Totta, S.A. (hereinafter referred to as “Bank”, “BST” or “Group”) previously known as Companhia Geral de Crédito Predial Português, S.A. (“CPP”) was founded in 1864 and has its registered office in Portugal, at Rua do Ouro, nº 88, Lisbon. The Bank was nationalized in 1975 and transformed into a Government owned corporation in 1990. On December 2, 1992 the Bank’s capital was re-privatized through an Initial Public Offering carried out in a special session of the Lisbon Stock Exchange.

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group for the first half-year of 2016 and 2015 are detailed in Note 47.

On December 16, 2004, a demerger/merger operation of Totta was carried out, under which its shareholdings in Foggia, SGPS, S.A. and Totta Seguros – Companhia de Seguros de Vida, S.A. were demerged and the remainder of its operations, together with Banco Santander Portugal, S.A. (“BSP”), were merged into CPP, which then changed its name to the current one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, S.A. (“BSN”). For accounting purposes the operation was recorded as at January 1, 2010.

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

On December 20, 2015, following the resolution measure applied by the Banco de Portugal (hereinafter Bank of Portugal) to Banif – Banco Internacional do Funchal, SA (“Banif”), the Bank acquired the banking activity and a group of assets, liabilities, off-balance sheet items and assets under the management of this entity (Note 1.4).

The BST’s operations consist of obtaining funds from third parties, in the form of deposits or other, to apply along with its own funds, in all sectors of the economy, mostly in the form of loans granted or in securities and providing other banking services in Portugal and abroad.

The Bank has a domestic network of 691 branches (693 branches as at December 31, 2015, of which 154 transferred from the former Banif) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. The Bank also has subsidiaries and representation offices abroad as well as shareholdings in subsidiaries and associated companies.

1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

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

In the first half-year of 2016, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union that became effective as of 1 January 2016:

- Improvements to the International Financial Reporting Standards 2010/2012 Cycle – This improvement cycle affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24.

- Improvements to the International Financial Reporting Standards 2012/2014 Cycle – This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19 and and IAS 34.

- IAS 19 (amendment), 'Defined benefit plans - Employee contributions'. The amendment to IAS 19 applies to contributions by employees or third parties to defined benefit plans, and is intended to simplify their accounting, when the contributions are not associated with the number of years of service.

- IAS 1 (amendment), 'Review of the disclosures'. The amendment provides indications as to materiality and aggregation, presentation of subtotals, the structure of the financial statements, disclosure of accounting policies and the presentation of items of Other comprehensive income generated by investments measured by the equity method.

- IAS 16 and IAS 38 (amendment), 'Approved amortization and depreciation reckoning methods'. This amendment clarifies that the use of methods to estimate depreciation/amortization of assets based on revenue earned are not, as a rule, considered suitable for the measurement of the consumption pattern of the economic benefits associated with the asset. This amendment is applied prospectively.

- IAS 27 (amendment), 'Equity method in the separate financial statements'. The amendment permits an entity to apply the equity method in the measurement of investments in subsidiaries, joint ventures and associated companies. This amendment is applied prospectively.

- IFRS 11 (amendment), 'Accounting for the acquisition of an interest in a joint operation'. This amendment provides guidance on the accounting for the acquisition of an interest in a joint operation that qualifies as a business, by applying the principles of IFRS 3 – Business combinations.

The adoption of the above mentioned standards and interpretations did not have a material impact on the financial statements.

Furthermore, up to the date of approval of the accompanying financial statements, the following standards and improvements, which have not yet been endorsed by the European Union, were also issued:

a) Mandatory application for annual periods beginning on or after January 1, 2016:

- Amendments to IFRS 10, 12 and IAS 28, 'Investment entities: application of the exemption from the obligation to consolidate' (effective for annual periods beginning on or after January 1, 2016). This amendment clarifies that the exemption from the obligation to consolidate an “Investment entity” applies to an intermediate holding company that constitutes a subsidiary of an investment entity. In addition, the option of applying the equity method, in accordance with IAS 28, extends to an entity which is not an investment entity, but holds an interest in an associated company or joint venture that is an "Investment entity".

b) Mandatory application for annual periods beginning on or after January 1, 2017:

- IAS 7 (amendment), 'Review of the disclosures' (effective for annual periods beginning on or after January 1, 2017). This amendment introduces an additional disclosure requirement regarding the changes in financing liabilities, broken down between the transactions that give rise to cash movements and those that do not, and how this information reconciles with the cash flows from financing activities presented in the Cash Flow Statement.

- IAS 12 (amendment), 'Income taxes – Recognition of deferred tax assets on potential losses' (effective for annual periods beginning on or after January 1, 2017. This amendment clarifies how to account for deferred tax assets related with assets measured at fair value, how to estimate future taxable profits when deductible timing differences exist and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax law.

- IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (effective for annual periods beginning on or after January 1, 2018). This amendment clarifies the measurement basis for payment transactions based on cash-settled shares and the accounting for changes in share-based payment plans that alter their classification from cash-settled to equity-settled. Furthermore, it introduces an exception to the principles of IFRS 2, now requiring that a share-based payment plan be treated as if it were fully equity-settled when the employer is required to withhold employee taxes on these and pay it over to the tax authority.

- IFRS 9 (new), 'Financial instruments' (effective for annual periods beginning on or after January 1, 2018). IFRS 9 substitutes the requirements of IAS 39 relating to: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of amounts receivable (through the expected loss model); (iii) the requirements for the recognition and classification of hedge accounting.

- IFRS 15 (new), 'Revenue from contracts with customers' (effective for annual periods beginning on or after January 1, 2018). This new standard applies solely to contracts for the delivery of products or services, and requires an entity to recognize revenue when the contractual obligation to deliver assets or services is satisfied and for the amount that reflects the consideration to which the entity has the right, as provided for in the "5-step methodology".

- Amendments to IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after January 1, 2018). These amendments refer to the additional indications to be followed to determine the performance obligations of a contract, at the time of the recognition of revenue on an intellectual property license, the review of the indicators for the classification of the principal versus the agent relationship, and the new arrangements provided to simplify the transition.

- IFRS 16 (new), 'Leases' (effective for annual periods beginning on or after January 1, 2019). This new standard replaces IAS 17, and will produce a significant impact on the accounting by lessees that are now forced to recognize lease liabilities reflecting future lease payments and an asset for "use rights" on all lease contracts except in respect of certain short-term leases and low-value assets. The definition of a lease was also changed, being based on the "right to control the use of an identified asset".

These standards have not been yet endorsed by the European Union and have therefore not been adopted by the Bank in the six-month period ended June 30, 2016. Except for the effects of the application of IFRS 9 and IFRS 16, which up to this date are not possible to estimate, no material impacts are expected as a result of the adoption of the above mentioned standards.

1.2. Consolidation principles and recording of associated companies

The consolidated financial statements include the accounts of the Bank and those of the entities directly and indirectly controlled by the Bank (Note 4), including special purpose entities.

Subsidiary companies are those in which the Bank exercises effective control over their current management in order to obtain economic benefits from their activities. Control usually exists when more than 50% of the share capital or the voting rights are held, when the investor is exposed to or has the right to variable returns through its relationship with the investee and has the ability to use its power over the investee to affect its results. Furthermore, as a result of the application of IAS 27 – "Consolidated and Separate Financial Statements" and IFRS 10 – "Consolidated Financial Statements", the Group includes special purpose entities in its consolidation perimeter, namely vehicles and funds created under securitization operations, when it exercises effective financial and operating control over these and when it is exposed to the majority of the risks and rewards associated with their activity.

The financial statements of subsidiaries are consolidated by the full consolidation method from the date the Bank assumes control over their activities to the date that control ceases. Significant transactions and balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full consolidation method are accounted for under the heading "Non-controlling interests" (Note 29).

The acquisition cost is measured at the fair value of the assets given in exchange, the liabilities assumed and the equity interests issued for this purpose. The transaction costs incurred are recorded as costs in the periods in which incurred, except for the costs of issuing securities representing debt or equity, which must be recognized in accordance with IAS 32 and IAS 39. The identifiable assets acquired and liabilities assumed on the acquisition are measured at fair value, determined as at the date of acquisition.

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

On the other hand, the Bank manages assets held by investment funds whose participation units are held by third parties. The financial statements of those investment funds are not included in the consolidation perimeter of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participation units, in which cases they are consolidated by the full consolidation method. In accordance with IAS 32 and IFRS 10, the amount corresponding to the third party interests in the investment funds that are consolidated by the full consolidation method is presented as a liability under the heading "Equity representative instruments" (Note 24). The non-controlling interests' share of the results of the investment fund consolidated is recognized as a deduction from the heading "Other operating results" (Fundo Novimovest, hereafter "Novimovest Fund"), given the nature of the main income earned by that fund (Note 40).

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a shareholding (direct or indirect) exceeds 20% or when the Bank has the power to participate in decisions relating to its financial and operating policies, but does not have control or joint control over same. Shareholdings in associated companies are recorded in accordance with the equity method, from the date the Bank gains significant influence until the date same ceases.

In accordance with the equity method, the consolidated financial statements include the portion of shareholders' equity and profit or loss of the associated companies attributable to the Bank. Dividends paid by associated companies reduce the value of the investment held by the Group. The Bank performs impairment tests on its investments in associated companies, whenever there are signs of impairment. Impairment losses recorded in prior periods may be reversible, up to the limit of the accumulated losses.

Goodwill is measured as the excess of the acquisition cost of the businesses over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of subsidiaries and associated companies acquired, as well as any Equity instruments issued by the Group. At least once a year, the Bank performs impairment tests on the goodwill recognized in the balance sheet, in accordance with the requirements of IAS 36 - "Impairment of Assets". For this purpose, goodwill is allocated to cash generating units, which are never greater wider than the group of assets composing each operational segment of the Group, and the recoverable amount of these is assessed based on the present value of the estimated future cash flows, determined using discount rates considered appropriate by the Bank and based on appropriate and accepted methodologies. Impairment losses associated with goodwill are recorded in the income statement and cannot be reversed.

The goodwill of associated companies is included in the carrying amount of the investment, which is subject to impairment tests.

The Bank decided not to apply IFRS 3 – “Business combinations”, retrospectively. Therefore, goodwill arising on acquisitions up to January 1, 2004 was reflected as a deduction from shareholders’ equity in compliance with the former accounting policy followed. Previously recognized negative goodwill was recorded as an increase in shareholders’ equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associated companies after January 1, 2004 were recorded in accordance with the acquisition method. The Bank recognized the fair value of the acquired assets and assumed liabilities or determined their value in accordance with International Financial Reporting Standards applicable to certain assets and liabilities for which fair value is not the measurement principle foreseen under IFRS 3 “Business Combinations”. The acquisition cost corresponds to the value of the acquired assets and incurred or assumed liabilities and contingencies, according to IFRS 3. Accordingly, the Bank applied IAS 19 to acquired assets and assumed liabilities related to employee benefits and IAS 12 to acquired assets and assumed liabilities related to income taxes.

Additionally, whenever the fair value of acquired assets and incurred or assumed liabilities is higher than its acquisition cost (gain on bargain purchase), and after confirmation of same as foreseen under IFRS 3, the difference is recognized in the income statement (Note 1.4). According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and, if necessary, to correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result determined on the acquisition.

With the application of the amendments to IFRS 3 and IAS 27, the Bank defined as its accounting policy the fair value valuation through profit or loss whenever there is a change in control over equity investments acquired via phased acquisitions. In such cases, the shareholding acquired prior to the date of the change in control is revalued at fair value through profit or loss. Goodwill is calculated on that date as the difference between the total acquisition cost and the proportion of the fair value of the equity investment’s assets and liabilities. Similarly, through the application of the amendments to the standards mentioned above, the Bank revalued, through profit or loss, the equity investments over which it lost control (Note 4).

On the other hand, the Bank decided to cancel, on the date of transition (January 1, 2004) to IAS/IFRS, the reserve related to foreign exchange differences arising on the translation of financial statements of subsidiaries and associated companies expressed in functional currencies other than the Euro, through retained earnings. As from that date, in compliance with IAS 21, the financial statements of subsidiaries, joint ventures and associated companies expressed in foreign currency have been translated into Euros as follows:

- Assets and liabilities expressed in foreign currencies are translated into Euros using the exchange rate for Euros on the balance sheet date;

- Non-monetary assets recorded at historical cost, including tangible assets, continue reflected at the original exchange rates; and

- Foreign currency income and expenses are translated into Euros at the average exchange rates of the months in which they are recognized.

Currency exchange differences arising on the translation into Euros are accounted in shareholders' equity in the heading "Revaluation reserves – Foreign exchange fluctuation".

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that they are applied consistently by all Group companies.

1.3. Summary of the main accounting policies

The main accounting policies used in the preparation of the accompanying financial statements were the following:

a) Accruals basis

The Bank uses the accrual-based accounting principle for most of its financial statement headings. Therefore, expenses and income are recorded in the financial year to which they relate, independently of when they are paid or received.

b) Foreign currency transactions

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

Transactions in a currency other than the functional currency, and the corresponding income and expenses, are recorded at the exchange rate of the date they occur. Foreign currency assets and liabilities are translated to Euros at the fixing exchange rates as of the balance sheet date (Bank of Portugal "fixing").

c) Loans and accounts receivable

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

Loans and advances to customers include loans to customers, as well as other securitized loans (commercial paper and bonds), not intended to be sold in the short term, being initially recorded at fair value, net of any commissions and increased by all the external costs directly attributable to the operations.

Subsequently, loans and other accounts receivable are recorded at amortized cost, being submitted to periodic impairment analysis.

Commissions and external costs attributable to the underlying operations included in this category, as well as the interest associated with the loans and advances granted, are recognized on an accruals basis, using the effective interest rate method, regardless of when they are received or paid. As from January 1, 2004, the Bank chose to defer commissions received and paid related to loans granted.

The Bank classifies as overdue loans, instalments of principal and interest overdue for more than 30 days. Loans with overdue instalments are denounced in accordance with the Credit Manual approved by the Bank, with the entire debt being considered overdue as from that moment.

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

Impairment

The Bank periodically analyses the loans and advances granted to customers and other accounts receivable in order to identify objective evidence of impairment. A financial asset is considered to be impaired if, and only if, there is evidence that one or more loss events have occurred that have a measurable impact on the estimated future cash flows of that asset or group of assets.

For the purpose of determining loan impairment, the Bank´s loan portfolio is segmented as follows:

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

Concerning the loans granted to the corporate customers segment, the Bank performs an individual assessment of the customers that have:

- Credit granted in excess of tEuros 10,000;
- Credit granted in excess of tEuros 500 that is classified in the Bank’s monitoring system as “doubtful not in litigation”; and
- Credit granted in excess of tEuros 1,000 if classified under VE1 Substandard, VE2 and VE3, in the Bank’s monitoring system.

In this regard, these segments may include customers without overdue loans. Occasionally, the Bank also includes some customers without the above mentioned characteristics in its individual assessment, based on professional judgment.

Customers individually assessed with impairment losses below 0.5% are subsequently assessed on a collective impairment basis, being segmented into customers with credit in excess or below tEuros 300.

The Bank carries out a collective impairment assessment on the remaining segments of the loan portfolio.

Evidence of impairment of an asset or group of assets, as defined by the Bank, corresponds to the observation of several loss events, such as:

- Contractual breach, such as delays in the payment of the principal and/or interest;
- Significant financial difficulties of the debtor;
- Significant change in the debtor’s financial situation;

- Other adverse changes, such as:
  . The conditions and/or ability to pay; and
  . The economic conditions of the business sector in which the debtor operates, with an impact on the debtor's ability to comply with its obligations.

Impairment losses of customers without overdue loans correspond to the amount determined by multiplying the probability of non-compliance (PI) with the difference between the book value of the respective loans and the present value of the estimated future cash flows of those operations. PI corresponds to the probability of one transaction, operation or customer becoming overdue during an emergence period. The emergence period corresponds to the period between the occurrence of a loss event and the identification of said event by the Bank ("incurred but not reported"). For all the loan portfolio segments, the Bank considers an emergence period of 6 months.

If there is evidence that the Bank has incurred in an impairment loss on loans or other receivables, the impairment loss corresponds to the difference between the book value of those assets and the present value of the estimated future cash flows, discounted at the original interest rate of the asset or financial assets. The book value of the asset or financial assets is reduced by the impairment loss account balance. In the case of loans with variable interest rates, the discount rate used to determine an impairment loss is the current interest rate, as established in the respective contract. Impairment losses are recorded through the income statement.

In accordance with the Bank's current impairment model for the loan portfolio, impairment losses are assessed individually, on a sample basis, and on a collective basis. When a group of financial assets is assessed collectively, the estimates of the future cash flows of that group are based on the contractual cash flows of the assets of that group and on historical data regarding losses arising from assets with similar credit risk characteristics. Whenever the Bank considers it necessary, the historic information is updated based on current observable data, in order to reflect the effect of the current conditions.

When, in a subsequent period, a decrease in the amount of impairment losses occurs due to a specific event occurring after the impairment determination, the previously recognized amount is reversed and the impairment loss account balance is adjusted. The amount of the reversal is recognized directly through the income statement.

As required by IFRS 3, the Bank determined the fair value of the loans acquired from Banif under the resolution measure as of the acquisition date (December 20, 2015, date of the Banco de Portugal resolution).

Write-off of principal and interest

In accordance with the policies practised by the Bank, interest arising on overdue loans without a real guarantee is written off three months after the due date of the operation or after the first overdue instalment. Unrecorded interest on the above mentioned loans is only recognized in the period of its actual collection.

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

Loan sales

Gains and losses on the definitive sale of loans are recorded in the income statement heading "Result from the sale of other assets" (Note 39). These gains or losses correspond to the difference between the sale amount agreed and the book value of these assets, net of impairment losses.

Derecognizing

The derecognizing of these assets in the balance sheet takes place when (i) the Bank's contractual rights expire or when (ii) the Bank substantially transfers all the associated risks and rewards.

Factoring

Assets associated with factoring operations with recourse are recorded in the balance sheet as loans granted, at the amount of the funds advanced on behalf of those contracts.

Assets associated with factoring operations without recourse are recorded in the balance sheet as loans granted, at the amount of the credits taken, against the recognition of a liability under the heading "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts." The advancing of the funds to the counterparts in factoring operations originates a corresponding debit in the heading "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts" (Note 26).

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

Non-derecognized securitized assets

The Bank does not derecognize from the balance sheet loans sold in securitization operations when it:

- retains control over those operations;
- continues to receive a substantial part of their remuneration, and;
- retains a significant portion of the risk over the transferred credits.

Credits sold and not derecognized are recorded under the heading "Loans and advances to customers" and are subject to the same accounting criteria as other credit operations. The interest and commissions associated with the securitized loan portfolio are accrued over the term of the loans.

The maintenance of risk and/or benefit is represented by the bonds with higher risk levels issued by the securitization vehicle. The amounts recorded in assets and liabilities represent the proportion of the risk/benefit held by the Bank (continuous involvement).

The bonds issued by the securitization vehicles held by the Group entities are eliminated on consolidation.

Finance leasing operations

Lease operations are classified as finance leases when substantially all the risks and rewards relating to ownership of the leased asset are transferred to the lessee under the lease contract. Finance leasing operations are recorded in accordance with the following criteria:

i) *As lessee*

Assets acquired under finance leases are recorded at their fair value in other tangible assets and under liabilities and the corresponding depreciation is recognized. Lease instalments are split in accordance with the respective financial plan, with the liabilities being decreased by the payment amount corresponding to the principal. Interest included in the instalments is recorded in the heading "Interest and similar charges".

ii) *As lessor*

Leased assets are recorded in the balance sheet as loans granted, which are repaid through the amortizations of the principal in accordance with the financial plan of the contracts. The finance lease balance corresponds to the amount receivable from the lessee, increased by any estimated residual value, not guaranteed by the Bank. Interest included in the instalments is recorded in the heading "Interest and similar income".

Guarantees provided and irrevocable commitments

Responsibilities arising from guarantees provided and irrevocable commitments are recorded in off-balance sheet headings at the amount at risk, whilst interest, commissions and other income are recorded in the income statement over the term of the operations.

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

Income from services and commissions obtained for the execution of a significant act, for example a commission for syndicating a loan operation, is recognized in the income statement when the significant act has been completed.

Income from services and commissions obtained over the period the services are rendered is recognized in the income statement in the period to which it refers.

Income from services and commissions integrating the remuneration of financial instruments is recorded in the income statement using the effective interest rate method.

Expenses relating to services and commissions are recognized using the same criteria as that adopted for income.

e) Financial instruments

Financial assets and liabilities are recognized in the balance sheet on the date of their payment or receipt, unless there is an explicit contractual provision arising from the legal regime applicable that establishes that the rights and obligations related to the traded values are transferred on a different date, in which case the latter will be the relevant date.

Besides "Loans and advances to customers" and "Instruments held to maturity", the financial assets and liabilities are subsequently classified in one of the four specific categories set down in IAS 39:

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

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

Financial assets held for trading include variable and fixed yield securities traded on active markets purchased with the intention of being sold or repurchased in the short term. Trading derivatives with a net value receivable (positive fair value) and options bought are included in the heading “Financial assets held for trading”. Trading derivatives with a net value payable (negative fair value) and options sold are included in the heading “Financial liabilities held for trading”.

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

Interest relating to trading derivatives is recorded in the heading “Result of assets and liabilities at fair value through profit or loss” in the income statement.

The fair value of financial assets held for trading and traded on active markets is their bid-price or their closing price on the balance sheet date. If a market price is not available, the fair value of the instrument is estimated based on valuation techniques that include price valuation models or discounted cash flow techniques.

When discounted cash flow techniques are used, the future cash flows are estimated in accordance with management’s expectations and the discount rate used corresponds to the market rate for financial instruments with similar characteristics. Data used in price valuation models corresponds to market information.

The fair value of derivative financial instruments not traded on active markets, including the credit risk component attributed 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 that date, considering the current market conditions as well as the credit quality of the counterparties.

ii) Available-for-sale financial assets

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

Available-for-sale financial assets are stated at fair value, with the exception of equity instruments not listed on active markets and whose fair value cannot be reliably measured, which are recorded at their acquisition cost, net of impairment. Subsequent gains or losses resulting from changes in fair value are reflected in a specific equity heading “Revaluation reserves - Fair value” until they are disposed of or until impairment losses are recognized, at which moment they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are recognized directly in the income statement.

Interest on available-for-sale financial assets is reckoned in accordance with the effective interest rate method and recorded in the income statement heading “Interest and similar income”.

Income from variable return securities is recognized in the income statement heading “Income from equity instruments” on the date that it is attributed. In accordance with this criterion, interim dividends are recognized as income in the year the distribution is deliberated.

iii) Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008, in IAS 39 - "Financial instruments: Recognition and measurement", the Bank may reclassify a financial asset that is no longer held for sale or repurchase in the short term (although it may have been acquired or incurred mainly for the purpose of sale or repurchase in the short term), removing it from the fair value through profit or loss category, if certain requirements are met. However, reclassifications from other categories to the category of financial assets at fair value through profit or loss are not allowed.

iv) Income recognition

Interest relating to financial assets and the recognition of the difference between their acquisition cost and nominal value (premium or discount) are reckoned in accordance with the effective interest rate method and recorded in the "Interest and similar income" heading in the income statement.

v) Sale operations with repurchase agreements

Securities sold with repurchase agreements are maintained in their original securities portfolio. Funds received are recorded on the settlement date, in a specific liability account, with the respective interest payable being accrued.

vi) Impairment of financial instruments

When there is objective evidence of impairment of a financial asset or group of financial assets, an impairment loss is recognized in the income statement.

For listed equity instruments, objective evidence of impairment exists when there is a significant or prolonged decline in their fair value. Objective evidence of impairment for unlisted securities exists when there is a negative impact on the estimated future cash flows of the financial asset, provided this can be reliably estimated.

The Bank considers the specific nature and characteristics of the assets being valued in its periodic impairment tests. In terms of objective impairment criteria, the Bank considers a 24-month period to be an adequate measure of a prolonged devaluation of financial instruments. The Bank also considers the existence of unrealized capital losses exceeding 50% of the acquisition cost to be a significant devaluation.

Except as explained in the following paragraph, if in a subsequent period there is a decrease in the amount of the impairment loss attributable to an event occurring after the impairment determination, the previously recognized impairment loss is reverted through an adjustment to the impairment loss account. The amount of the reversal is recognized directly in the income statement.

When there is objective evidence of impairment of available-for-sale financial assets as a result of a significant or prolonged decline in the fair value of the security or of financial difficulties of the issuer, the loss accumulated in the fair value reserve is reclassified from equity to the income statement. Impairment losses on fixed income securities can be reverted through profit or loss if there is an increase in the fair value of the security resulting from an event that occurs after the determination of the impairment. Impairment losses on variable income securities cannot be reverted and, consequently, any unrealized capital gains arising after recognition of an impairment loss are recorded in the fair value reserve. In the case of variable income securities for which impairment losses have been recognized, subsequent reductions in their fair value are always recognized in the income statement.

For financial assets recorded at cost, namely unlisted equity instruments whose fair value cannot be reliably measured, the Bank also carries out periodic impairment tests. In this context, the recoverable amount of those assets corresponds to the best estimate of the present value of their estimated future cash flows, estimated using a discount rate that reflects the risk associated with its holding.

vii) Other financial liabilities

Other financial liabilities correspond, essentially, to resources of central banks, of other credit institutions, of customers' deposits and bond issues. These liabilities are initially recognized at fair value, which normally corresponds to the amount received, net of transaction costs, and are subsequently measured at amortized cost in accordance with the effective interest rate method.

Bond issues are recorded in the headings "Debt securities" and "Subordinated liabilities".

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

Secondary market transactions

The Bank repurchases bonds issued on the secondary market. Purchases and sales of own bonds are proportionally included in the respective headings of debt issued (capital, interest and commissions) and the differences between the amount settled and the write-off, or the increase in liabilities, are immediately recognized in profit or loss.

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

Derivative financial instruments traded by the Bank are recognized in the balance sheet at their fair value.

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

The Bank uses derivative financial instruments, namely to hedge the interest rate risk resulting from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under the financial assets or financial liabilities held for trading headings, with all changes in their fair value being recorded in the income statement.

Derivatives that qualify for hedge accounting are recorded at fair value and the corresponding capital gains and losses are recognized in accordance with the hedge accounting model adopted by the Bank.

In accordance with IAS 39, hedge accounting is applied only when the following requirements are cumulatively met:

- There is formal documentation regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:

- Identification of the hedging instrument;
- Identification of the hedged item;
- Identification of the type of hedged risk; and
- Definition of the method used to measure the hedging effectiveness and subsequent monitoring.

- Initial expectation that the hedging relationship is highly effective; and
- Throughout the period of the operation, the hedging effectiveness falls between 80% and 125%. The hedging effectiveness is tested at each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

Hedge accounting is only applied as from the time all these requirements are met. Likewise, if at any time the hedging effectiveness ceases to fall between 80% and 125%, hedge accounting is discontinued.

Fair value hedges

Gains or losses on the revaluation of a hedging derivative financial instrument are recognized in the income statement. If the hedge is effective, the gains or losses resulting from variations in the fair value of the hedged item relating to the risk being hedged are also recognized in the income statement.

If a hedging instrument matures or is terminated early, the gains or losses in the valuation of the hedged item relating to the risk being hedged, recognized as value adjustments of the hedged items, are amortized over their remaining life. If the asset or liability being hedged is sold or settled, the amounts recognized as a result of the valuation of the hedged risk are reclassified to the income statement and the derivative is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognized as value adjustments to the hedged items are amortized through the income statement over the remaining period.

Hedge accounting is not applied in the case of the foreign exchange rate hedging of monetary items, with the gain or loss arising from the derivative and from the foreign exchange rate variation of the monetary items both being recognized in the income statement.

Cash flow hedges

Cash flow hedges refer to the hedging of the exposure to variability in future cash flows that can be attributed to a particular risk associated with a recognized asset or liability, or to a highly probable future transaction that may affect profit or loss.

In this sense, the Bank has entered into derivatives to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

The application of cash flow hedge accounting is also subject to the previously mentioned hedge accounting requirements and implies the following recordings:

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in a specific equity heading; and
- The ineffective portion is recorded in the income statement.

In addition, the gain or loss on the hedging instrument recognized in equity corresponds to the lower of the following amounts:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge; and
- The cumulative change in fair value of the hedged item, relating to the risk that is being hedged, from the inception of the hedge.

In this regard, and if applicable, the remaining portion of the gain or loss on the hedging instrument not recognized in equity is recorded in profit or loss.

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is terminated early, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that was recognized in equity continues to be separately classified in equity, being recorded in the income statement in the same period that the gains or losses of the hedged item are recognized. If the Bank accomplishes the coverage of a transaction that is not expected to be accomplished, the amount of the derivative still recognized in equity is immediately transferred to the income statement, with the derivative being transferred to the Bank's trading portfolio.

g) Other tangible assets

Tangible assets used by the Bank in its operations are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses, when applicable.

Depreciation of tangible assets is recorded on a monthly basis over the estimated useful life of the assets, which corresponds to the period in which the assets are expected to be available for use and is detailed below:

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

Capitalized non-recoverable expenditure on leasehold buildings is depreciated over a period adjusted to its expected useful life or the term of the lease contract, if shorter, which on average corresponds to a period of ten years. Costs incurred with the dismantling or removal of such assets are considered part of their respective initial cost, when these materialize into significant and reliably measurable amounts.

As permitted by IFRS 1, tangible assets acquired up to January 1, 2004 were recorded at their net book value at the transition date to IAS/IFRS, which corresponded to their cost adjusted by legal revaluations based on the evolution of the general price index. 40% of the increase in the depreciation charges resulting from such revaluations is not tax deductible, with the corresponding deferred tax liabilities being accordingly recognized.

Whenever there is an indication that a tangible fixed asset may be impaired, an estimate of its recoverable amount is made. Branches are considered cash flow generating units for this purpose, with impairment losses being recognized whenever the recoverable amount of a property (through its use in the operations or through its sale) is lower than its carrying amount. Impairment losses are recognized in the income statement, being reversed in subsequent reporting periods when the reasons that led to the initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had impairment losses on the asset not been recognized, considering the depreciation that it would have suffered.

The criteria followed in the valuation of the properties normally consider the market comparison method, and the amount of the appraisal corresponds to the market value of the properties in their current condition.

h) Intangible assets

In this heading the Bank recognizes the expenses incurred in the development stage of IT systems implemented and in the implementation stage, as well as those incurred with acquired software, in both cases only when their impact extends beyond the financial year in which the expenses are incurred. Impairment loss assessments are performed on an annual basis.

Intangible assets are amortized on a monthly basis over their estimated useful life, which corresponds to three years on average.

In the first half-year of 2016 and financial year 2015, the Bank did not recognize internally generated intangible assets.

i) Investment properties

Investment properties comprise, essentially, buildings and land held by Fundo Imobiliário Novimovest (Novimovest Real Estate Investment Fund (Novimovest Fund)) to earn rentals or for capital appreciation or both, rather than for their use in the provision of goods or services or for administrative purposes.

Investment properties are stated at their fair value based on periodic appraisals performed by independent appraisers. Changes in the fair value of investment properties are recognized directly in the income statement for the financial year.

Costs incurred with investment properties in use, such as maintenance, repairs, insurance and property taxes (Imposto Municipal sobre Imóvies - municipal property tax) are recognized in the income statement for the financial year to which they relate. Improvements which are expected to generate additional future economic benefits are capitalized.

j) Non-current assets held for sale

The Bank accounts for property and other assets received in settlement of non-performing loans under this heading, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the heading “Other assets” (Note 18). These assets are recorded at the amount agreed through negotiation or court decision, net of the estimated sale costs, or their forced sale value, if lower. On the other hand, property recovered following the termination of finance lease contracts is recorded as an asset at the outstanding principal amount on the date the contract is terminated.

This heading also includes participation units of a real estate investment fund acquired following a debt settlement agreement established with a customer.

In addition, the Bank’s property for own use which is in the process of being sold is accounted for under this heading. These assets are transferred to this heading at their net book value in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and accumulated impairment losses), being subject to periodic impairment tests.

Property is subject to periodic appraisals performed by independent real estate appraisers. Impairment losses are recognized whenever the appraised value (net of costs to sell) is lower than the book value. If, at a later date, the facts that led the Bank to record impairment losses cease to exist, the Bank will reverse impairment losses up to the threshold value that the assets would have had they had not been reclassified to non-current assets held for sale.

According to IFRS 5 – "Non-current assets held for sale and discontinued operations", the Bank does not recognize unrealized gains on these assets.

k) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) arising from a past event relating to which there will be a probable future outflow of resources, and this can be reliably measured. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date. Whenever the outflow of resources is not probable, a contingent liability exists. Contingent liabilities only need to be disclosed (unless the probability of their disbursement is remote), except in respect to contingent liabilities associated with the acquisition of businesses, which are recognized according to IFRS 3.

Thus, the heading "Provisions" includes the provisions to cover specific post-employment benefits granted to some members of the Board of Directors of the Bank, restructuring plans, tax contingencies, legal processes and other risks arising from the Bank's activity (Note 23), as well as other situations related to the acquisition of significant part of the former Banif's activity, as described in greater detail in Note 1.4.

l) Employees' post-employment benefits

The Bank signed the Collective Labour Agreement (Acordo Colectivo de Trabalho ("ACT")) for the Portuguese Banking Sector, under which its employees or their families are entitled to retirement, disability and survival pensions.

For employees hired by the Bank up to December 31, 2008, BST's pension plan corresponds to a defined benefit plan, as it establishes the criteria for determining the amount of the pension that each employee is to receive during retirement, based on his/her time of service and remuneration at the time of retirement, with the pensions being updated annually based on the remuneration established in the ACT for the current employees. For these employees, the Bank has been responsible for the payment of the full amount of the pensions established under the ACT. The liabilities arising from the defined benefit plan are covered by a Pension Fund.

As from January 1, 2009, employees hired by the Bank are registered with Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. This plan is supported by contributions from the employees (1.5%) and the Bank (1.5%) calculated on the amount of the effective monthly salary. For this purpose, each employee can choose his/her own open pension fund.

The employees of the former Totta were always covered by Social Security; consequently, the Bank's liability for those employees consists only in the payment of supplements.

In October 2010 an agreement was reached between the Ministry of Labour and Social Solidarity, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE) to include workers of the banking sector in the General Regime of Social Security. Following this agreement, Decree-Law No. 1- A/2011, of January 3, was issued 2011, defining that current employees in the banking sector at the date of its entry into force (January 4, 2011) are to be included in the General Regime of Social

Security, with regard to retirement pensions and in the event of maternity, paternity and adoption. Given the complementary nature foreseen under the rules of the Collective Labour Agreement for the Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Regime of Social Security and those resulting from the Collective Labour Agreement.

Past service liabilities at December 31, 2010 have not changed as a result of the above-mentioned Decree-Law, since the decrease in the value of the pensions payable by the Bank in relation to current workers was applicable to future services to be rendered by the employees, as from January 1, 2011.

In this manner, the current service cost has decreased as from this date, but the Bank has started to pay the employer's contribution of 23.6% to Social Security (Taxa Social Única). On the other hand, the Bank maintains the responsibility of paying out the disability and the survival pensions along with healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

In December 2011, a tripartite agreement was established between the Ministry of Finance, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE), regarding the transfer to Social Security of part of the liabilities for retirees and pensioners who, at December 31, 2011 were covered by the substitutive Social Security regime contained in the Collective Labour Agreement (ACT).

Following the above mentioned tripartite agreement, Decree-Law No. 127/2011, of December 31, determined that as from January 1, 2012 Social Security would start being responsible for the above mentioned pensions, in an amount corresponding to the pension established in accordance with the terms and conditions in force under the Collective Labour Agreement for the Banking Sector as at December 31, 2011, including both the holiday (14^{th} month) and Christmas subsidies.

In accordance with this Decree-Law, the Bank, through its Pension Fund, only maintains the responsibility for paying:

i) the update of the pension value referred to above, in accordance to the Collective Labour Agreement for the banking sector;

ii) the employer's contributions to the healthcare system (Serviços de Assistência Médica Social ("SAMS")) managed by the respective unions, levied on the retirement and survival pensions, in accordance with the terms of the Collective Labour Agreement for the banking sector;

iii) the death subsidy;

iv) the survival pension for children;

v) the survival pension for children and surviving spouse, provided these refer to the same employee; and

vi) the survival pension owed to a family member of a current pensioner, meeting the vesting conditions as from January 1, 2012.

Under the transfer of the responsibilities to Social Security, the Bank's Pension Fund assets backing such responsibilities were also transferred. The value of the Pension Fund assets transferred corresponded to the value of the responsibilities assumed by Social Security under the above mentioned Decree-Law, which were determined considering the following assumptions:

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

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

The assets to be transferred had to be comprised of cash and, up to 50% of same, of Portuguese government debt securities, valued at their respective market value.

Under the terms of the above mentioned Decree-Law, the transfer of the ownership of the assets was performed by the Bank as follows:

i) By December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities; and

ii) By June 30, 2012, the remaining amount to complete the definitive present value of the liabilities transferred.

In this regard, and prior to the transfer to Social Security, the Bank obtained actuarial studies that determined the amount of the transfer.

Following the transfer of the responsibilities with retirees and pensioners to Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions established by the Decree-Law No. 127/2011, of December 31, the Bank estimated the liabilities separately for current and retired employees, having defined specific assumptions for each case (Note 45).

The difference between the amount of the liabilities to be transferred to Social Security determined as per the above referred assumptions and the liabilities determined based on the updated actuarial assumptions adopted by the Bank was recorded as a cost.

Furthermore, the London Branch employees are covered by a defined benefit pension plan for which there is a separate Pension Fund (Note 45).

On the other hand, in February 2010, a supplementary defined contribution pension plan was approved for a specific group of Bank executives, for which an insurance policy was taken out.

BST’s retirement pension liability is calculated annually by external experts (Towers Watson (Portugal) Unipessoal Limitada), based on the “Projected Unit Credit” method. The discount rate used in the actuarial calculations is determined based on market rates for high quality corporate bonds in terms of credit risk, in the currency in which the benefits will be paid out (Euros), and with a similar maturity to the plan’s liabilities. Employees’ post-employment benefits also include healthcare assistance (SAMS) and death subsidy during retirement.

The former Banco Santander de Negócios Portugal, S.A. (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. So, in 2006, BSN set up a defined contribution pension fund to which employees have been allowed to make voluntary contributions. BSN’s contribution to that fund depended of its results and corresponded to a percentage of the employees’ remuneration, with an annual minimum of Euros 1,000 per participant. Following the merger of BSN into BST, the employees of the former BSN have been incorporated in the ACT and in BST’s defined benefit pension plan as from May 2010, with the recognition of the service period of employees hired before July 1, 1997. In the first half-year of 2014, BSN’s defined contribution pension fund was extinguished following the authorization granted by the Insurance and Pension Fund Supervisory Authority.

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta

IFIC into BST, the employees of the former Totta IFIC were comprised in the ACT and in BST's defined benefit pension plan as from April 2011. Additionally, the service period of employees hired before July 1, 1997 has been recognized.

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to the former Banif, BST took over the pension liabilities of a group of workers of the former Banif (Note 45).

<u>Application of IAS 19</u>

As at January 1, 2004, the Bank opted not to apply IAS 19 retrospectively and, therefore, has not re-estimated the actuarial gains and losses that would be deferred in the balance sheet if that standard had been adopted as from the set-up of the pension plans. Accordingly, the actuarial gains and losses existing on January 1, 2004, as well as those resulting from the adoption of IAS 19, were annulled/recorded against retained earnings as at that date.

In 2011 the Bank decided to change the accounting policy for the recognition of actuarial gains and losses, abandoning the use of the corridor method and recognizing actuarial gains and losses in equity (other comprehensive income), as provided for in the revised version of IAS 19.

From January 1, 2013, following the revision of IAS 19 - "Employee Benefits", the Bank records under the heading "Staff costs" in the income statement, the following components:

- Current service cost;
- Net interest with the pension plan;
- Early retirement cost, corresponding to the increase in the liability due to early retirement; and
- Gains and losses resulting from changes in the plan's conditions.

Net interest with the pension plan is calculated by multiplying the Bank net asset/liability with pensions (liabilities less the fair value of plan assets) by the discount rate used in determining the liabilities with retirement pensions. Thus, the net interest represents the interest cost associated with pension liabilities net of the theoretical return of the Fund's assets, both measured based on the discount rate used to estimate pension liabilities.

Gains and losses arising from re-measurement, namely: (i) gains and losses resulting from differences between the actuarial assumptions used and the effective results (experience gains and losses), as well as from changes in actuarial assumptions; and (ii) gains and losses arising from the difference between the theoretical return of the Fund's assets and the effective return obtained are recognized through the statement of other comprehensive income.

The liabilities for retirement pensions, less the fair value of the assets of the Pension Fund, are recorded in the headings "Other assets" or "Other liabilities", depending on whether there is a financing surplus or deficit (Notes 18 and 26). The recognition of an excess of the fair value of the plan assets over the discounted liabilities depends on the existence of a reduction in future contributions, or of a refund of contributions made.

Notice No. 4/2005 of the Bank of Portugal states that the liability corresponding to the current pensions being paid shall be fully funded by the Pension Fund and that the funding of the liabilities for past services of current employees must attain a minimum level of 95%.

At June 30, 2016 and December 31, 2015, the rate of coverage of the liabilities of BST for employee benefits, including SAMS and excluding those associated with the London Branch and the former Banif, was 99.94% and 102.99%, respectively (Note 45).

At June 30, 2016, the rate of coverage of the responsibilities transferred from the former Banif amounted to 92.2% (Note 45).

m) Long service bonuses

In compliance with the ACT, the Bank assumed the commitment to pay bonuses to current employees attaining fifteen, twenty-five and thirty years of good and effective service, corresponding to one, two or three months of their effective monthly remuneration (in the year the bonus is attributed), respectively.

The Bank determines the present value of its liability for long service bonuses through actuarial calculations based on the "Projected Unit Credit" method. The actuarial assumptions used (financial and demographic) are based on expectations, as of the balance sheet date, regarding salary increases and are based on mortality tables adapted to the Bank's population. The discount rate used is determined based on market rates for high quality corporate bonds with a similar maturity to the liability.

Liabilities for long service bonuses are recorded in the heading "Accrued costs - Relating to personnel – Long service bonuses" (Note 26).

n) Income tax

BST and the Group's companies established in Portugal are subject to the tax regime established in the Corporate Income Tax Code ("CIRC"). The branch accounts are consolidated with those of the Bank for tax purposes. In addition to being subject to Corporate Income Tax, the results of the branch are also subject to local taxes in the country/territory in which it is established. Local taxes are deductible for Corporate Income Tax purposes in Portugal under the terms of Article 91 of CIRC and the Double Taxation Agreements signed by Portugal.

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

Since January 1, 2007, local authorities have been able to establish a maximum municipal surcharge of up to 1.5% of taxable income subject to and not exempt from Corporate Income Tax. With the publication of Law No. 12 - A/2010, of June 30, a State surcharge was also introduced, which must be paid by all taxpayers subject to and not exempt from Corporate Income Tax with taxable income in excess of tEuros 2,000. The State surcharge corresponded to 2.5% of the taxable income exceeding that limit.

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, of December 30), the companies that presented a higher taxable income in that year and in the two following years were subject to higher State surcharge rates. Companies with taxable income between tEuros 1,500 and tEuros 10,000 were subject to a State surcharge rate of 3% and companies with taxable income exceeding tEuros 10,000 were subject to a rate of 5%.

However, the Law No. 66-B/2012, of December 31 (the State Budget Law for 2013) established a reduction in the limit for the application of the State surcharge rate of 5%, from tEuros 10,000 to tEuros 7,500, applicable for the tax periods started on or after January 1, 2013.

Additionally, following the publication of Law No. 2/2014, of January 16, (CIRC amendment) and the wording of the State Budget Law for 2016 (Law No. 7-A/2016, of March 30) and by the State Budget Law for 2015 (Law No. 82–B/2014, of December 31) the taxation of corporate income for 2015 and for 2016 became as described below:

- Corporate income tax (IRC) rate of 21% on taxable income;
- Municipal surcharge at a rate varying between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income according to the limits presented below:
  - Below tEuros 1,500 0%;
  - Between tEuros 1,500 and tEuros 7,500 3%;
  - Between tEuros 7,500 and tEuros 35,000 5%;
  - Above tEuros 35,000 7%.

Thus, the above referred changes implied that the rate used by the Bank in the calculation and recognition of deferred taxes for the first half-year of 2016 and financial year 2015 was 29%.

Tax losses generated as from 2014, inclusive, may be used in the twelve subsequent tax periods. On the other hand, tax losses generated in 2008 and 2009 could be used in the six subsequent periods, in the four subsequent periods for tax losses generated in 2010 and 2011 and in the five subsequent periods for tax losses generated in the years of 2012 and 2013. However, the deduction of those losses in each year cannot exceed 70% of the respective taxable income, with the remaining balance (30%), being deductible up to the end of the tax utilization period.

The tax aspects related to the acquisition of a significant part of the Banif activity are presented in Note 1.4.

Banking sector contribution

Following the publication of Law No. 55-A/2010, of December 31, the Bank is subject to the banking sector contribution regime. The application of such contribution is as follows:

a) Liabilities calculated and approved by taxpayers net of own funds (Tier 1) and supplementary own funds (Tier 2) as well as of deposits covered by the Deposits Guarantee Fund. The following are then deducted from the liability thus computed:

   - Balances that in accordance with the applicable accounting standards are accounted for under shareholders’ equity;
   - Liabilities associated with the recognition of responsibilities with defined benefit plans;
   - Provisions;
   - Liabilities arising from the revaluation of derivative financial instruments;
   - Deferred income, excluding those arising from liability operations; and
   - Liabilities arising from assets not derecognized in securitization operations.

b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, with the exception of hedge derivatives or derivatives with mutually offsetting risk positions.

The rates applicable to the incidence base defined in a) and b) above are 0.110% and

0.0003%, respectively, as foreseen in the amendment introduced by Ordinance No. 165 - A/2016, of June 14, to Article 5 of Ordinance No. 121/2011, of March 30.

Deferred tax assets and liabilities correspond to the amount of the tax recoverable and payable in future periods resulting from timing differences between the carrying amount of assets and liabilities in the balance sheet and their respective tax basis. Tax credits are also recognized as deferred tax assets.

The Group does not recognize deferred tax assets or liabilities on deductible or taxable timing differences associated with investments in subsidiaries and associated companies, as it is unlikely that the difference will be reversed in the foreseeable future.

Regarding the unrecognized deferred tax assets associated with the acquisition of a significant part of the Banif activity, supplementary information is presented in Note 1.4.

Deferred tax assets are recognized when it is estimated that they will be recovered and only up to the amount that will probably be recovered through the existence of sufficient expected future taxable income to absorb the deductible timing differences.

Deferred tax assets and liabilities were calculated based on the tax rates decreed for the year in which the respective assets are expected to be realized or the liabilities incurred.

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders’ equity, namely potential gains and losses on available-for-sale financial assets and on cash flow hedging derivatives, as well as those associated with actuarial gains and losses related to pension liabilities, which are also recorded in shareholders' equity.

o) Long-term incentive plans

The Bank has long-term incentive plans for stocks and stock options of Banco Santander, S.A., holding company of the Santander Group. Given their characteristics, these plans consist of equity-settled share-based payment transactions, as defined in IFRS 2 and IFRIC 11. The management, hedging and implementation of these long-term incentive plans are provided directly by Banco Santander, S.A. The Bank pays the amount related to these plans to Banco Santander, S.A. on an annual basis.

The recording of such plans corresponds to the recognition of the rights of the Bank’s employees to these instruments in the heading “Other reserves” against an entry in the heading “Staff costs” of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentive plans for stock options in force in Banco Santander S.A. is included in Note 48.

p) Own shares

Own shares are recorded in equity at their acquisition cost and are not subject to revaluation. Gains or losses arising from the sale of own shares, as well as the related taxes, are recorded directly in equity, not affecting the net income for the year.

q) Preference shares

Preference shares are recorded as equity instruments when:

- There is no contractual obligation for the Bank to reimburse (either in cash or in another financial asset) the preference shares acquired by the holder;
- The remission or early redemption of the preference shares may only be made at the Bank's option; and
- The dividend distributions made by the Bank to the holders of preference shares are discretionary.

At December 31, 2015, the Bank classified as equity instruments the preference shares issued by BST International Bank, Inc. – Puerto Rico

Preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the heading "Non-controlling interests" (Note 29).

r) Insurance brokerage services rendered

Commissions from the insurance brokerage services rendered are recorded on an accrual basis. Income is recorded as it is generated, irrespective of when it is received. Amounts receivable are subject to impairment analysis.

The Bank is not engaged in the collection of insurance premiums on behalf of insurers, nor does it perform the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the insurance mediation activity performed by the Bank, besides those already disclosed.

s) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the headings “Cash and deposits at central banks” and “Balances due from other banks”.

1.4. Business Combination

1. Background – Resolution measure applied to Banif

On December 20, 2015, the Bank of Portugal applied a resolution measure to Banif, under which it took the following decisions:

- Establishment of an asset management vehicle, named Oitante, S.A (initially known as Naviget, S.A.);
- Transfer to Oitante, S.A. (“Oitante”) of a set of rights and obligations corresponding to Banif assets;
- Payment by Oitante to Banif, of compensation for the transferred assets, through the delivery of debt instruments issued by Oitante, in the amount of tEuros 746,000, determined under the preliminary valuation of the transferred assets;
- Sale to BST of the rights and obligations that comprise the assets, liabilities, off-balance sheet items and assets under management of Banif;
- Determining that Fundo de Resolução (hereinafter “Resolution Fund”) provide the financial support necessary for the implementation of the resolution measure leading to the subscription and realization of the share capital of Oitante, provide a guarantee for the debt instruments issued by Oitante and cover the Banif losses.

In its statement of December 20, the Bank of Portugal stated: "the operation involves estimated public support in the amount of Euros 2,255 million intended to cover future contingencies, of which Euros 489 million provided by the Resolution Fund and Euros 1,766 million directly by the State, as a result of the options agreed to between the Portuguese authorities, European bodies and Banco Santander Totta, to define the perimeter of the assets and liabilities to be sold". The European Commission, in its statement of December 21, 2015, approved the State aid to Banif of Euros 2,255 million, as mentioned above, to cover for the financing gap in Banif's resolution measure, in accordance with European rules on State aid. The State support to Banif is deducted from the amount owed by the Bank for the acquisition of the set of assets, liabilities and activities of the former Banif. The European Commission also referred that the Bank, as buyer of a set of assets and liabilities of Banif, did not receive any public aid.

The resolution measure also defined that the Portuguese State would provide a counter-guarantee to the guarantee provided by the Resolution Fund to the debt instruments issued by Oitante. That counter-guarantee was approved by the Ministry of Finance Order No. 867/2016.

Additionally, the resolution measure states that the Bank of Portugal may, provided BST's agreement, return to Banif or perform additional transfers of assets, liabilities, off-balance sheet items and assets under management between Banif and the Bank.

2. Business acquisitions

The acquisition of part of Banif's banking activity by BST occurred under the resolution measure mentioned above.

This acquisition was formalized with the presentation of BST's Definitive Offer following the process letter issued by the Bank of Portugal on December 19, 2015, in a context of a possible application of a resolution measure to Banif, which eventually took place.

The transfer of assets and liabilities to BST, including the debt instruments issued by Oitante, occurs immediately and automatically upon the decision taken of the Board of Directors of the Bank of Portugal related to the sale of the former Banif's activity under the resolution measure applied. Thus, there was no purchase and sale agreement related to the acquisition of part of the former Banif's activity.

Based on the above, the acquisition date considered by BST was December 20, 2015, the date of the resolution measure.

The amount agreed with the Bank of Portugal for the transfer of part of the activity, assets and liabilities of the former Banif to BST corresponded to tEuros 150,000. This amount has been deducted from the State aid granted to Banif, which corresponded to tEuros 2,255,000 and, as such, was not subject to a separate financial settlement.

The amount of tEuros 150,000 does not include any expenses related to the acquisition.

3. Details of assets, liabilities, off-balance sheet items and assets under management of Banif acquired by BST under the resolution measure.

The Bank of Portugal separated the unaudited financial statements of Banif with reference to December 20, 2015 amongst the three entities, Oitante, Banif and BST, considering the provisions of the resolution measure, the Definitive Offer and the subsequent clarifications.

On March 18, 2016, the Bank of Portugal announced an unaudited draft balance sheet for the assets and liabilities transferred to BST as of December 20, 2015, with total assets of Euros 12,957 million and total liabilities of Euros 11,217 million. On Abril 19, 2016, the Bank of Portugal announced their understanding on a number of questions and requests for clarifications put to them by BST, Oitante and Banif. Thus, BST made the following changes: i) Increase in assets amounting to Euros 12 million; and ii) Increase in liabilities amounting to Euros 20 million.

In this context, the unaudited draft balance sheet as of December 20, 2015 (hereinafter balance sheet) considered was the following (amounts in millions of Euros):

	Amount
Assets	
Cash and deposits at central banks	2 377
Balances due from other banks	99
Financial assets held for trading	36
Other financial assets at fair value through profit or loss	16
Available-for-sale financial assets	2 887
Loans and advances to credit instituions	11
Loans and advances to customers	6 066
Assets with reprchase agreement	1 081
Other tangible assets	8
Investments in subsidiaries, associates and joint ventures	18
Deferred tax assets	273
Other assets	97
	12 969
Liabilities	
Resources of central banks	2 110
Financial liabilities held for trading	21
Resources of other credit institutions	996
Resources of customers and other debts	4 642
Debt securities	223
Financial liabilities associated to transferred assets	3 031
Current tax liabilities	1
Provisions	20
Other liabilities	193
	11 236
Difference between unaudited provisional assets and liabilities	1 733

The balance sheet presented above does not include the effects of the consolidation of vehicles and securitization funds and the consolidation of the subsidiary Banif International Bank Ltd. (Bahamas).

Under the Definitive Offer, BST recognized a reduction of the net book value of the assets and liabilities transferred from the former Banif in the amount of Euros 1,133 million, of which Euros 75 million relating to restructuring costs, resulting in a difference between the assets and liabilities of Euros 600 million.

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

Additionally, under the resolution measure, there was a transfer to BST of off-balance sheet items and assets under management, detailed as follows:

	Amount
Assets pleged as guarantee	2 175 257
Guarantees and commitments	279 256
Open documentary credits	21 148
Credit lines	
Commitments	
Revocable	314 711
Irrevocable	79 021
Deposit Guarantee Fund	10 253
Investor Indemnity	1 146
Overdraft facilities	87 946
Other revocable commitments	104 855
	3 073 593
Deposit and custodial services	2 241 777
Amoutns received for collection	112 398
	2 354 175

The heading “Assets pledged as guarantee" refers essentially to assets pledged as collateral in financing operations.

The heading “Deposit and custodial services" corresponds to securities deposited by customers in the former Banif.

Under the resolution measure, there was a transfer to BST of the contractual position of 1,130 employees of Banif, mainly from the commercial area. On January 27, 2016, BST informed the Insurance and Pension Funds Supervisory Authority of its intention to assume the responsibility for past services of the aforementioned employees and of an additional group of 511 retired employees, early retirees, pensioners and former employees.

Also according to the resolution measure, there was a transfer to BST not only of the responsibilities related to the business areas, assets, rights or liabilities transferred to BST, but also those that may be constituted by Banif in its banking business (including Banif obligations related to deposits, comfort letters, banking guarantees, performance bonds and other similar contingencies).

The following, amongst others, were excluded from the transfer to BST:

- All unknown responsibilities, contingent liabilities and litigation and responsibilities assumed under the disposal of entities or activities;

- Any liabilities, contingencies or indemnities including those resulting from fraud or breach of rules or of regulatory, criminal or administrative resolutions.

4. Result from the acquisition

The result achieved with the purchase of a significant part of Banif’s business on December 20, 2015 was positive in the amount of tEuros 327,159, and was based on the estimated fair value of the acquired assets and assumed liabilities or in accordance with the International Financial Reporting Standards applicable to certain assets and liabilities for which fair value is not the measurement principle under IFRS 3 - Business Combinations.

The Bank applied IAS 19 – Employee benefits to the acquired assets and assumed liabilities related to employees' benefits and IAS 12 – Income taxes to the acquired assets and assumed liabilities related to income taxes.

The Bank recognized this result under the heading "Result on the purchase of the Banif activity" in the income statement. The result of the purchase fits the circumstances related to the resolution measure applied by the Bank of Portugal to Banif mentioned above.

The methodology used by the Bank in the determination of the fair value of the main assets and liabilities acquired may be presented as follows:

- Regarding the headings "Cash and deposits at central banks" and "Balances due from other banks", given their nature, the appraised fair value corresponds to the book value of the former Banif's transferred assets.

- For the headings "Loans and advances to credit institutions" and "Resources of other credit institutions" the Bank defined the fair value as the estimated discounted cash flows based on interest rates for interbank transactions.

- The gross amount less the estimated impairment was considered an estimate of the fair value of loans and advances to customers, given that the present value of the estimated cash flows was considered in the computation of impairment.

- Regarding the heading "Resources of customers and other debts", for the demand deposits the fair value equalled the book value. For the remaining customer deposits, the Bank used the average rate on deposits contracted by BST customers.

- For the heading "Debt securities", the Bank considered the market prices made available by investment banks.

- As for the Portuguese Government debt securities accounted for under the heading "Available-for-sale financial assets", the Bank considered the quotations available on active markets.

According to IFRS 3, the acquirer recognizes as of the acquisition date any contingent liabilities assumed in business combinations, if they correspond to a present obligation that arises from past events and which fair value can be reliably determined.

In determining the fair value of the assets and liabilities of Banif, the Bank used several simplifications considering the information available.

According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and, if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result determined on the acquisition.

The reconciliation between the unaudited draft balance sheet as at December 20, 2015 presented by the Bank of Portugal (separate accounts), considering the clarifications obtained on April 19, 2016, and the fair value of assets and liabilities acquired by BST, including the result from the acquisition, is as follows (amounts in millions of Euros):

	Notes	Perimeter 20/12/2015	Reclassifications	Consolidation effect (1)	Purchase adjustments (2)	Estimated by BST
Assets						
Cash and deposits at central banks	a)	2 377	-	-	-	2 377
Balances due from other banks		99	-	-	-	99
Financial assets held for trading		36	-	1	(1)	36
Other financial assets at fair value through profit or loss		16	(16)	-	-	-
Available-for-sale financial assets	b)	2 887	351	(2 129)	(20)	1 089
Loans and advances to credit instituions		11	-	261	1	273
Loans and advances to customers	c)	6 066	746	(4)	(828)	5 981
Assets with reprchase agreement		1 081	(1 081)	-	-	-
Non-current assests held for sale		-	-	1	-	1
Other tangible assets		8	-	1	(8)	1
Investments in subsidiaries, associates and joint ventures		18	-	2	(18)	2
Deferred tax assets	d)	273	-	-	(273)	-
Other assets		97	-	(39)	(41)	17
		12 969	-	(1 906)	(1 188)	9 876
Liabilities						
Resources of central banks	e)	2 110	-	-	-	2 110
Financial liabilities held for trading		21	-	2	-	23
Resources of other credit institutions	f)	996	-	(77)	1	920
Resources of customers and other debts	g)	4 642	-	(214)	-	4 428
Debt securities	h)	223	-	1 437	-	1 660
Financial liabilities associated to transferred assets		3 031	-	(3 031)	-	-
Current tax liabilities		1	-	-	-	1
Provisions	i)	20	-	(52)	215	183
Other liabilities		193	-	30	1	224
		11 236	-	(1 906)	217	9 549
Result from the acquisition						327

(1) It corresponds to the consolidation impact of the securitization vehicles and of Banif International Bank, Ltd as of December 31, 2015.
(2) In addition to the 1,133 million Euros as defined in the Definitive Offer, it also comprises the derecognition of deferred tax assets in the amount of 273 million Euros.

Notes:

a) The heading “Cash and deposits at central banks”, as of the acquisition date includes State aid granted to Banif amounting to Euros 2,255 million, including Euros 489 million injected by the Resolution Fund.

   Under Article 3 of Law No. 159-E/2015, of December 30, which introduced an addendum to Law No. 82 -B/2014, of December 31, under the resolution measure of Banif, the State fully subscribed and paid up a share capital increase in Banif, amounting to Euros 1,766 million. Although the Amending State Budget that permitted the financing of the resolution measure was only approved on December 30, 2015, the balance sheet presented above already reflects the State aid granted to Banif, to be received in accordance with the resolution measure.

b) The transferred assets include Treasury bonds of which the fair value on December 20, 2015 amounts to tEuros 1,069,450. In the separate accounts, this heading also included bonds related to securitization operations, which in the consolidation process were deducted from the heading "Debt securities". Part of these bonds were recorded in the unaudited draft balance sheet presented by the Bank of Portugal on March 18, 2016 under the heading "Assets with repurchase agreement".

c) The loans to customers acquired by BST and recognized at the fair value of tEuros 5,980,079 presented, as at the acquisition date, a gross amount of tEuros 7,283,439, and as at that date the best estimate of impairment amounted to tEuros 1,303,360.

The gross amount of securitized loans included under this heading amounted to tEuros 3,343,104.

The heading "Loans and advances to customers" also includes tEuros 746,000 related to debt instruments issued by Oitante under the resolution measure. These securities were classified in the unaudited draft balance sheet presented by the Bank of Portugal on March 18, 2016 under the heading "Available-for-sale financial assets".

The Oitante debt securities are repayable in 10 years from the issue date (December 22, 2015), with floating interest, linked to the 3-month Euribor and a spread equivalent to "Portuguese 5-year CDS" (fixed as of December 18, 2015 at 1.679%) plus 1%. As at December 31, 2015, the interest rate of the bonds is 2.548%. The bonds are guaranteed by the Resolution Fund and counter-guaranteed by the Portuguese Republic. On March 18, 2016, the interest payment frequency changed to six months. Considering the terms of these bonds, the Bank considered its fair value to be equal to its nominal value.

d) Deferred tax assets included in the perimeter set by the Bank of Portugal, amounting to tEuros 273,000, include tEuros 250,000 related to tax losses generated by Banif, of which:

. Euros 138 million up to 2014; and
. Euros 112 million generated between January 1 and December 20, 2015.

The Bank filed a request with the Minister of Finance to approve that the deferred tax assets transferred under the acquisition of the former Banif relating to tax losses carried forward may be used to offset future taxable profits of BST, in accordance with number 4 of Article 145º- AU of the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras).

The request filed by the Bank included the figures contained in the resolution measure (tEuros 179,000), which were subsequently updated by the Bank of Portugal to tEuros 273,000, of which tEuros 250,000 corresponding to tax losses, due to the exclusion from the perimeter of net liabilities in this amount.

According to the Definitive Offer, if BST does not receive a favourable decision in respect of the request submitted to the Minister of Finance, the Bank is entitled to receive an equivalent amount in government bonds or cash.

Notwithstanding the foregoing, given that up to this date the Bank has not yet received the approval from the Minister of Finance, nor is it aware of its terms, the Bank did not recognize the deferred tax assets transferred from the former Banif.

As defined in the Definitive Offer, the Bank requested of the Minister of Finance and is still awaiting the recognition of the following:

- The application of the tax neutrality regime for the asset transfer defined in Article 74 of the Corporate Income Tax Code, covering the result recorded by BST from the acquisition of the assets included in the balance sheet presented by the Bank of Portugal, asset depreciation and amortization, impairment losses and provisions transferred from the former Banif.

- The exemption from the municipal tax on property transfer, stamp duty, fees and other legal costs that may be payable due to the operations or actions needed to implement the resolution measure of the partial transfer of the Banif activity to BST, including those relating to the transfer of mortgage loans.

e) The heading “Resources of central banks” includes tEuros 1,290,000 of which tEuros 1,060,000 correspond to the emergency liquidity assistance line of the Bank of Portugal. The day following Banif’s resolution, the Bank reimbursed financing granted by the European Central Bank in the amount of tEuros 1,150,000, as defined in the resolution measure. In addition, the heading includes long-term refinancing operations granted by the European Central Bank in the amount of tEuros 819,000.

f) The heading “Resources of other credit Institutions" includes financing granted by financial institutions abroad related to sale operations of securities with repurchase agreements in the amount of tEuros 649,466.

g) The heading “Resources of customers and other debts" includes demand deposits in the amount of tEuros 1,704,860, term deposits in the amount of tEuros 2,111,317 and savings deposits in the amount of tEuros 931,080, before the consolidation effect of securitization vehicles (which included deposits held in the former Banif in the amount of tEuros 335,561) .

h) The heading "Debt securities" includes outstanding senior bonds with a nominal value of tEuros 166,200 and deposit certificates in the amount of tEuros 52,405.

   This heading also includes tEuros 1,436,399 in outstanding bonds issued by the former Banif’s securitization vehicles.

   Finally, the covered bonds issued by the former Banif and fully owned by same, in the amount of tEuros 285,000, were also transferred to BST.

i) The provisions recognized by the Bank include: (i) restructuring provisions amounting to tEuros 75,000, as per the Definitive Offer; (ii) legal, tax and other contingencies amounting to tEuros 70,000, including tEuros 40,000 related to Banif International Bank Ltd (Bahamas); (iii) an increase in pension fund liabilities and a devaluation of pension fund assets in the net amount of tEuros 15,823. Note 45 includes a description of the pension fund responsibilities for these employees; and (iv) other provisions amounting to tEuros 22,000.

5. Net Cash flow for the acquisition of Banif’s business

   The cash and cash equivalents acquired (net) under the acquisition of a significant part of Banif’s business amounted to Euros 1,326 million. This amount includes the movements carried out under the resolution measure up till December 31, 2015, including transfers received on December 31, 2015, after the approval of the Amending State Budget that permitted the financing of the resolution measure, net of the funds repaid by the Bank on December 21, 2015.

6. Results arising from the activity acquired from the former Banif

   The income for the period between December 20 and December 31, 2015 arising from the acquired activity from the former Banif amounted to tEuros 534, corresponding mainly to net interest income of tEuros 2,114, net services income and commissions amounting to tEuros 1,829, losses on the results of assets and liabilities at fair value through profit or loss amounting to tEuros 1,138 and staff and general administrative costs in the amounting to tEuros 2,187.

   In addition, the Bank recognized integration costs with the activity of the former Banif in its 2015 financial statements in the amount of tEuros 53,000 (before tax).

1.5. Comparability of information

The information contained in these financial statements is, in its entirety, comparable to that of the previous financial year.

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

The estimates and judgements with an impact on the consolidated financial statements of the Santander Totta Group are continuously evaluated, representing at each reporting date the best estimate of the Board of Directors, considering the historic performance, accumulated experience and expectations as to future events which, in the circumstances, are considered to be reasonable.

The intrinsic nature of the estimates may lead to the actual amounts of the situations that had been estimated, for financial reporting purposes, being different from the estimated amounts.

Employees' post-employment benefits

Retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Insurance and Pension Funds Supervisory Authority (ASF). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, mortality and disability tables, and pension and salary growth, amongst others.

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

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in Note 1.3 e) above, are used to value financial instruments not traded on active markets. Consequently, the valuations correspond to the best estimate of the fair value of these instruments as of the balance sheet date. As mentioned in Note 1.3. e), to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by a body independent of the trading function.

Fair value

The financial assets and liabilities recorded in the categories "Financial assets held for trading", "Financial liabilities held for trading", "Other financial assets at fair value through profit or loss" and "Available-for-sale financial assets" are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which an asset or a financial liability can be sold or settled (in other words, an exit price) between parties that are independent, knowledgeable and interested in the closing of the transaction under normal market conditions.

The fair value of financial assets and liabilities is determined by a Bank body independent of the trading function, based on:

- For financial instruments traded on active markets, the closing price on the balance sheet date;

- For debt instruments not traded on active markets (including unlisted securities or securities with limited liquidity) valuation methods and techniques are used, which include:

i) Bid prices obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;

ii) Indicative bid prices obtained from financial institutions that operate as market-makers; and

iii) Valuation models, which take into account market input that would be used to determine the price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortized cost

Financial instruments measured at amortized cost are initially recorded at their fair value increased or decreased by the expenses or income directly attributable to the transaction. The interest is recognized through the effective interest rate method.

Whenever the estimate of payments or collections associated with financial instruments measured at amortized cost is revised, the carrying amount is adjusted to reflect the revised expected cash flows. The new amortized cost results from the present value of the revised future cash flows discounted at the original effective interest rate of the financial instrument. The adjustment in the amortized cost is recognized in the income statement.

Determination of loan impairment losses

Loans impairment losses have been determined as explained in Note 1.3 c) above. Consequently, the impairment assessment performed on an individual basis corresponds to the Bank's judgement as to the financial situation of its customers and its estimate of the value of the collaterals received, with the corresponding impact on the expected future cash flows. Impairment losses determined on a collective basis are estimated based on historical parameters for comparable types of operations, considering estimates of default and recoverability.

Determination of impairment losses on available-for-sale financial assets

As described in Note 1.3. e), the unrealized capital losses resulting from the valuation of these assets are recognized under the heading "Revaluation reserve - Fair value". Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses recorded in that reserve are transferred to the income statement.

In case of equity instruments, the determination of impairment losses may involve a certain degree of subjectivity. The Bank determines whether or not impairment of these assets exists through a specific analysis at each balance sheet date, taking into account the existence of any of the events foreseen in IAS 39.

In case of debt instruments recorded in this category, unrealized capital losses are transferred from the heading "Revaluation reserve – Fair value" to the income statement whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, its failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer.

Taxes

Deferred tax assets are recognized based on the assumption of the existence of future taxable income. Furthermore, current and deferred taxes have been determined based on the interpretation of the tax legislation currently in force. Therefore, changes in tax legislation or in its interpretation by the competent authorities may have an impact on the amount of current and deferred taxes.

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system (Sistema de Normalização

Contabilistica (“SNC”)), approved by Decree-Law No. 158/2009, of July 13 and Decree-Law No. 159/2009, of July 13, was also approved.

The above referred Decree-Law amended some articles of the Corporate Income Tax Code and also revoked paragraph 2 of Article 57 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

In this regard, these new rules were observed in the computation of the taxable income for the six-month period ended June 30, 2016 and financial year 2015, in accordance with the Bank´s interpretation of same.

Determination of the outcome of the legal proceedings in progress

The outcome of the legal proceedings in progress, including those mentioned in Note 50, as well as the need for provisioning are estimated based on the opinion of the lawyers/legal advisors of the Bank, the Commercial Court of London’s approved judgement and the decisions made up to this date by the Portuguese courts, which may however not be upheld.

3. SEGMENT REPORTING

In accordance with the requirements of IFRS 8, the disclosures regarding the Bank’s operating segments are presented below in accordance with the information reviewed by the management of the Bank:

Global Banking & Markets:

This area essentially includes the Bank’s activity with financial markets and large companies, providing financial advisory services, namely Corporate and Project Finance, as well as brokerage, custody and settlement services.

Retail banking:

This area essentially corresponds to credit granting operations and attracting of funds from private customers and businesses with a turnover under Euros 5 million, through the branch network and telephone and internet banking services.

Commercial banking:

This area targets companies with a turnover ranging between Euros 5 million and Euros 125 million. This activity is supported by the branch network as well as by specialized services, and includes a variety of products, namely loans and project, trade, export and real estate financing.

Corporate activities:

This area covers all the activities that provide support to the Bank’s main activities but which are not directly related to its core business, including liquidity management, balance sheet hedging and Bank structural funding.

The income statement by business segment as of June 30, 2016 is made up as follows:

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

	30/06/2016				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	43 185	229 556	74 967	22 274	369 982
Income from equity instruments	-	-	-	330	330
Financial margin	**43 185**	**229 556**	**74 967**	**22 604**	**370 312**
Net commissions	25 068	131 044	12 011	(10 803)	157 320
Other results from banking activity	(14)	3 033	(1)	(8 448)	(5 429)
Commercial margin	**68 239**	**363 633**	**86 977**	**3 353**	**522 203**
Results from financial operations	5 815	1 271	356	80 348	87 791
Net income from banking activities	**74 054**	**364 905**	**87 334**	**83 701**	**609 993**
Operating costs	(9 786)	(230 921)	(24 643)	(1 359)	(266 709)
Depreciation and amortization	(1 559)	(15 349)	(765)	0	(17 673)
Net operating income	**62 709**	**118 634**	**61 926**	**82 342**	**325 612**
Impairment and provisions, net of reversals	(12 826)	(55 281)	(11 403)	26 157	(53 352)
Result from associates	-	-	-	2 010	2 010
Income before taxes	**49 883**	**63 354**	**50 523**	**110 510**	**274 269**
Taxes	(14 965)	(19 175)	(15 157)	(32 169)	(81 466)
Net income for the period	**34 918**	**44 179**	**35 366**	**78 341**	**192 804**

At June 30, 2016, the assets and liabilities under management of each business segment, in accordance with the information used by the Bank's Management for decision making, are as follows:

	30/06/2016				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	16 825 403	-	-	16 825 403
Consumer loans	-	1 533 105	-	-	1 533 105
Other loans	3 696 406	2 858 000	6 937 962	-	13 492 368
Total allocated assets	3 696 406	21 216 508	6 937 962	-	31 850 876
Total non-allocated assets					12 830 705
Total Assets					**44 681 581**
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	510 613	23 719 772	3 404 277	812 259	28 446 921
Debt securities	-	16 271	-	4 609 722	4 625 993
Total allocated resources	510 613	23 736 043	3 404 277	5 421 981	33 072 914
Guarantees and sureties given	201 348	157 111	1 031 347	-	1 389 806

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

The income statement by business segment as of June 30, 2015 is made up as follows:

	30/06/2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	47 283	163 755	54 467	17 056	282 561
Income from equity instruments	-	-	-	1 134	1 134
Financial margin	**47 283**	**163 755**	**54 467**	**18 190**	**283 695**
Net commissions	27 682	105 707	10 287	(8 372)	135 304
Other results from banking activity	(28)	1 651	(22)	16	1 617
Commercial margin	**74 937**	**271 113**	**65**	**9 834**	**420 616**
Results from financial operations	6 178	1 695	116	17 465	25 454
Net income from banking activities	**81 115**	**272 808**	**64 848**	**27 299**	**446 070**
Operating costs	(8 871)	(173 730)	(27 899)	(1 438)	(211 938)
Depreciation and amortization	(2 188)	(18 227)	(2 537)	-	(22 952)
Net operating income	**70 056**	**80 851**	**34 412**	**25 861**	**211 180**
Impairment and provisions, net of reversals	(9 223)	(21 565)	(12 812)	(22 337)	(65 937)
Result from associates	-	-	7 487	1 464	8 951
Income before taxes	**60 833**	**59 286**	**29 087**	**4 988**	**154 194**
Taxes	(18 250)	(14 804)	(6 480)	(12 008)	(51 542)
Net income for the period	**42 583**	**44 482**	**22 607**	**(7 020)**	**102 652**

At December 31, 2015 the assets and liabilities under management for each business segment in accordance with the information used by the Bank's Management for decision making, are as follows:

	31/12/2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities [1]	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	14 601 677	-	2 616 463	17 218 140
Consumer loans	-	1 368 668	-	-	1 368 668
Other loans	3 308 123	2 155 361	5 106 083	2 624 590	13 194 157
Total allocated assets	3 308 123	18 125 705	5 106 083	5 241 053	31 780 965
Total non-allocated assets					15 148 003
Total Assets					**46 928 968**
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	638 251	18 749 857	2 209 797	5 528 408	27 126 312
Debt securities	-	61 129	-	4 982 316	5 043 445
Total allocated resources	638 251	18 810 986	2 209 797	10 510 724	32 169 758
Guarantees and sureties given	222 328	148 830	786 163	303 627	1 460 948

[1] Includes the assets acquired and liabilities undertaken under the resolution measure

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

The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet at June 30, 2016 and December 31, 2015, by geographical segments, was as follows:

	30/06/2016					
		International operations				
	Portugal	Ireland	Banif Bahamas	Others	Total	Consolidated Total
Assets						
Cash and deposits at central banks	968 665	-	-	-	-	968 665
Balances due from other banks	396 275	42	5 628	122	5 792	402 067
Financial assets held for trading	1 679 638	-	-	-	-	1 679 638
Available-for-sale financial assets	5 612 057	-	-	-	-	5 612 057
Loans and advances to credit instituions	1 830 797	-	-	-	-	1 830 797
Loans and advances to customers	31 839 746	-	11 130	-	11 130	31 850 876
Investments held to maturity	301 730	-	-	-	-	301 730
Hedging derivatives	126 281	-	-	-	-	126 281
Non-current assets held for sale	175 458	-	1 469	-	1 469	176 927
Investment properties	380 961	-	-	-	-	380 961
Other tangible assets	306 933	-	855	-	855	307 788
Intangible assets	33 824	-	-	-	-	33 824
Investments in associated companies	38 663	-	-	-	-	38 663
Current tax assets	13 367	-	-	-	-	13 367
Deferred tax assets	385 796	-	-	-	-	385 796
Other assets	572 101	-	43	0	43	572 144
Total net assets	44 662 292	42	19 125	122	19 289	44 681 581
Liabilities						
Resources of central banks	2 450 427	-	-	-	-	2 450 427
Financial liabilities held for trading	1 687 799	-	-	-	-	1 687 799
Resources of other credit institutions	3 123 626	-	943	-	943	3 124 569
Resources of customers and other debts	28 421 465	-	25 456	-	25 456	28 446 921
Debt securities	4 625 993	-	-	-	-	4 625 993
Hedging derivatives	183 854	-	-	-	-	183 854
Provisions	250 385	-	-	-	-	250 385
Current tax liabilities	33 990	546	-	-	546	34 536
Deferred tax liabilities	68 407	19 663	-	-	19 663	88 070
Equity representative instruments	69 314	-	-	-	-	69 314
Subordinated liabilities	4 299	-	-	-	-	4 299
Other liabilities	495 358	7	974	12	993	496 351
Total liabilities	41 414 917	20 216	27 373	12	47 601	41 462 518
Shareholders' equity						
Shareholders' equity attributable to shareholders of BST	3 245 488	7 247	(33 684)	(657)	(27 095)	3 218 393
Non-controlling interests	670	-	-	-	-	670
Total shareholders' equity	3 246 158	7 247	(33 684)	(657)	(27 095)	3 219 063
Total liabilities and shareholders' equity	44 661 075	27 463	(6 311)	(645)	20 506	44 681 581

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

	31/12/2015						
		International operations					
	Portugal	Ireland	Puerto Rico	Banif Bahamas	Others	Total	Consolidated Total
Assets							
Cash and deposits at central banks	3 134 032	-	-	-	-	-	3 134 032
Balances due from other banks	462 678	24	58	683	455	1 220	463 898
Financial assets held for trading	1 750 694	-	-	-	-	-	1 750 694
Available-for-sale financial assets	6 467 813	-	-	-	-	-	6 467 813
Loans and advances to credit instituions	1 535 156	-	280	-	-	280	1 535 436
Loans and advances to customers	31 766 739	-	-	14 226	-	14 226	31 780 965
Hedging derivatives	130 292	-	-	-	-	-	130 292
Non-current assets held for sale	189 126	-	-	1 469	-	1 469	190 595
Investment properties	387 193	-	-	-	-	-	387 193
Other tangible assets	299 310	-	-	866	18	884	300 194
Intangible assets	31 054	-	-	-	-	-	31 054
Investments in associated companies	42 957	-	-	-	-	-	42 957
Current tax assets	16 458	-	-	-	-	-	16 458
Deferred tax assets	418 317	-	-	-	-	-	418 317
Other assets	278 777	-	6	(105)	392	293	279 070
Total net assets	46 910 596	24	344	17 139	865	18 372	46 928 968
Liabilities							
Resources of central banks	4 952 679	-	-	-	-	-	4 952 679
Financial liabilities held for trading	1 721 691	-	-	-	-	-	1 721 691
Resources of other credit institutions	3 544 248		-	981	-	981	3 545 229
Resources of customers and other debts	26 934 343	-	70 690	121 280	-	191 970	27 126 313
Debt securities	5 043 445	-	-	-	-	-	5 043 445
Hedging derivatives	170 133	-	-	-	-	-	170 133
Provisions	323 090	-	-	-	-	-	323 090
Current tax liabilities	36 966	781	-	-	-	781	37 747
Deferred tax liabilities	103 323	19 597	-	-	-	19 597	122 920
Equity representative instruments	69 309	-	-	-	-	-	69 309
Subordinated liabilities	4 302	-	-	-	-	-	4 302
Other liabilities	397 983	28	872	344	75	1 319	399 302
Total liabilities	43 301 512	20 406	71 562	122 605	75	214 648	43 516 160
Shareholders' equity							
Shareholders' equity attributable to shareholders of BST	3 112 238	5 700	7 644	(33 690)	(399)	(20 745)	3 091 493
Non-controlling interests	672	-	329 659	-	(9 016)	320 643	321 315
Total shareholders' equity	3 112 910	5 700	337 303	(33 690)	(9 415)	299 898	3 412 808
Total liabilities and shareholders' equity	46 414 422	1 047 192	408 865	88 915	(9 340)	514 546	46 928 968

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

For the six-month periods ended June 30, 2016 and 2015, the income statement by geographical segments was as follows:

	30/06/2016					
		International operations				
	Portugal	Ireland	Banif Bahamas	Others	Total	Consolidated Total
Interest and similar income	573 833	1	739	-	740	574 573
Interest ans similar charges	(204 434)	-	(157)	-	(157)	(204 591)
Financial margin	369 399	1	582	-	583	369 982
Income from equity instruments	330	-	-	-	-	330
Income from services and comissions	190 129	-	199	-	199	190 328
Charges with services and comissions	(32 969)	-	(33)	(6)	(39)	(33 008)
Result of assets and liabilities at fair value through profit or loss	(33 519)	-	-	-	-	(33 519)
Result of available-for-sale financial assets	90 519	-	-	-	-	90 519
Result of foreign exchange revaluation	4 648	-	(246)	-	(246)	4 402
Result from sale of other assets	26 438	-	(58)	9	(49)	26 389
Other operating results	(5 358)	-	(69)	(2)	(71)	(5 429)
Net income from banking activities	609 617	1	375	1	377	609 994
Staff costs	(164 734)	(97)	(225)	(1 026)	(1 348)	(166 082)
General administrative costs	(100 018)	(166)	(134)	(309)	(609)	(100 627)
Depreciation in the year	(17 656)	-	(11)	(6)	(17)	(17 673)
Provisions, net of reversals	(949)	-	-	-	-	(949)
Loan impairment net of reversals and recoveries	(41 266)	-	-	-	-	(41 266)
Impairment of other financial assets net of reversals and recoveries	(2 189)	-	-	-	-	(2 189)
Impairment of others assets net of reversals and recoveries	(8 948)	-	-	-	-	(8 948)
Results from associates	2 010	-	-	-	-	2 010
Income before tax and non-controlling interests	275 867	(262)	5	(1 340)	(1 597)	274 270
Current taxes	(36 508)	(1 115)	-	(3)	(1 118)	(37 626)
Deferred taxes	(43 775)	(65)	-	-	(65)	(43 840)
Income after taxes and before non-controlling interests	195 584	(1 442)	5	(1 343)	(2 780)	192 804
Non-controlling interests	-	-	-	-	-	-
Consolidated net income attributable to the shareholders of BST	195 584	(1 442)	5	(1 343)	(2 780)	192 804

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

	30/06/2015						
		International operations					
	Portugal	Ireland	Angola	Puerto Rico	Others	Total	Consolidated Total
Interest and similar income	540 798	-	-	-	-	-	540 798
Interest ans similar charges	(257 533)	(4)	-	(700)	-	(704)	(258 237)
Financial margin	283 265	(4)	-	(700)	-	(704)	282 561
Income from equity instruments	1 134	-	-	-	-	-	1 134
Income from services and comissions	164 807	-	-	-	-	-	164 807
Charges with services and comissions	(29 380)	-	-	-	(123)	(123)	(29 503)
Result of assets and liabilities at fair value through profit or loss	(6 913)	-	-	-	-	-	(6 913)
Result of available-for-sale financial assets	20 587	-	-	-	-	-	20 587
Result of foreign exchange revaluation	4 642	-	-	(23)	-	(23)	4 619
Result from sale of other assets	7 161	-	-	-	-	-	7 161
Other operating results	1 619	-	-	(2)	-	(2)	1 617
Net income from banking activities	446 922	(4)	-	(725)	(123)	(852)	446 070
Staff costs	(135 499)	(97)	-	(105)	(373)	(575)	(136 074)
General administrative costs	(75 469)	(166)	-	(72)	(157)	(395)	(75 864)
Depreciation in the year	(22 952)	-	-	-	-	-	(22 952)
Provisions, net of reversals	(12 780)	-	-	-	-	-	(12 780)
Loan impairment net of reversals and recoveries	(42 931)	-	-	-	-	-	(42 931)
Impairment of other financial assets net of reversals and recoveries	(459)	-	-	-	-	-	(459)
Impairment of others assets net of reversals and recoveries	(9 767)	-	-	-	-	-	(9 767)
Results from associates	1 464	-	7 487	-	-	7 487	8 951
Income before tax and non-controlling interests	148 529	(267)	7 487	(902)	(653)	5 665	154 194
Current taxes	(25 050)	(1 483)	-	-	-	(1 483)	(26 533)
Deferred taxes	(25 213)	204	-	-	-	204	(25 009)
Income after taxes and before non-controlling interests	98 266	(1 546)	7 487	(902)	(653)	4 386	102 652
Non-controlling interests	-	-	-	-	-	-	-
Consolidated net income attributable to the shareholders of BST	98 266	(1 546)	7 487	(902)	(653)	4 386	102 652

The accounting policies used in the preparation of the financial information by segments were consistent with those described in Note 1.3. of these Notes to the Consolidated Financial Statements.

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

4. GROUP COMPANIES AND TRANSACTIONS OCCURRING DURING THE YEAR

At June 30, 2016 and December 31, 2015, the subsidiaries and associated companies and their most significant financial data, extracted from their respective separate financial statements, excluding conversion adjustments to IAS/IFRS, may be summarized as follows:

	Direct Participation (%)		Effective Participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
Company	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015
BANCO SANTANDER TOTTASA	-	-	100.00	100.00	47 895 591	50 232 462	2 779 427	2 621 463	175 442	515 438
TOTTA & AÇORES FINANCING	100.00	100.00	100.00	100.00	45	46	45	46	-	9 017
SERFIN INTERNATIONAL BANK & TRUST	-	-	-	100.00	-	41 735	-	41 718	-	164
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	482	1 441	468	1 249	(753)	(45)
TOTTA IRELAND, PLC	100.00	100.00	100.00	100.00	950 474	1 010 842	428 694	416 546	12 234	4 433
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	180 240	180 859	180 209	180 832	(623)	101 741
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	145 304	144 563	135 803	135 431	425	2 756
BST INTERNATIONAL BANK, INC. -PORTO RICO	100.00	100.00	-	100.00	-	440 858	-	358 672	-	25 694
TAXAGEST,SGPS,SA	100.00	99.00	99.00	99.00	55 755	55 753	55 747	55 747	1	25
FUNDO NOVIMOVEST	78.58	78.59	78.84	78.59	396 041	408 283	328 184	325 168	4 205	450
HIPOTOTTA NO. 1 PLC	-	-	-	-	140 500	157 406	(190)	(722)	204	453
HIPOTOTTA NO. 4 PLC	-	-	-	-	889 026	1 009 080	(4 778)	(4 895)	1 060	5 826
HIPOTOTTA NO. 5 PLC	-	-	-	-	811 282	878 085	(2 415)	(3 214)	1 145	3 741
HIPOTOTTA NO. 1 FTC	-	-	-	-	121 612	139 960	121 603	138 460	-	(1 263)
HIPOTOTTA NO. 4 FTC	-	-	-	-	835 369	965 241	837 437	954 929	-	(4 169)
HIPOTOTTA NO. 5 FTC	-	-	-	-	775 362	848 331	775 474	840 639	-	(3 352)
GAMMA STC	-	-	-	-	3 064 618	3 635 777	(415 707)	(113 002)	2 125	9 888
ATLANTES MORTGAGE 1	-	-	-	-	110 252	123 472	(133 321)	(7 070)	(584)	(872)
ATLANTES FINANCE6	-	-	-	-	74 349	96 228	94	(85)	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, SA (2)	-	-	25.81	25.81	n/a	n/a	n/a	n/a	n/a	n/a
UNICRE (MAY 2016)	21.50	21.50	21.50	21.50	373 500	347 230	122 393	137 926	10 386	39 872
BANIF INTERNACIONALBANK, LTD	100.00	100.00	100.00	100.00	34 644	89 203	(33 476)	(33 689)	218	(53 941)

n/a - not available

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

At June 30, 2016 and December 31, 2015, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation was as follows:

Company	Business	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Lisbon	Full
TOTTA & AÇORES FINANCING	Banking	Cayman Islands	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Islands	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC	Investment management	Ireland	Full
SANTOTTA - INTERNACIONAL, SGPS	Holding company	Funchal	Full
TOTTAURBE - Emp. Admin. e Construções, S.A. (1)	Real estate management	Lisbon	Full
BENIM - Sociedade Imobiliária, SA	Real estate	Lisbon	Equity method
BST INTERNATIONAL BANK, INC. - PORTO RICO	Banking	Puerto Rico	Full
BANIF INTERNACIONALBANK, LTD (2)	Banking	Bahamas	Full
TAXAGEST, SGPS,SA	Holding company	Lisbon	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Lisbon	Equity method
HIPOTOTTA NO. 1 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 4 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 5 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA NO. 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA NO. 5 FTC	Securitized loans fund	Portugal	Full
GAMMA STC (3)	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 (3)	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 (3)	Securitized loans fund	Portugal	Equity method
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Lisbon	Full

(1) The shareholders’ equity of this subsidiary includes supplementary capital contributions totalling tEuros 99,760.

(2) This entity was consolidated for the first time in 2015, due to the resolution measure applied to the former Banif (Note 1.4). The share capital of this subsidiary is represented by 25,000,000 common shares with a nominal value of 1 Euro each and 10,000 preference shares with a nominal value of 1 cent each. The preference shares were issued on June 24, 2009 and on June 26, 2009; it being decided by the Board of Directors of the subsidiary to issue a "Global Share Certificate for Ten Thousand Preference Shares" which, in turn, subscribed for tEuros 10,000 by another entity of the Banif Group, which was not acquired by BST.

(3) These companies were consolidated for the first time in 2015. Gamma - Sociedade de Titularização de Créditos, S.A. is a securitization company currently held by Oitante. Under the acquisition of a significant part of Banif’s activity, BST acquired eleven securitization operations whose loans were originated by Banif and ceded to Gamma STC, which financed itself through the issuance of bonds with different levels of subordination and rating for each securitization operation. For simplification purposes, the Bank considered these securitizations as a whole, denominating them "Gamma STC", having recorded these vehicles in accordance with the ongoing involvement of the Group in these operations, determined based on the percentage of the equity piece held. Additionally, there is a securitization named "Atlantes Mortgages PLC 1" whose loans were sold to a securitization fund called "Atlantes Mortgages No. 1 FTC" which issued participation units subscribed by the Irish company "Atlantes Mortgages No. 1 PLC". The financial statements considered for consolidation purposes relate to the sub-consolidation of the fund and the existing company in Ireland, and the Group made adjustments to the statutory accounts. Finally, “Atlantes Finance 6“ refers to a securitization for which the loans were also assigned to Gamma, and for which the BST Group does not own the totality of the equity piece.

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Bank’s consolidated financial statements include special purpose entities (SPE’s) created for securitization operations that the Bank controls, that is, it holds the majority of the risks and rewards associated with their activity, namely the bonds issued by those entities with a higher degree of subordination – equity pieces (Note 46).

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

During the first half-year of 2016, the Bank closed down the following companies:

- Serfin International Bank & Trust;
- BST International Bank Inc – Puerto Rico;
- Totta & Açores, Inc. – Newark;
- Totta & Açores Financing.

At June 30, 2016 and December 31, 2015 the balance sheet of Novimovest Fund was as follows:

	30/06/2016	31/12/2015
Securities portfolio	3 078	3 096
Real estate portfolio	380 961	387 193
Accounts receivable	9 663	14 795
Cash and cash equivalents	424	513
Accruals and deferrals	1 915	2 686
	396 041	408 283
Fund capital	328 184	325 168
Adjustments and provisions	5 536	5 485
Accounts payable	59 959	75 201
Accruals and deferrals	2 362	2 429
	396 041	408 283

At June 30, 2016 and 2015, the consolidated net income includes a profit and a loss of tEuros 3,317 and tEuros 93, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This heading is made up as follows:

	30/06/2016	31/12/2015
Cash	244 242	284 668
Demand deposits at Central Banks:		
Bank of Portugal	724 423	2 849 364
	968 665	3 134 032

At December 31, 2015, this heading included tEuros 2,329,852 related to assets acquired by the Bank under the resolution measure applied to Banif.

In accordance with European Central Bank Regulation No. 2818/98, of December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves with the participating National Central Banks. The incidence base for determining the amount of the reserves includes all deposits placed with central banks and financial and monetary entities outside the Eurozone and all deposits of customers repayable in less than two years. This base is multiplied by 1% and, from the amount so determined, Euros 100,000 is deducted. The minimum cash reserves earn interest at the average of the rates for the main refinancing operations of the European Central Bank System.

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

6. BALANCES DUE FROM OTHER BANKS

This heading is made up as follows:

	30/06/2016	31/12/2015
Balances due from domestic banks		
Demand deposits	3 630	2 631
Cheques for collection	65 905	63 219
Interest receivable	320	-
Balances due from foreign banks		
Other financial institutions		
Demand deposits	330 644	393 043
Cheques for collection	1 435	1 074
Other receivables	133	3 931
	402 067	463 898

At December 31, 2015, the heading “Balances due from other banks” included tEuros 114,619 related to assets acquired under the resolution measure applied to Banif.

At June 30, 2016 and December 31, 2015, the subheadings of "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

At June 30, 2016 and December 31, 2015, the heading “Balances due from foreign banks – Demand deposits” included a deposit in the amount of tEuros 79,147 and tEuros 67,831, respectively, which is being mobilized upon the fulfilment of certain obligations towards third parties.

7. FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING

This heading is made up as follows:

	30/06/2016	31/12/2015
Financial assets held for trading		
Derivatives with positive fair value	1 676 560	1 747 598
Securities – Participation units	3 078	3 096
	1 679 638	1 750 694
Financial liabilities held for trading		
Derivatives with negative fair value	(1 687 799)	(1 721 691)
Net balance of the fair value of derivative financial instruments	(11 239)	25 907

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

At June 30, 2016 and December 31, 2015, the headings of derivative financial instruments were made up as follows:

	30/06/2016			31/12/2015		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
Forwards	16 676	16 099	577	22 123	21 261	862
Swaps						
Currency swaps	4 088	-	4 088	14 061	12 732	1 329
Interest rate swaps	1 440 847	1 459 624	(18 777)	1 412 795	1 396 888	15 907
Equity swaps	495	388	107	55 437	53 976	1 461
Options						
Foreign exchange options	1 117	963	154	1 163	1 081	82
Equity options	59 993	59 280	713	92 086	88 802	3 284
Caps & Floors	153 344	151 445	1 899	149 933	146 951	2 982
	1 676 560	1 687 799	(11 239)	1 747 598	1 721 691	25 907

At June 30, 2016, the headings of assets and liabilities relating to “Derivative financial instruments” are net of the amounts of approximately tEuros 218,917 and tEuros 203,564, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments" (tEuros 113,100 and tEuros 152,000 at December 31, 2015, respectively).

At June 30, 2016 and December 31, 2015, the heading “Derivative financial instruments – Assets”, included the amounts of tEuros 1,315,800 and tEuros 1,315,000, respectively, maintained with Portuguese State-owned enterprises, and which are in litigation (Note 50).

At June 30, 2016 and December 31, 2015, the majority of the derivative financial instruments held for trading celebrated with customers were hedged "back-to-back" with Banco Santander, S.A.

At June 30, 2016 and December 31, 2015, the heading "Securities – Participation units" corresponds to the participation units held in Fundo de Investimento Imobiliário Fechado Maxirent (Real Estate Investment Fund).

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	30/06/2016							
	Acquisition cost	Accrued interest	Hedge Adjustments	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 27)	Impairment (Note 23)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	4 966 560	50 377	44 709	78 586	(69 101)	9 485	(109)	5 071 022
Other residents								
Acquired in securitization operations	12 949	7	-	-	-	-	-	12 956
Unsubordinated debt	403 235	5 029	-	19 983	-	19 983	(230)	428 017
Subordinated debt	2 970	2	-	-	-	-	(2 970)	2
	5 385 714	55 415	44 709	98 569	(69 101)	29 468	(3 309)	5 511 997
Equity instruments								
Issued by residents								
Measured at fair value	73 957	-	-	892	(1 184)	(292)	(36 892)	36 773
Measured at cost	92 474	-	-	-	-	-	(30 681)	61 793
Issued by non-residents								
Measured at fair value	1 382	-	-	1	-	1	-	1 383
Measured at cost	857	-	-	-	-	-	(746)	111
	5 554 384	55 415	44 709	99 462	(70 285)	29 177	(71 628)	5 612 057

	31/12/2015							
	Acquisition cost	Accrued interest	Hedge Adjustments	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 27)	Impairment (Note 23)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	5 251 118	108 845	20 761	214 425	(562)	213 863	(116)	5 594 471
Other Portugues Government entities	6 003	-	-	-	(367)	(367)	-	5 636
Other residents								
Services acquired under securitization operations	85 996	59	-		(4 697)	(4 697)	-	81 358
Unsubordinated debt	466 838	13 464	-	22 833	(4 156)	18 677	(230)	498 749
Subordinated debt	126 017	24	-	-	-	-	(6 254)	119 786
Issued by non-residents								
Unsubordinated debt	97 874	3 217	-	-	(51 872)	(51 872)	-	49 219
Equity instruments								
Issued by residents								
Measured at fair value	96 428	-	-	584	(1 633)	(1 049)	(45 329)	50 050
Measured at cost	93 847	-	-	-	-	-	(29 486)	64 361
Issued by non-residents								
Measured at fair value	8	-	-	3 728	-	3 728	-	3 736
Measured at cost	1 192	-	-	-	-	-	(746)	446
	6 225 321	125 609	20 761	241 570	(63 287)	178 283	(82 161)	6 467 813

At December 31, 2015, the heading “Available-for-sale financial assets” included tEuros 1,083,808 of assets acquired under the resolution measure applied to Banif.

At June 30, 2016 and December 31, 2015, the heading “Treasury Bonds” included capital gains of tEuros 44,709 and tEuros 20,761, respectively, relating to value adjustments resulting from interest rate risk hedging operations. These securities have the following characteristics:

	30/06/2016						31/12/2015					
	Acquisition cost	Accrued receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Accrued receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
Treasury bonds - Portugal												
Maturing between one and three years	-	-	-	-	-	-	414 489	4 802	-	(546)	-	418 745
Maturing between three and five years	1 777 962	5 407	32 052	12 582	-	1 828 003	2 269 602	54 776	34 514	90 039	-	2 448 931
Maturing between five and tem years	3 188 111	44 966	12 657	(3 097)	-	3 242 637	2 566 540	49 263	(13 753)	124 370	-	2 726 420
Others	487	4	-	-	(109)	382	487	4	-	-	(116)	375
	4 966 560	50 377	44 709	9 485	(109)	5 071 022	5 251 118	108 845	20 761	213 863	(116)	5 594 471

At June 30, 2016 and December 31, 2015, the Bank held in its portfolio Portuguese Treasury Bonds, in the amounts of tEuros 1,438,598 and tEuros 1,207,074 respectively, which were used as collateral in financing operations (Note 20).

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

At June 30, 2016 and December 31, 2015, the remaining headings of “Debt instruments” included the following securities:

	30/06/2016					31/12/2015				
Descrição	Acquisition cost	Accrued receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Accrued receivable	Gains/losses recorded in reserves	Impairment	Book Value
Adquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	-	-	-	-	-	72 463	51	(4 677)	-	67 837
ATLANTES FINANCE 6 B 03/20/33	9 000	7	-	-	9 007	9 000	8	-	-	9 008
ATLANTES FINANCE 6 S 03/20/33	3 949	-	-	-	3 949	4 483	-	-	-	4 483
ENERGYON NO.2 CLASS B NOTES 2025	-	-	-	-	-	50	-	(20)	-	30
	12 949	7	-	-	12 956	85 996	59	(4 697)	-	81 358
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	250 914	4 222	14 199	-	269 335	251 273	8 931	15 771	-	275 975
Banco Comercial Português 22/06/2017	102 112	118	2 158	-	104 388	103 192	2 505	2 878	-	108 575
CGD 3% 2014/2019	49 979	689	3 626	-	54 294	49 974	1 442	3 800	-	55 216
PORTUGAL TELECOM INT FIN 5.875%2	-	-	-	-	-	56 025	2 215	(29 642)	-	28 598
IBERWIND II P- CONSULTORIA SENIOR A	-	-	-	-	-	26 058	24	(2 937)	-	23 145
EDIA 2010/2030	-	-	-	-	-	19 250	206	(542)	-	18 914
PORTUGAL TELECOM INT FIN 4.625%2	-	-	-	-	-	31 230	921	(17 189)	-	14 962
PORTUGAL TELECOM INT FIN 5 2019	-	-	-	-	-	10 620	81	(5 040)	-	5 661
Outros	230	-	-	(230)	-	17 090	356	(294)	(230)	16 922
	403 235	5 029	19 983	(230)	428 017	564 712	16 681	(33 195)	(230)	547 968
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	-	-	-	-	-	123 061	22	-	(3 299)	119 784
BPSM/97 - TOPS - OB. PERP. SUB	2 970	2	-	(2 970)	2	2 956	2		(2 955)	3
	2 970	2	-	(2 970)	2	126 017	24	-	(6 254)	119 787

In the last quarter of 2012, the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by Caixa Geral de Depósitos, S.A. for an amount that was tEuros 15,674 above its fair value. Following this operation, impairment losses of the same amount were recorded. During 2015, the Bank reversed impairment losses of tEuros 3,304, of that security, due to its appreciation. This security, in the first half-year of 2016, was reclassified to the Investments held to maturity portfolio.

At June 30, 2016 and December 31, 2015, the heading "Equity instruments" includes the following securities:

	30/06/2016				31/12/2015			
Descrição	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value
Recorded at fair value								
FUNDO SOLUCAO ARRENDAMENTO	28 925	(1 024)	-	27 901	28 925	(1 531)	-	27 394
Banco PBI	-	-	-	-	21 502	-	(8 218)	13 284
SANTANDER MULTIACTIVOS 0-30	2 852	(63)	-	2 789	2 852	(50)	-	2 803
UNICAMPUS-FEI IMOBILIARIO FECHAD	1 500	(9)	-	1 491	1 500	7	-	1 507
VISA INC series C	1 375	-	-	1 375	-	3 727	-	3 727
SANTANDER MULTIACTIVOS 20-60	1 120	(68)	-	1 052	1 120	(36)	-	1 084
FCR PORTUGAL VENTURES VALOR 2	3 836	297	(3 099)	1 034	3 826	51	(3 099)	778
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	468	-	742	274	371	-	645
GARVAL - SOC.DE GARANTIA MUTUA S	685	43	-	728	1 110	72	-	1 182
FII FECHADO GEF II	391	(9)	-	382	391	(7)	-	384
Other	1 212	74	(624)	662	1 539	74	(616)	997
Securities with 100% impairment	33 169	-	(33 169)	-	33 396	-	(33 396)	-
	75 339	(291)	(36 892)	38 156	96 436	2 679	(45 329)	53 786
Recorded at cost								
LUSIMOVEST - F.I. IMOBILIARIO	26 379	-	(2 894)	23 485	26 379	-	(2 894)	23 485
FUNDO RECUPERAÇÃO FCR-CATEGORIA	33 621	-	(11 715)	21 906	33 621	-	(10 515)	23 106
BANIF PROPERTY	15 350	-	(10 000)	5 350	15 350	-	(10 000)	5 350
SIBS - SGPS, S.A.	3 461	-	-	3 461	3 461	-	-	3 461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3 749	-	(531)	3 218	3 749	-	(531)	3 218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions)	3 749	-	(531)	3 218	3 749	-	(531)	3 218
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO	1 065	-	(214)	851	1 065	-	(214)	851
Other	501	-	(86)	415	2 118	-	-	2 118
Securities with 100% impairment	5 456	-	(5 456)	-	5 547	-	(5 547)	-
	93 331	-	(31 427)	61 904	95 039	-	(30 232)	64 807

In 2015 the Bank revalued the share of Visa Europe Limited it held at fair value, considering the transfer operation to Visa International Inc. In the first half-year of 2016, the Bank recognized the impact of this operation in the income statement.

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

At June 30, 2016 and December 31, 2015, the Bank held 5,861,770 participation units in "Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional" in the amount of tEuros 28,925 which were subscribed through the payment in cash of tEuros 2, the delivery of real estate properties and the remainder through the sale of real estate and subsequent subscription of participation units.

During 2015 and 2014, the Bank subscribed to capital increases of Fundo Recuperação, FCR in the amount of tEuros 501 and tEuros 4,629, respectively. At June 30, 2016 and December 31, 2015, the Bank held in its portfolio 33,620 participation units corresponding to a participation of 4.12% in the capital of that Fund. Since the Bank believes that there is insufficient information to reliably determine the fair value of the participation units of this fund, the Bank classified these at historical cost in financial year 2015.

During 2014, the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. shares of Banco BPI, S.A. for an amount of tEuros 21,501 (fair value as at the acquisition date), which, as at December 31, 2015, were recorded at tEuros 13,284. During 2015, BST recognized impairment for this shareholding considering its prolonged devaluation. In the first half-year of 2016 the Bank sold its entire stake.

At June 30, 2016 and December 31, 2015, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets presents the following devaluating percentages on their acquisition cost:

	30/06/2016				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	1 625 029	21 543	44 709	(69 101)	1 622 180
	1 625 029	21 543	44 709	(69 101)	1 622 180
Equity instruments					
Between 0% and 25%	34 888	-	-	(1 176)	33 712
Between 25% and 50%	19	-	-	(8)	11
	34 907	-	-	(1 184)	33 723
	1 659 936	21 543	44 709	(70 285)	1 655 903

	31/12/2015				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	451 227	3 011	-	(9 762)	444 476
Between 25% and 50%	10 669	81	-	(5 060)	5 690
Over 50%	87 255	3 136	-	(46 832)	43 559
	549 151	6 228	-	(61 654)	493 725
Equity instruments					
Between 0% and 25%	33 325	-	-	(1 628)	31 697
Between 25% and 50%	19	-	-	(5)	14
	33 344	-	-	(1 633)	31 711
	582 495	7 561	-	(63 287)	525 436

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

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This heading is made up as follows:

	30/06/2016	31/12/2015
Loans and advances to other domestic banks		
Deposits	215 263	220 221
Loans	54 817	45 704
Other applications	12	7 247
Interest receivable	1 632	3 918
	271 724	277 090
Loans and advances to other foreign banks		
Very short term loans and advances	833 361	364 522
Deposits	524 116	807 694
Other applications	201 269	65 284
Interest receivable	327	20 846
	1 559 073	1 258 346
	1 830 797	1 535 436

At December 31, 2015, the heading "Loans and advances to credit institutions" included assets of tEuros 268,334 acquired under the resolution measure applied to Banif (Note 1.4).

At June 30, 2016 and December 31, 2015, the heading "Loans and advances to other foreign banks - Other applications" includes margin accounts of tEuros 161,287 and tEuros 64,966, respectively.

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

10. LOANS AND ADVANCES TO CUSTOMERS

This heading is made up as follows:

	30/06/2016	31/12/2015
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	204 269	252 163
Loans	4 182 525	4 215 499
Current account loans	885 669	852 069
Overdrafts	129 776	117 932
Factoring	1 184 588	1 285 974
Finance leasing	824 248	806 335
Other credits	737 607	704 112
To individuals		
Mortgage loans	12 937 241	12 840 588
Consumer credit and other loans	2 042 421	2 086 065
Foreign loans		
To corporate clients		
Loans	200 361	188 091
Current account loans	7 190	8 467
Overdrafts	1 185	1 039
Factoring	29 321	52 624
Finance leasing	5 481	5 863
Other credits	2 576	2 535
To individuals		
Mortgage loans	326 903	363 681
Consumer credit and other loans	37 892	38 431
	23 739 253	23 821 468
Loans represented by securities		
Non-subordinated debt securities	4 249 072	3 889 120
Non-derecognized securitized assets		
To corporate clients		
Loans		
Gamma STC	871 855	1 100 443
To individuals		
Mortgage loans		
Hipototta No. 1 PLC	120 611	131 006
Hipototta No. 4 PLC	832 218	884 221
Hipototta No. 5 PLC	767 914	802 221
Gamma STC	1 715 695	1 908 081
Leasing		
Gamma	71 847	97 731
	4 380 140	4 923 703
Overdue loans and interest		
Up to 90 days	143 233	40 228
More than 90 days	1 433 309	1 388 942
	1 576 542	1 429 170
	33 945 007	34 063 461
Accrued interest		
Loans and advances	70 189	71 956
Loans represented by securities	19 436	13 461
Non-derecognized securitized assets	8 894	12 276
Hedge adjustments	7 928	3 527
Deferred expenses	73 004	73 141
Commissions associated with amortized cost (net)	(113 001)	(111 371)
	66 450	62 990
	34 011 457	34 126 451
Impairment of loans and advances to customers (Note 23)	(2 160 581)	(2 345 486)
	31 850 876	31 780 965

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

In the first half-year of 2016 and in the 2015 financial year, the Bank sold mortgage and company loan portfolios, most of which had already been written off. As a result of these transactions, net gains were recorded in the first half-year of 2016, amounting to tEuros 12,527 (Note 39).

At June 30, 2016 and December 31, 2015, the heading “Domestic loans - To individuals – Mortgage loans” included loans allocated to the autonomous pool of covered bonds issued by the Bank (excluding the former Banif) totalling tEuros 8,086,111 and tEuros 7,669,850, respectively (Note 22).

At December 31, 2015, the loans transferred from the former Banif included tEuros 3,290,657 generated through securitization transactions originating in this entity.

Changes in impairment of loans and advances to customers during the first half-year of 2016 and financial year 2015 are presented in Note 23.

At June 30, 2016 and December 31, 2015, overdue loans and interest are made up as follows:

	30/06/2016	31/12/2015
Up to three months	143 233	40 228
Between three and six months	88 452	39 379
Between six months and one year	235 814	175 284
Between one year and three years	451 247	476 158
More than three years	657 796	698 121
	1 576 542	1 429 170

At June 30, 2016, the portfolio of loans and advances to customers, by business sector, was as follows:

	30/06/2016			
	Performing	Overdue	Total	%
Agriculture and forestry	169 524	5 300	174 823	0.52%
Fishing	4 860	7	4 867	0.01%
Mining	14 202	826	15 028	0.04%
Manufacturing:	274 166	14 518	288 684	0.85%
Food, beverage and tobacco	147 932	52	147 984	0.44%
Textiles, leather and clothing	252 779	11 991	264 770	0.78%
Wood and cork	244 417	7 266	251 683	0.74%
Paper and publishing	284 679	2 205	286 884	0.85%
Chemical industry	215 542	5 881	221 422	0.65%
Ceramics, glass and cement	206 016	2 060	208 076	0.61%
Metal-working	160 909	14 406	175 315	0.52%
Machines and vehicles	190 897	9 124	200 021	0.59%
Electricity, water and gas	986 865	896	987 761	2.91%
Construction and public works	1 153 374	297 459	1 450 833	4.27%
Commerce and hotels:	758 972	45 880	804 852	2.37%
Wholesale trading	928 067	63 890	991 957	2.92%
Retail sale	472 877	17 515	490 392	1.44%
Restaurants and hotels	445 732	7 074	452 805	1.33%
Transport and communications	86 898	2 585	89 483	0.26%
Non-monetary financial institutions	520 869	33 163	554 032	1.63%
Government administration	1 749 983	219	1 750 203	5.16%
Other service companies	1 712 800	210 376	1 923 177	5.67%
Loans to individuals	19 330 145	773 509	20 103 654	59.22%
Foreign loans	314 960	3 953	318 913	0.94%
Other loans	1 740 999	46 387	1 787 386	5.27%
	32 368 465	1 576 542	33 945 007	100.00%

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

At December 31, 2015, the portfolio of loans and advances to customers (excluding those transferred from the former Banif), by business sector, was as follows:

	31/12/2015			
	Performing	Overdue	Total	%
Agriculture and forestry	175 687	5 295	180 982	0.67%
Fishing	4 432	14	4 446	0.02%
Mining	16 382	900	17 282	0.06%
Manufacturing:				
Food, beverage and tobacco	353 138	5 374	358 512	1.34%
Textiles, leather and clothing	198 354	7 494	205 848	0.77%
Wood and cork	93 763	2 221	95 984	0.36%
Paper and publishing	197 794	1 524	199 318	0.74%
Chemical industry	173 543	2 060	175 603	0.65%
Ceramics, glass and cement	210 734	1 459	212 193	0.79%
Metal-working	113 669	5 334	119 003	0.44%
Machines and vehicles	154 212	7 965	162 177	0.60%
Electricity, water and gas	875 366	1 210	876 576	3.27%
Construction and public works	1 000 676	269 441	1 270 117	4.74%
Commerce and hotels:				
Wholesale trading	678 902	29 249	708 151	2.64%
Retail sale	857 016	38 978	895 994	3.34%
Restaurants and hotels	318 870	9 515	328 385	1.22%
Transport and communications	447 083	8 364	455 447	1.70%
Non-monetary financial institutions	610 727	12 595	623 322	2.32%
Government administration	699 857	112	699 969	2.61%
Other service companies	2 001 289	92 152	2 093 441	7.81%
Loans to individuals	14 818 069	438 549	15 256 618	56.88%
Foreign loans	325 815	4 898	330 713	1.23%
Holding companies	1 258 594	8 493	1 267 087	4.72%
Other loans	282 546	1 677	284 223	1.06%
	25 866 518	954 873	26 821 391	100.00%

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

At June 30, 2016 the overdue and the performing loans with and without evidence of impairment, considering the segments used for the reckoning of impairment losses by the Bank, were as follows:

	30/06/2016		
	Overdue loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	11 832 365	11 832 365
With objective evidence of impairment	1 109 657	1 102 952	2 212 609
	1 109 657	12 935 317	14 044 974
Mortgage loans			
Without objective evidence of impairment	-	15 806 828	15 806 828
With objective evidence of impairment	316 761	839 214	1 155 975
	316 761	16 646 042	16 962 803
Consumer loans			
Without objective evidence of impairment	-	1 147 221	1 147 221
With objective evidence of impairment	43 886	63 299	107 185
	43 886	1 210 520	1 254 406
Loans granted through credit cards			
Without objective evidence of impairment	-	301 287	301 287
With objective evidence of impairment	11 970	23 664	35 634
	11 970	324 951	336 921
Other loans to individuals			
Without objective evidence of impairment	-	1 101 768	1 101 768
With objective evidence of impairment	94 268	149 867	244 135
	94 268	1 251 635	1 345 903
	1 576 542	32 368 465	33 945 007

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

At December 31, 2015 the overdue and performing loans, excluding loans and advances acquired by BST under the resolution measure applied to Banif, with and without evidence of impairment, considering the segments used for the reckoning of impairment losses by the Bank, were as follows:

	31/12/2015		
	Overdue loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	9 234 844	9 234 844
With objective evidence of impairment	484 597	288 514	773 111
	484 597	9 523 358	10 007 955
Mortgage loans			
Without objective evidence of impairment	-	13 672 636	13 672 636
With objective evidence of impairment	336 480	682 010	1 018 490
	336 480	14 354 646	14 691 126
Consumer loans			
Without objective evidence of impairment	-	1 024 538	1 024 538
With objective evidence of impairment	35 640	48 777	84 417
	35 640	1 073 315	1 108 955
Loans granted through credit cards			
Without objective evidence of impairment	-	245 307	245 307
With objective evidence of impairment	17 199	5 246	22 445
	17 199	250 553	267 752
Other loans to individuals			
Without objective evidence of impairment	-	621 862	621 862
With objective evidence of impairment	80 957	42 784	123 741
	80 957	664 646	745 603
	954 873	25 866 518	26 821 391

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

11. INVESTMENTS HELD TO MATURITY

This heading is made up as follows:

	30/06/2016			
	Acquisition cost	Interest receivable	Reserves resulting from fair value valuation (Note 27)	Book Value
Other national public entities				
CAMARA MUNICIPAL DE LISBOA/99	4 502	-	(314)	4 188
Other national entities				
Non-subordinated debt				
EDIA 2010/2030	19 251	192	(524)	18 919
IBERWIND II P- CONSULTORIA SENIOR	24 883	20	(2 782)	22 121
IBERWIND II P-CONSULTORIA SENIOR	7 311	12	(642)	6 681
REN REDES ENERGETICAS 4.125% 2018	9 155	154	292	9 601
TAGUS CLASSE A-VARIAVEL-12/05	68 833	41	(4 428)	64 446
ENERGYON NO.2 CLASS B NOTES MAY	50	-	(19)	31
	129 483	419	(8 103)	121 799
Subordinated Debt				
CAIXA GERAL DE DEPOSITOS 2017	121 075	20	-	121 095
Securities - Issued by non-national entities				
Other non-national entities - Non-subordinated debt				
PORTUGAL TELECOM INT FIN 5.875%	31 749	515	-	32 264
PORTUGAL TELECOM INT FIN 4.625%	15 782	151	-	15 934
PORTUGAL TELECOM INT FIN 5 2019	6 135	315	-	6 450
	53 667	981	-	54 647
	308 727	1 420	(8 417)	301 730

In the first half-year of 2016 the Bank classified under this heading a number of securities that were previously classified under “Available-for-sale financial assets”.

12. HEDGING DERIVATIVES

This heading is made up as follows:

	30/06/2016			31/12/2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	21 860	81 748	(59 888)	24 634	80 782	(56 148)
Equity swaps	12 283	17 825	(5 542)	16 218	18 329	(2 111)
Options	-	1 042	(1 042)	-	1 593	(1 593)
Cash-flows hedge						
Interest rate swaps	92 138	83 239	8 899	89 440	69 429	20 011
	126 281	183 854	(57 573)	130 292	170 133	(39 841)

At June 30, 2016 and December 31, 2015, the breakdown of the derivative financial instruments was as follows:

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

	30/06/2016								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	577	85 179	32 498	10 733	1 029	-	129 438	63 331	66 107
Sold	-	85 131	32 474	10 726	1 028	-	129 359	65 396	63 964
Currency swaps									
Purchased	4 088	405 856	-	-	-	-	405 856	-	405 856
Sold	-	401 544	-	-	-	-	401 544	401 544	-
Interest rate swaps	(18 777)	732 838	69 938	74 990	1 304 581	8 328 434	10 510 781	10 510 781	-
Equity swaps	107	-	-	519	40 000	-	40 519	40 519	-
Cross currency swaps									
Purchased	154	40 764	28 007	18 692	-	-	87 464	-	87 464
Sold	-	40 764	28 007	16 979	-	-	85 750	-	85 750
Equity options									
Purchased	713	216 105	-	-	-	-	216 105	216 105	-
Sold	-	216 105	-	1 713	-	-	217 818	216 105	1 713
Caps & Floors	1 899	742	2 604	1 311 874	205 115	1 390 315	2 910 649	2 910 649	-
	(11 239)	2 225 028	193 528	1 446 226	1 551 752	9 718 749	15 135 284	14 424 429	710 854
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(71 650)	-	-	-	-	600 000	600 000	600 000	-
Liabilities and loans	11 762	9 625	8 594	29 729	54 694	447 697	550 339	550 339	-
Auto Callable options	(1 042)	-	-	-	196 516	-	196 516	196 516	-
Equity swaps	(5 542)	243 074	281 808	421 744	1 509 537	114 591	2 570 754	2 410 937	159 817
Cash flow hedge									
Interest rate swaps									
Cash flow	8 899	400 000	200 000	225 000	-	1 300 000	2 125 000	2 125 000	-
	(57 573)	652 699	490 402	676 473	1 760 746	2 462 288	6 042 609	5 882 792	159 817

	31/12/2015								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	862	76 292	80 815	15 578	205	-	172 890	85 500	87 390
Sold	-	76 214	80 786	15 553	204	-	172 757	87 225	85 532
Currency swaps									
Purchased	1 329	838 715	-	-	-	-	838 715	-	838 715
Sold		847 133	-	-	-	-	847 133	847 133	-
Interest rate swaps	15 907	870 380	578 144	169 621	604 488	10 012 699	12 235 332	10 972 766	1 262 566
Equity swaps	1 461	139 009	70 000	-	180 519	-	389 528	389 528	-
Cross currency swaps									
Purchased	82	7 006	13 778	24 800	-	-	45 584	-	45 584
Sold	-	7 006	13 778	24 800	-	-	45 584	-	45 584
Equity options									
Purchased	3 284	-	195 899	125 104	1 929	-	322 932	321 003	1 929
Sold	-	-	195 899	125 104	1 929	-	322 932	321 003	1 929
Caps & Floors	2 982	1 106	1 340	5 101	1 359 303	1 421 102	2 787 952	2 787 952	-
	25 907	2 862 861	1 230 439	505 661	2 148 577	11 433 801	18 181 339	15 812 110	2 369 229
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(76 981)	-	-	-	-	850 000	850 000	850 000	-
Liabilities and loans	20 833	19 442	33 721	18 219	66 055	314 058	451 495	451 495	-
Auto Callable options	(1 593)	-	-	-	196 516	-	196 516	196 516	-
Equity swaps	(2 111)	325 583	300 481	525 399	1 531 074	153 632	2 836 169	2 649 122	187 047
Cash flow hedge									
Interest rate swaps									
Cash flow	20 011	275 000	300 000	600 000	225 000	1 300 000	2 700 000	2 700 000	-
	(39 841)	620 025	634 202	1 143 618	2 018 645	2 617 690	7 034 180	6 847 133	187 047

The Bank carries out derivative transactions in the scope of its activity, managing its own positions based on expectations of the market's evolution, satisfying customers' needs, or covering positions of a structural nature (hedging).

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

The negotiation of derivatives on over-the-counter (OTC) markets is usually based on a standard bilateral contract, which encompasses all the derivative transactions between the parties. In the case of professional relationships, an ISDA - International Swaps and Derivatives Association Master Agreement is used. In the case of customer relationships, an own Bank contract is used.

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

In these type of contracts, the compensation of liabilities in the event of default is foreseen (the scope of such compensation is provided in the contract and is regulated by Portuguese law and, for contracts executed with foreign counterparties or under foreign law, by the law applicable in the relevant jurisdiction).

The derivative contract may also include an agreement for the collateralization of the credit risk that arises from the transactions covered by same. Generally, the derivative contract established between two parties normally includes all the OTC derivative transactions carried out, whether they are for hedging or not.

According to IAS 39, embedded derivatives are also separated and recorded as derivatives, in order to recognize in profit or loss the fair value of those operations.

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

Derivatives are also recorded in off balance
accounts at their theoretical value (notional amount). The notional amount is the reference amount for the calculation of the payments and receipts resulting from the operations.

The fair value corresponds to the estimated price of the derivatives if these were traded on the market as at the reference date. The evolution of the fair value of the derivatives is recognized in the appropriate balance sheet accounts and has an immediate impact on the income statement.

13. NON-CURRENT ASSETS HELD FOR SALE

This heading is made up as follows:

	30/06/2016	31/12/2015
Property received as settlement of defaulting loans	242 274	253 626
Own property for sale	34 695	36 792
Participation units	18 663	18 663
Equipment	2 178	2 253
Other properties	100	100
	297 910	311 434
Impairment (Note 23)	(120 983)	(120 839)
	176 927	190 595

The changes occurring under the heading "Non-current assets held for sale" during the six-month periods ended June 30, 2016 and 2015 were as follows:

	30/06/2016										
	December 31, 2015								June 30, 2016		
						Impairment (Note 23)					
	Gross amount	Impairment	Increases	Sales	Transfers (Note 15)	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount
Property:											
Received as settlement of defaulting loans	253 626	(89 821)	39 140	(50 492)	-	(9 229)	1 791	6 504	242 274	(90 755)	151 519
Own property for sale	36 792	(25 376)	20	(2 592)	475	(548)	-	1 519	34 695	(24 405)	10 290
Equipment	2 253	(1 642)	687	(762)	-	(823)	186	456	2 178	(1 823)	355
Participation units	18 663	(4 000)	-	-	-	-	-	-	18 663	(4 000)	14 663
Other properties	100	-	-	-	-	-	-	-	100	-	100
	311 434	(120 839)	39 847	(53 846)	475	(10 600)	1 977	8 479	297 910	(120 983)	176 927

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

	30/06/2015										
	December 31, 2014					Impairment (Note 23)			June 30, 2015		
	Gross amount	Impairment	Increases	Sales	Transfers (Note 15)	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount
Property:											
Received as settlement of defaulting loans	271 204	(92 406)	57 484	(59 137)	-	(13 852)	3 126	11 164	269 550	(91 968)	177 582
Own property for sale	38 890	(24 941)	66	(108)	5 599	(2 242)	1 132	10	44 448	(26 041)	18 407
Equipment	3 464	(2 499)	499	(1 563)	-	(280)	451	654	2 400	(1 674)	726
Participation units	18 663	(4 000)	-	-	-	-	-	-	18 663	(4 000)	14 663
	332 221	(123 846)	58 049	(60 808)	5 599	(16 374)	4 709	11 828	335 061	(123 683)	211 378

At June 30, 2016 and December 31, 2015, the heading “Participation units" includes participation units in Fundo Fechado de Investimento Imobiliário - Imorent (Real Estate Investment Fund – Imorent), acquired as a result of a debt settlement agreement established with a customer.

The Bank’s intention is to immediately sell all properties received in settlement of defaulted loans. These properties are classified as non-current assets held for sale and are recorded upon their initial recognition at the lower of their fair value less expected selling costs and the carrying value of the loans recovered. Subsequently, these assets are measured at the lower of their initial recognition value and their fair value less costs to sell, and they are not depreciated. The unrealized losses on these assets, thus determined, are recognized in the income statement.

The valuation of these properties is made in accordance with one of the following methodologies, applied according to the specific situation of each asset:

a) Comparative market method
The comparative market method uses as a reference transaction values of similar and comparable properties, obtained from market research, in the same location of the asset.

b) Income method
The purpose of this method is to estimate the value of the property through the capitalization of its net income (rent) discounted to the present, using discounted cash flow methods.

c) Cost method
The cost method consists of determining the replacement value of the property taking into consideration the cost of building another property with identical functionality, less the amount of functional, physical and economic depreciation/obsolescence verified.

The valuations of the properties mentioned above were performed by specialized independent entities, certified by the Portuguese Securities Market Commission (Comissão dos Mercados dos Valores Mobiliários (“CMVM”)).

14. INVESTMENT PROPERTIES

This heading is made up as follows:

	30/06/2016	31/12/2015
Properties held by Novimovest Fund	380 961	387 193
	380 961	387 193

During 2013, following the subscription of several participation units, the Bank started to consolidate through the full consolidation method the Novimovest Fund, whose main assets are properties held for rental.

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

At June 30, 2016 and December 31, 2015, the properties held by the Novimovest Fund had the following characteristics:

	30/06/2016	31/12/2015
Land		
Urbanized	15 127	15 129
Non-urbanized	1 196	1 196
Construction projects		
Other construction projects	27 337	36 147
Finished constructions		
Rented	273 832	267 848
Not rented	63 469	66 873
	380 961	387 193

On the other hand, during the first half-year of 2016 and 2015, the properties held by the Novimovest Fund generated, amongst others, the following income and annual charges:

The changes occurring under the heading "Investment properties" during the six-month period ended June 30, 2016 and financial year 2015, were as follows:

	30/06/2016				
	Balances at December 31, 2015	Increases	Fair value valuation	Sales	Balances at June 30, 2016
Properties held by Novimovest Fund	387 193	-	2 805	(9 037)	380 961
	387 193	-	2 805	(9 037)	380 961

	31/12/2015				
	Balances at December 31, 2014	Increases	Fair value valuation	Sales	Balances at December 31, 2015
Properties held by Novimovest Fund	401 239	-	(6 241)	(7 805)	387 193
Hotel	19 000	-	-	(19 000)	-
	420 239	-	(6 241)	(26 805)	387 193

The impact of the fair value valuation of the properties held by the Novimovest Fund was recognized in the income statement heading "Other operating results - Unrealized gains/losses on investment properties" (Note 40).

Investment properties held by the Bank are valued on a biannual basis, or whenever an event occurs which raises doubts as to the value of the last valuation carried out, using specialized independent entities, in accordance with the valuation methodologies described in Note 13.

At June 30, 2016 and December 31, 2015, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	Level 3	
	30/06/2016	31/12/2015
Investment properties	380 961	387 193

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

According to the requirements of IFRS 13, the main features of the higher valued investment properties in the Bank's portfolio at June 30, 2016 and December 31, 2015, should be summarized showing the valuation techniques adopted and the relevant inputs used in the estimation of their fair value, as presented below:

Description of the property	Use	Value on 30/06/2016	Value on 31/12/2015	Valuation technique	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Leased out	34 253	34 253	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3					
Plots in Matosinhos	Urbanized	33 702	30 017	Comparative market method / Residual value method	Capitalization rate Land value and cost of construction and marketing per m2
Galerias Saldanha Residence					
Shopping Center in Lisbon	Leased out	26 420	26 420	Income method / Comparative market method	Lease value per m2
Warehouse in Perafita					
Warehouse in Matosinhos	Leased out	15 721	15 721	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9					
Offices and store in Ponta Delgada	Leased out	12 173	12 373	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide					
Offices in Oeiras	Leased out	11 446	12 854	Income method / Comparative market method (2015) Income method / Cost method (2014)	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2					
Golf courses in Loulé	Leased out	12 032	11 722	Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logístico SPC - Warehouses 1 and 4 Warehouses in Vila Franca de Xira	Leased out (SPC 1) Vacant (SPC 4)	10 455	10 455	Income method / Comparative market method (2015) Income method / Cost method (2014)	Lease value per m2 Capitalization rate
Alfena - Valongo Plots					
Plots in Valongo	Non-urbanized	6 122	6 130	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		162 324	**159 945**		

If an increase in the rent value per square meter occurs, or an increase in the occupation rate, or a decrease in the capitalization rate occurs, the fair value of the investment properties will increase. On the other hand, if an increase in the construction or sale costs occurs, or an increase in the capitalization rate, or a decrease in the amount of rent per square meter or a decrease in the occupation rate occurs, the fair value of the investment properties will decrease

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

15. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these headings in the six-month periods ended June 30, 2016 and 2015 were as follows:

	30/06/2016															
	December 31, 2015				Write-offs and sales		Transfers From/to non-current assets held for sale (Note 13)		Depreciation		Foreign exchange differences and others		June 30, 2016			
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Impairment Reversal (Note 23)	Gross Amount	Accumulated depreciation	Gross Amount	Accumulated depreciation	Impairment (Note 23)	Net amount
Tangible assets																
Property																
Property for own use	387 162	139 061	3 843	4 995	-	-	(715)	(241)	3 541	36	(376)	(292)	391 066	142 069	3 879	245 118
Leasehold expenditure	148 784	138 518	-	6	173	173	-	-	1 604	-	(3)	(3)	148 613	139 945	-	8 668
Other property	1 293	287	20	-	-	-	-	-	63	-	-	-	1 293	350	20	924
Unfinished tangible assets																
Property for own use	9 034	-	-	5 282	-	-	-	-	-	-	-	-	14 317	-	-	14 317
	546 273	277 866	3 863	10 284	173	173	(715)	(241)	5 208	36	(379)	(295)	555 289	282 364	3 899	269 027
Equipment																
Furniture and fixtures	20 840	19 129	-	1 010	46	46	-	-	370	-	(1)	(1)	21 803	19 452	-	2 351
Machinery and tools	5 555	5 462	-	13	45	45	-	-	19	-	(1)	(1)	5 522	5 435	-	87
Computer hardware	98 949	89 608	-	3 919	10 307	10 306	-	-	2 099	-	-	-	92 562	81 401	-	11 161
Indoor facilities	24 740	13 551	-	1 267	4	4	(1)	(1)	939	-	-	-	26 002	14 485	-	11 517
Vehicles	21 848	11 720	-	1 159	3 608	3 556	-	-	949	-	(2)	(2)	19 397	9 111	-	10 286
Security equipment	12 669	12 172	-	123	-	-	-	-	87	-	-	-	12 791	12 260	-	532
Other equipment	5 320	4 472	-	89	-	-	-	-	117	-	-	-	5 409	4 588	-	821
Unfinished tangible assets	14	-	-	164	-	-	-	-	-	-	-	-	178	-	-	178
	189 935	156 114	-	7 745	14 010	13 957	(1)	(1)	4 580	-	(4)	(4)	183 665	146 732	-	36 933
Other tangible assets																
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1 829	-	-	-	-	-	-	-	-	-	-	-	1 829	-	-	1 829
Other	3 464	3 464	-	-	-	-	-	-	-	-	51	51	3 515	3 515	-	-
	5 574	3 744	-		-	-	-	-	-	-	51	51	5 625	3 796	-	1 829
	741 782	437 724	3 863	18 029	14 183	14 130	(717)	(242)	9 788	36	(332)	(248)	744 579	432 892	3 899	307 788
Intangible assets																
Software purchased	393 964	368 693	-	8 434	19	-	-	-	7 885	-	-	-	402 379	376 577	-	25 802
Unfinished intangible assets	5 782	-	-	2 239	-	-	-	-	-	-	-	-	8 022	-	-	8 022
Business transfers	3 345	3 345	-	-	-	-	-	-	-	-	-	-	3 345	3 345	-	-
	403 091	372 037	-	10 674	19	-	-	-	7 885	-	-	-	413 746	379 922	-	33 824

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

30/06/2015

	December 31, 2014				Write-offs and sales		Transfers From/to non-current assets held for sale (Note 13)		Transfers		Depreciation		Foreign exchange differences		June 30, 2015			
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Impairment Reversal (Note 23)	Gross Amount	Accumulated depreciation	Gross Amount	Accumulated depreciation	Impairment (Note 23)	Net amount
Tangible assets																		
Property																		
Property for own use	390 602	135 286	3 843	555	40	40	(10 028)	(4 456)	-	-	3 642	-	-	-	381 089	134 432	3 843	242 814
Leasehold expenditure	125 363	112 122	-	401	1 932	1 932	(130)	(130)	-	-	2 126	-	13	13	123 715	112 199	-	11 516
Other property	306	7	20	-	-	-	-	-	-	-	1	-	-	-	306	8	20	278
Unfinished tangible assets																		
Property for own use	1 453	-	-	2 482	-	-	-	-	-	-	-	-	-	-	3 935	-	-	3 935
	517 724	247 415	3 863	3 438	1 972	1 972	(10 158)	(4 586)	-	-	5 769	-	13	13	509 045	246 639	3 863	258 543
Equipment																		
Furniture and fixtures	22 441	20 471	-	188	426	426	-	-	8	-	393	-	3	3	22 214	20 441	-	1 773
Machinery and tools	3 755	3 683	-	14	67	67	-	-	-	-	16	-	2	2	3 704	3 634	-	70
Computer hardware	127 703	117 426	-	861	303	300	-	-	-	-	1 838	-	1	1	128 262	118 965	-	9 297
Indoor facilities	18 345	8 945	-	1 508	36	36	(51)	(24)	-	-	949	-	-	-	19 766	9 834	-	9 932
Vehicles	20 977	13 169	-	1 291	1 146	1 146	-	-	-	-	709	-	8	4	21 130	12 736	-	8 394
Security equipment	26 651	26 302	-	190	273	273	(1)	(1)	-	-	110	-	-	-	26 567	26 138	-	429
Other equipment	5 704	4 770	-	163	68	68	-	-	(8)	-	236	-	-	-	5 791	4 938	-	853
	225 576	194 766	-	4 215	2 319	2 316	(52)	(25)	-	-	4 251	-	14	10	227 434	196 686	-	30 748
Other tangible assets																		
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1 536	-	-	4	-	-	-	-	-	-	-	-	1	-	1 541	-	-	1 541
	1 817	281	-	4	-	-	-	-	-	-	-	-	1	-	1 822	281	-	1 541
	745 117	442 462	3 863	7 657	4 291	4 288	(10 210)	(4 611)	-	-	10 020	-	28	23	738 301	443 606	3 863	290 832
Intangible assets																		
Software purchased	376 056	348 178	-	8 862	-	-	-	-	272	-	12 932	-	-	-	385 190	361 110	-	24 080
Unfinished intangible assets	503	-	-	3 554	-	-	-	-	(272)	-	-	-	-	-	3 785	-	-	3 785
Business transfers	3 464	3 464	-	-	118	118	-	-	-	-	-	-	-	-	3 346	3 346	-	-
	380 023	351 642	-	12 416	118	118	-	-	-	-	12 932	-	-	-	392 321	364 456	-	27 865

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

16. INVESTMENTS IN ASSOCIATED COMPANIES

At June 30, 2016 and December 31, 2015, this heading was made up as follows:

	30/06/2016		31/12/2015	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1 855	25.81	2 078
Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	21.50	38 295	21.50	41 635
Atlantes Finance 6 C	22.02	13	23.00	744
		40 163		44 457
Impairment of investments in associates (Note 23)				
Benim - Sociedade Imobiliária, S.A.		(1 500)		(1 500)
		38 663		42 957

Under the terms of the agreement signed in August 2008 between Caixa Geral de Depósitos, S.A. (“CGD”) and BST, on June 4, 2009 Santotta – Internacional, SGPS, S.A. (“Santotta”) and BST incorporated Partang, SGPS, S.A. (“Partang”) through the delivery of shares of Banco Totta de Angola, S.A., subsequently denominated Banco Caixa Geral Totta de Angola, S.A. (“BCGTA”), corresponding to 50.5% and 0.5% of its share capital, respectively. Under the terms of the above mentioned agreement, on July 2, 2009 CGD subscribed the total amount of Partang’s share capital increase. After that operation, Partang was 50% owned by CGD and 50% owned by the Santander Group (of which 49.51% was held by the subsidiary Santotta and 0.49% was held directly by BST).

Under the terms of the agreement entered into between BST and CGD on July 5, 2010, CGD exercised its purchase option over 1% of Partang’s share capital. Following this operation, the Bank’s shareholding decreased to 49% of the share capital of Partang and it lost its joint control over BCGTA. In accordance with IAS 27, the Bank measured the remaining shareholding as at the date joint control was lost at fair value. Subsequently, that shareholding started being recognized in accordance with the equity method.

At December 31, 2014, Partang owned 51% of Banco Caixa Geral Totta Angola, S.A.

On May 29, 2015, the Bank exercised its put option to sell its shareholding in Partang to CGD (49% of the share capital directly and indirectly held). The sales price amounted to approximately US Dollars191 million. The transfer of shares, the corresponding settlement of the sales price and the derecognition of this financial investment from the financial statements occurred in July, 2015. BST recognized a capital gain in the consolidated accounts in the amount of tEuros 41,042.

The shareholding in Benim – Sociedade Imobiliária, S.A. is held indirectly by the Bank through Totta Urbe – Empresa de Administração e Construções, S.A..

At June 30, 2016 and December 31, 2015, the financial investments held in Unicre included goodwill. The impairment test performed on the goodwill of Unicre did not evidence any impairment loss in this financial investment.

The Bank holds 22% of the equity piece of the “Atlantes Finance 6 C” securitization, which was recognized in the heading “Investments in associated companies” following the acquisition of this asset by BST, under the resolution measure applied to Banif.

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

17. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

At June 30, 2016 and December 31, 2015, these headings were made up as follows:

	30/06/2016	31/12/2015
Current tax assets:		
Corporate income tax receivable	13 367	16 458
Current tax liabilities:		
Corporate income tax payable	30 282	34 090
Other	4 254	3 657
	34 536	37 747
Deferred tax assets:		
Relating to temporary differences	385 796	418 318
Deferred tax liabilities:		
Relating to temporary differences	84 828	119 609
Relating to tax credits	3 242	3 311
	88 070	122 920

At June 30, 2016 and December 31, 2015, the heading "Current tax assets – Corporate income tax receivable" included tEuros 8,641, paid by the Bank in respect of some corrections made by the Tax Authorities to its tax returns in previous years. Since the Bank does not agree with the grounds of such corrections it recorded those payments as an asset and lodged administrative appeals regarding same.

At June 30, 2016 and December 31, 2015, corporate income tax in the income statement was made up as follows:

	30/06/2016	30/06/2015
Current tax		
Of the period	(28 875)	(11 278)
Special contribution to the banking sector	(19 633)	(16 716)
Consortiums ("ACE's")	(563)	(569)
Other	11 445	2 030
	(37 626)	(26 533)
Deferred tax		
Increases and reversals of temporary differences	(43 840)	(19 836)
(Expense)/Income for tax credits	-	(5 173)
	(43 840)	(25 009)

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

Changes in deferred tax assets and liabilities for the period ended June 30, 2016 and financial year 2015 were as follows:

	30/06/2016			
	Balances at December 31, 2015	Other Comprehensive Income	Income statement	Balances at June 30, 2016
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	220 997	-	(19 498)	201 499
Liabilities relating to potential capital losses	(1 818)	-	-	(1 818)
Revaluation of tangible assets	(3 311)	-	69	(3 242)
Pensions:				
Early retirement pensions	23 096	-	(56)	23 040
Retirement pensions and actuarial deviations	101 629	-	(10 817)	90 812
Transfer of pension liabilities to the Social Security	4 838	-	(151)	4 687
Long service bonuses	10 861	-	(257)	10 604
Securitization operations:				
Premium/discount on debt issued	(185)	-	13	(172)
Recognition of an interest accrual regarding the notes with higher subordination	(4 271)	-	(279)	(4 550)
Results on intra-group securities purchases	(21 642)	-	(2 206)	(23 848)
Tax losses carried forward	-	-	-	-
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	(559)	-	(357)	(916)
Cash flow hedges	132	2 928	-	3 060
Available-for-sale financial assets	(51 701)	43 240	-	(8 461)
Deferred commissions	1 870	-	381	2 251
Capital gains only considered for tax purposes	(1 540)	-	17	(1 523)
Application of the equity method in the valuation of investments in associated companies	(330)	-	-	(330)
Long-term incentives plan	1 962	-	85	2 047
Integration costs	15 370	-	(10 783)	4 587
Other	(1)	-	-	-
	295 397	46 168	(43 840)	297 726

The Bank did not recognize tEuros 272,955 of deferred tax assets transferred from the former Banif, as described in Note 1.4.

	30/06/2015			
	Balances at December 31, 2014	Other Comprehensive Income	Income statement	Balances at June 30, 2015
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	230 321	-	(5 026)	225 295
Liabilities relating to potential capital losses	(1 958)	-	140	(1 818)
Revaluation of tangible assets	(3 505)	-	122	(3 383)
Pensions:				
Early retirement pensions	31 989	-	(3 843)	28 146
Retirement pensions and actuarial deviations	120 819	-	(9 445)	111 374
Transfer of pension liabilities to the Social Security	5 140	-	(151)	4 989
Long service bonuses	10 571	-	152	10 723
Securitization operations:				
Premium/discount on debt issued	(214)	-	14	(200)
Recognition of an interest accrual regarding the notes with higher subordination	(4 360)	-	(8)	(4 368)
Results on intra-Group securities purchases	(20 414)	-	(1 007)	(21 421)
Tax losses carried forward	25 957	-	(5 295)	20 662
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	468	-	(521)	(53)
Cash flow hedges	(6 346)	3 199	-	(3 147)
Available-for-sale financial assets	(74 436)	31 525	-	(42 911)
Deferred commissions	1 424	-	83	1 507
Capital gains only considered for tax purposes	(1 226)	-	(309)	(1 535)
Application of the equity method in the valuation of investments in associated companies	(392)	-	-	(392)
Long-term incentives plan	1 929	-	85	2 014
Investments in subsidiaries, associates and joint ventures	883	-	-	883
Other	(1)	1	-	-
	316 649	34 725	(25 009)	326 365

At December 31, 2014, the assessment of the realization of the deferred tax assets, namely those associated with tax losses carried forward, was performed taking in consideration the last Business Plan approved by the Bank's Board of Directors, which encompasses a three year period. In accordance with this Business Plan, the deferred tax assets arising from tax losses carried forward will be recovered in the next two years, as had already occurred in 2015.

Following the changes occurring in the tax legislation for 2015, the Bank decided, in 2014, to start measuring and recognizing deferred tax assets related to tax losses carried forward at a rate of 21% and deferred taxes associated with timing differences at a rate of 29%.

The dividends distributed to the Bank by its subsidiaries and associated companies located in Portugal or in a European Union member state are not taxed at the level of the Bank as a result of the regime laid down in Article 51 of the Corporate Income Tax Code, which provides for the elimination of the double taxation of distributed profits.

Tax authorities may review the Bank’s tax situation during a period of four years (five years for Social Security), except in the cases where tax losses carried forward, as well as any other tax benefits or credits exist. In those cases, the statutory limitation period corresponds to that of the year that right is exercised.

The Bank was subject to tax inspections up to 2013, inclusive. As a result of the tax inspection on the accounts for 2013, the Bank was subject to an additional assessment of Corporate Income Tax relating to autonomous taxation and several corrections to the tax losses reported in that year. In terms of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to the Corporate Income Tax base covered several matters, including, amongst others, adjustments relating to the fiscal recognition of actuarial deviations, adjustments at the level of early retirement pensions and the use of the provisions for overdue loans. Parts of these corrections are merely temporary.

The Bank has paid the amount regarding the additional tax assessments. However, the Bank has challenged the majority of those additional tax assessments via administrative and/or judicial appeals.

The Bank records under the heading “Provisions” the amount considered to be necessary to cover the risks arising from the additional tax assessments as well as the contingencies relating to the years not yet reviewed by the Tax Authorities (Note 23).

In 2015, the Bank applied the tax neutrality regime to the result arising from the purchase of a significant part of the former Banif’s activity. The Board of Directors trusts that the request made to the Minister of Finance will be approved (Note 1.4) and that the result in question is not subject to taxation under the Corporate Income Tax Code.

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

18. OTHER ASSETS

This heading is made up as follows:

	30/06/2016	31/12/2015
Other available funds	421	311
Debtors and other applications		
Debtors resulting from operations with futures	9 385	7 484
Deposit accounts	818	823
Other applications	480	480
VAT recoverable	4 916	4 024
Debtors for loan interest subsidies	10 396	12 385
Other debtors	47 556	39 001
Debtors and other applications - overdue capital and interest	8 848	6 683
Debtors - unrealised capital	38	38
Shareholders' loans		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestínsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2 465	2 465
Other intercompany loans - Banif	25 144	-
Gold, other precious metals, coins and medals	3 102	3 062
Promises and other assets received as settlement of defaulting	43 689	42 479
Deferred costs on participations in consortiums loans	27 478	36 794
Other income receivable - securitization and covered bonds	2 636	2 982
Deferred costs	2 351	3 293
Liabilities with pensions		
BST liabilities	-	(1 069 479)
Fair value of BST Pension Fund	-	1 071 360
Actuarial losses	-	(96)
Other operations pending settlement	200 381	-
Other assets pending regularization	277 856	171 506
Other assets	1 885	19 827
	670 335	355 912
Impairment losses (Note 23):		
Debtors and other applications		
Debtors and other applications	(5 960)	(5 909)
Debtors, other investments and other assets		
Assets received as settlement of defaulting loans	(9 944)	(9 725)
Supplies	(19 686)	(2 398)
Other assets and other investments	(62 601)	(58 810)
	(98 191)	(76 482)
	572 144	279 070

The heading “Debtors and other applications - Debtors resulting from operations with futures” corresponds to the current accounts maintained by the Bank with international financial institutions related to the trading of futures. Customers’ futures margin accounts are recorded under the heading "Creditors and other resources - Creditors resulting from operations with futures” (Note 26).

At June 30, 2016 and December 31, 2015, the heading “Debtors and other applications - overdue capital” included tEuros 6,311 and tEuros 6,157, respectively, related to overdue rents of properties leased by the Novimovest Fund.

At June 30, 2016 and December 31, 2015, the heading “Income receivable” included, essentially, commissions receivable from insurance companies related to the sale of their insurance products (Note 44).

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

At June 30, 2016 and December 31, 2015, the heading “Other income receivable - securitization” corresponds to the interest amount receivable arising from the swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles (Note 46). The amount payable related to these transactions is recorded under the heading “Other liabilities – Accrued costs – Relating to swap agreements” (Note 26).

At June 30, 2016 and December 31, 2015, the heading "Other” includes transactions pending settlement in accordance with the following detail:

	30/06/2016		31/12/2015	
	Other Assets	Other Liabilities (Note 26)	Other Assets	Other Liabilities (Note 26)
Interest receivable from swap contracts established with Portuguese State-owned companies (Note 50)	434 348	-	341 894	-
Cheques, values in transit and other transactions to be settled	-	(11 126)	(74 553)	(216)
Amounts receivable/(payable)	-	(32 394)	10 666	-
Transfers within SEPA	(136 293)	-	(62 355)	-
Balances to be settled in ATM's	(64 840)	(10 757)	(46 945)	-
Other	44 641	(45 103)	2 799	(1 258)
	277 856	(99 380)	171 506	(1 474)

19. RESOURCES OF CENTRAL BANKS

This heading is made up as follows:

	30/06/2016	31/12/2015
Resources from Bank of Portugal		
Deposits	2 446 000	4 946 002
Accrued interest	-	2 207
Resources from other central banks		
Deposits	4 427	4 470
	2 450 427	4 952 679

At December 31, 2015, the heading “Resources of the European Central Bank” included tEuros 819,639 recognized by the Bank under the resolution measure applied to Banif.

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

20. RESOURCES OF OTHER CREDIT INSTITUTIONS

This heading is made up as follows:

	30/06/2016	31/12/2015
Resources of domestic credit institutions		
Deposits	134 627	172 731
Loans	1 150	2 349
Other resources	-	20 082
Interest payable	21	29
	135 798	195 191
Resources of foreign credit institutions		
Consigned resources	699 333	675 909
Very short term resources	942	947
Deposits	183 197	487 926
Sale operations with repurchase agreement	2 105 269	2 183 614
Interest payable	30	1 642
	2 988 771	3 350 038
	3 124 569	3 545 229

At June 30, 2016 and December 31, 2015, the heading “Resources of foreign credit institutions – Sale operations with repurchase agreement”, is made up as follows, by type of underlying asset:

	30/06/2016			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1 438 598	(103)	-	1 438 495
Non-subordinated debt	292 861	45	(4)	292 902
Bonds issued by non-residents	373 586	285	-	373 871
	2 105 045	227	(4)	2 105 269

	31/12/2015			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1 207 074	215	(158)	1 207 131
Non-subordinated debt	292 031	50	(17)	292 064
Bonds issued by non-residents	41 428	(37)	12	41 403
Repurchase agreements (former Banif)	643 016	-	-	643 016
	2 183 549	228	(163)	2 183 614

At June 30, 2016 and December 31, 2015, the heading “Resources of foreign credit institutions – Other resources” included tEuros 600,000, related to loans obtained from the European Investment Bank (EIB).

At December 31, 2015, the heading “Resources of other credit institutions” included tEuros 750,189 of liabilities assumed by the Bank under the resolution measure applied to Banif.

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

21. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This heading is made up as follows:

	30/06/2016	31/12/2015
Term deposits	13 853 877	14 431 359
Demand deposits	9 993 318	8 636 032
Structured deposits	4 350 503	3 798 996
Savings deposits	95 379	76 759
Advance notice deposits	22 713	19 190
	28 315 790	26 962 336
Interest payable	81 658	120 614
Cheques and orders payable	51 218	48 729
Expenses of deferred charges	(786)	(945)
Hedge Adjustments	(959)	(4 421)
	131 131	163 977
	28 446 921	27 126 313

At December 31, 2015, the heading “Resources of customers and other debts” included tEuros 4,180,600 of liabilities assumed by the Bank under the resolution measure applied to Banif.

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

22. DEBT SECURITIES

This heading is made up as follows:

	30/06/2016	31/12/2015
Outstanding bonds		
Covered bonds		
Issued	6 950 000	6 785 000
Repurchased	(4 450 000)	(4 285 000)
Interest payable and another deferred costs and income	4 650	14 410
Cash Bonds		
Issued	5 183 014	5 660 994
Repurchased	(3 298 403)	(3 401 765)
Interest payable and another deferred costs and income	(593)	(257)
Bonds issued in securitization operations		
Issued	192 378	193 056
Repurchased	(10 780)	(10 780)
Interest payable and another deferred costs and income	3 060	2 749
	4 573 326	4 958 407
Other		
EMTN Programme - Issued	-	32 300
Repurchased	-	(1 250)
Interest payable	-	2
	-	31 052
Deposit certificates	51 409	52 392
Interests payable	766	796
	52 175	53 188
Value adjustments of hedging operations	492	798
	4 625 993	5 043 445

At December 31, 2015, the heading "Debt securities" included liabilities assumed by the Bank under the resolution measure applied to Banif amounting to tEuros 1,653,875, of which tEuros 1,435,413 correspond to bonds issued under securitization operations and tEuros 52,392 to deposit certificates.

In line with law, the holders of covered bonds have a special credit privilege over the autonomous pool of assets, which constitutes a guarantee of the debt to which the bondholders will have access in case of insolvency of the issuer.

The conditions of the covered and cash bonds are described in Appendix I.

Between May 2008 and June 2016, BST issued seventeen tranches of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". At June 30, 2016 and December 31, 2015, the covered bonds had an autonomous pool of assets comprising:

	30/06/2016	31/12/2015
Loans and advances to customers (Note 10)	8 086 111	7 669 850
Interest on loans	6 869	6 914
Commissions	(37 865)	(34 141)
Deferred expenses	6 033	6 625
	8 061 148	7 649 248

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

Covered bonds transferred from the former Banif, amounting to tEuros 285,000, had been fully repurchased as at the resolution date. On January 27, 2016 the Bank proceeded with the early repayment of those issues, followed by the early cancellation of the respective programme.

Changes in the debt issued by the Bank during the first half-year of 2016 and financial year 2015 were as follows:

	Deposit	Bonds outstanding		EMTN Programme	
	Certificates	Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2014	-	6 273 608	(4 355 021)	32 300	(1 250)
Transfered from former Banif	52 392	452 867	-	-	-
Issues made	-	1 500 000	-	-	-
Issues repaid	-	(1 248 483)	1 096 038	-	-
Issues repurchased	-	-	(1 036 797)	-	-
Exchange rate movements	-	64	-	-	-
Balances at December 31, 2015	52 392	6 978 056	(4 295 780)	32 300	(1 250)
Issues made	-	1 200 000	(1 200 000)	-	-
Issues repaid	-	(1 035 000)	1 035 000	(32 300)	1 250
Issues repurchased	-	-	-	-	-
Exchange rate movements	(983)	(678)	-	-	-
Balances at June 30, 2016	51 409	7 142 378	(4 460 780)	-	-

At December 31, 2015, the Bank held bonds issued under its European Medium Term Notes Programme (EMTN) in the amount of tEuros 32,300.

Changes in bond issues associated with securitization operations during the first half-year of 2016 and financial year 2015 were as follows:

	Bonds outstanding	
	Issued	Repurchased
Balances at December 31, 2014	2 140 550	(1 137 116)
Transferred from former Banif	3 674 999	(2 239 586)
Repaid	(154 555)	86 204
Repurchased		
Hipototta 4 - Class A	-	(15 132)
Hipototta 5 - Class A2	-	(96 135)
	-	(111 267)
Balances at December 31, 2015	5 660 994	(3 401 765)
Repaid	(477 980)	174 746
Repurchased		
Hipototta 4 - Class A	-	(7 158)
Atlantes Mortgage PLC Series 3 - A	-	(63 226)
Azor Mortgage PLC Class A	-	(1 000)
	-	(71 384)
Balances at June 30, 2016	5 183 014	(3 298 403)

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

In the first half-year of 2016 and 2015, the Bank repurchased bond issues associated with securitization operations, having recorded gains of tEuros 8,678 and tEuros 4,489, respectively (Note 39).

23. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during the six-month periods ended June 30, 2016 and 2015, were as follows:

	30/06/2016				
	31/12/2015	Increases	Reversals	Utilizations	30/06/2016
Provision for tax contingencies	12 063	600	-	-	12 663
Provision for pensions and other charges	99 444	435	-	(20 469)	79 410
Impairment and provisions for guarantees and other sureties given	11 187	630	(1 158)	-	10 659
Other provisions	200 397	15 882	(15 440)	(53 185)	147 653
	323 090	17 547	(16 598)	(73 654)	250 385

	30/06/2015				
	31/12/2014	Increases	Reversals	Utilizations	30/06/2015
Provision for tax contingencies	4 167	984	-	-	5 151
Provision for pensions and other charges	28 185	444	-	(4 212)	24 417
Impairment and provisions for guarantees and other sureties given	11 554	2 222	(1 484)	-	12 292
Other provisions	28 082	14 651	(4 037)	(9 880)	28 816
	71 988	18 301	(5 521)	(14 092)	70 676

	30/06/2016						
	December 31, 2015	Impairment losses	Reversal of impairment losses	Utilizations	Others	June 30, 2016	Impairment recovery
Impairment of loans and advances to customers (Note 10):							
Domestic loans	1 061 142	72 112	(44 328)	(36 726)	-	1 052 200	-
Foreign loans	2 420	-	-	-	-	2 420	-
Non-derecognized securitized loans	9 382	136	(120)	-	-	9 398	-
Other securitized loans and receivables	5 891	41	-	-	-	5 932	-
Impairment of overdue loans and interest (Note 10):							
Domestic loans	984 626	64 840	(44 772)	(183 949)	(3 181)	817 564	(1 289)
Foreign loans	90 169	505	(4 470)	(2 767)	-	83 437	(28)
Non-derecognized securitized loans	190 746	3 187	(3 458)	(730)	(135)	189 610	-
Other securitized loans and receivables	1 110	-	(1 090)	-	-	20	
	2 345 487	140 821	(98 238)	(224 172)	(3 316)	2 160 581	(1 317)
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 8)	82 161	13 497	(11 308)	(12 722)	-	71 628	-
Impairment of investments in associated companies (Note 16)	1 500	-	-	-	-	1 500	-
	83 661	13 497	(11 308)	(12 722)	-	73 128	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	120 839	10 600	(1 977)	(8 479)	-	120 983	-
Other tangible assets (Note 15)	3 863	36	-	-	-	3 899	-
Other assets (Note 18)	76 482	5 519	(5 230)	(1 160)	22 580	98 191	-
	201 184	16 155	(7 207)	(9 639)	22 580	223 073	-
	2 630 332	170 473	(116 753)	(246 533)	19 264	2 456 782	(1 317)

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

	30/06/2015					
	December 31, 2014	Impairment losses	Reversal of impairment losses	Utilizations	June 30, 2015	Impairment recovery
Impairment of loans and advances to customers (Note 10):						
Domestic loans	229 543	31 326	(36 158)	-	224 711	-
Foreign loans	1 101	-	(307)	-	794	-
Non-derecognized securitized loans	10 644	217	(452)	-	10 409	-
Other securitized loans and receivables	7 227	-	(3 408)	-	3 819	
Impairment of overdue loans and interest (Note 10):						
Domestic loans	861 754	103 411	(52 178)	(4 041)	908 946	(1 460)
Foreign loans	19 223	1 333	(2 300)	(5)	18 251	(1)
Non-derecognized securitized loans	30 107	5 185	(3 543)	(1 323)	30 426	-
Other securitized loans and receivables	2 019	1 266	-	-	3 285	-
	1 161 618	142 738	(98 346)	(5 369)	1 200 641	(1 461)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets	61 943	4 541	(4 082)	(569)	61 833	-
Impairment of investments in associated companies	1 500	-	-	-	1 500	-
	63 443	4 541	(4 082)	(569)	63 333	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 13)	123 846	16 374	(4 709)	(11 828)	123 683	-
Other tangible assets (Note 15)	3 863	-	-	-	3 863	-
Other assets (Note 18)	24 288	11 090	(12 988)	(2)	22 388	-
	151 997	27 464	(17 697)	(11 830)	149 934	-
	1 377 058	174 743	(120 125)	(17 768)	1 413 908	(1 461)

At June 30, 2016 and December 31, 2015, the provision for pensions and other charges is made up as follows:

	30/06/2016	31/12/2015
Restructuring plans	58 299	78 768
Supplementary pension plan of the Board of Directors (Note 47)	21 111	20 676
	79 410	99 444

At June 30, 2016 and December 31, 2015, the heading “Other provisions” included:

- Provisions for contingencies associated with the integration of the former Banif amounting to tEuros 107,822 (Note 1.4)

- Provisions for legal proceedings lodged against the Bank by its customers and by its employees in the amounts of tEuros 15,439 and tEuros 20,434, respectively. The Legal Department of the Bank estimates the expected loss for each process based on the developments reported by each lawyer; and

- Other provisions allocated, essentially, to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

24. EQUITY REPRESENTATIVE INSTRUMENTS

At June 30, 2016 and December 31, 2015, this heading is made up as follows:

	30/06/2016	31/12/2015
Participation units in Novimovest Fund not held by the Bank	69 314	69 309

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

25. SUBORDINATED LIABILITIES

This heading is made up as follows:

	30/06/2016	31/12/2015
Subordinated Perpetual Bonds Totta 2000	270 447	270 447
Subordinated Perpetual Bonds BSP 2001	13 818	13 818
Subordinated Perpetual Bonds CPP 2001	4 275	4 275
	288 540	288 540
Repurchased securities	(284 265)	(284 265)
Interest payable	24	27
	4 299	4 302

The conditions of the subordinated liabilities are detailed in Appendix II.

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

26. OTHER LIABILITIES

This heading is made up as follows:

	30/06/2016	31/12/2015
Creditors and other resources		
Creditors resulting from operations with futures	9 385	7 484
Other resources		
Secured account resources	62 198	53 475
Collateral account resources	1 714	924
Other resources	1 507	1 529
Public sector		
VAT payable	2 331	3 629
Withholding taxes	20 147	25 524
Social Security contributions	4 993	5 272
Other	531	593
Collections on behalf of third parties	-	454
Contributions to other health systems	1 681	1 535
Other creditors		
Creditors under factoring contracts	31 634	33 324
Creditors for the supply of goods	9 784	5 525
Other creditors	35 837	40 953
Accounts Payable		
Relating to "Swap Agreements" (Note 18)	2 815	3 419
Relating to personnel		
Long service bonuses	42 005	42 890
Vacation and vacation subsidy	26 383	33 988
Other variable remuneration	21 888	28 523
Other personnel costs	9 370	631
General administrative costs	62 563	37 564
Integration costs of former Banif (Note 1.4)	15 818	53 000
Other	15 214	5 035
Liabilities with pensions (Note 45)		
BST liabilities	893 652	-
Fair value of BST pension fund	(893 089)	-
London branch liabilities	49 575	-
Fair value of London branch pension fund	(38 244)	-
Former Banif liabilities	118 021	-
Fair value of Former Banif pension fund	(117 138)	-
Other deferred income	3 149	3 177
Amounts to be settled with banks and customers		
Liability operations to be settled	3 247	9 380
Other (Note 18)	99 380	1 474
	496 351	399 302

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

27. SHAREHOLDERS' EQUITY

At June 30, 2016 and December 31, 2015, the Bank's share capital was represented by 1,256,723,284 shares and 956,723,284 shares, respectively, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	30/06/2016		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1 241 179 513	98.76%	1 241 180
Taxagest, SGPS, S.A. (Own shares)	14 593 315	1.16%	14 593
Own shares	290 435	0.02%	290
Other	660 021	0.05%	660
	1 256 723 284	100.00%	1 256 723

	31/12/2015		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	941 226 328	98.38%	941 227
Taxagest, SGPS, S.A. (Own shares)	14 593 315	1.53%	14 593
Own shares	290 435	0.03%	290
Other	613 206	0.06%	613
	956 723 284	100.00%	956 723

On March 23, 2016 and December 30, 2015, the Bank increased its share capital through the issue of 300,000,000 new shares on each of these dates.

During 2015, the Bank acquired 19,191 own shares for the amount of tEuros 117.

Under Ordinance No. 408/99, of June 4, published in the Diário da República – I Série B, No. 129 (Government Gazette), the share premium, amounting to tEuros 193,390, cannot be used to pay out dividends or to purchase own shares.

The "Other equity instruments" correspond to supplementary capital contributions made by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined redemption term. These instruments can only be redeemed by decision of the Bank's Board of Directors, with prior approval of the Bank of Portugal.

In the first half-year of 2016 the Bank paid dividends in the amount of t.Euros 178,287 (net of the dividends allocated to own shares), equivalent to a dividend of approximately Euros 0.1419 per share.

During 2015 the Bank paid dividends in the amount of tEuros 65,714 (net of the dividends allocated to own shares) which corresponded to a dividend of approximately Euros 0.1001 per share.

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

At June 30, 2016 and December 31, 2015, the revaluation reserves were made up as follows:

	30/06/2016	31/12/2015
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	29 177	178 283
Investments held to maturity (Note 11)	(8 417)	-
Available-for-sale financial assets of companies under the equity method	8 262	8 262
Cash-flow hedging instruments	(10 553)	(456)
Actuarial gains and losses (Note 45)		
Pension Fund of BST	(655 812)	(639 140)
Pension Fund of the Lond branch of BST	(15 203)	(8 397)
Actuarial gains and losses of companies under the equity method	(975)	(975)
Foreign exchange differences	251	2 566
Legal revaluation reserves	23 245	23 245
	(630 025)	(436 612)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Available-for-sale financial assets	(8 461)	(51 701)
Available-for-sale financial assets of companies under the equity method	(2 394)	(2 394)
Cash-flow hedging instruments	3 060	132
Tax impact of actuarial gains and losses	171 745	171 745
Tax impact from the change in accounting policies of companies under the equity method	285	285
Relating to the revaluation of tangible assets	(3 311)	(3 505)
Relating to the revaluation of tangible assets of companies under the equity method	4	4
	160 928	114 566
	(469 097)	(322 046)

During the financial year ended December 31, 2015, changes in the heading “Deferred tax reserves - Tax impact of actuarial gains and losses", were as follows:

Balance at December 31, 2014	177 625
Tax impact resulting from financial and actuarial deviations in the year	(5 880)
Balance at December 31, 2015	171 745

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of the realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to share capital.

During 1998, under Decree-Law No. 31/98, of February 11, the Bank revalued its tangible fixed assets, which resulted in an increase in their respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was recognized in revaluation reserves. The net amount resulting from the revaluation may only be used to increase share capital or offset losses, to the extent of their use (amortization) or the sale of the assets it relates to.

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

At June 30, 2016 and December 31, 2015, the heading “Other reserves and retained earnings” was made up as follows:

	30/06/2016	31/12/2015
Legal reserve	311 098	259 554
Other reserves		
Reserves of consolidated companies	238 480	203 626
Reserves of companies consolidated under the equity method	9 308	44 283
Merger reserve		
By incorporation of Totta and BSP	541 334	541 334
By incorporation of BSN	35 405	35 405
By incorporation of Totta IFIC	90 520	90 520
Other reserves	1 079	264
Retained earnings	725 910	428 624
	1 953 134	1 603 610

Legal reserve

In accordance with the provisions of Decree-Law No. 298/92, of December 31, amended by Decree-Law No. 201/2002, of September 26, BST set up a legal reserve fund that shall attain the higher of the amount of the share capital or of the sum of the free reserves and retained earnings. For this purpose, a portion of the annual net income on a stand-alone basis is transferred to this reserve each year, until the aforementioned amount is attained.

This reserve may only be used to offset accumulated losses or increase share capital.

Merger reserve

Under the current legislation, the merger reserve is equivalent to the legal reserve and may only be used to offset accumulated losses or increase share capital.

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

28. CONSOLIDATED NET INCOME FOR THE YEAR

The consolidated net income for the first half-year of 2016 and financial year 2015 may be summarized as follows:

	30/06/2016		30/06/2015	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	175 442	175 442	86 193	86 193
Net income of other Group companies:				
Totta Ireland, Plc.	12 234	12 234	10 377	10 377
Novimovest - Fundo de Investimento Imobiliário Aberto	4 205	3 317	(119)	(93)
Unicre, Instituição Financeira de Crédito, S.A.	10 386	2 233	6 810	1 464
Gama STC	2 125	2 125	-	-
Totta Urbe, Empresa de Administração e Construções, S.A.	425	425	1 101	1 101
Banif International Bank, LTD	218	218	-	-
Totta & Açores, Inc. - Newark	(753)	(753)	(4)	(4)
Santotta - Internacional, SGPS, S.A.	(623)	(623)	(22)	(22)
Atlantis Mortage 1	(584)	(584)	-	-
BST International Bank, Inc. (BSTI)	-	-	12 848	12 848
Partang, SGPS, S.A.	-	-	17 277	8 466
Banco Caixa Geral Totta de Angola, S.A.	-	-	33 756	8 436
Totta & Açores, Financing, Ltd	-	-	6 216	6 216
Santander Multiobrigações - Fundo de Investimento Mobiliário Aberto de	-	-	(2 167)	(1 398)
Serfin International Bank & Trust	-	-	118	118
Taxagest, S.A.	1	1	17	17
	27 636	18 594	86 208	47 526
Adjustments to the consolidated results				
Elimination of dividends:				
Totta Ireland, Plc.		(10 020)		(13 800)
Unicre, Instituição Financeira de Crédito, S.A.		(5 573)		(1 436)
Banco Caixa Geral Totta de Angola, S.A.		-		(8 601)
		(15 593)		(23 837)
Elimination of the equity method application by Partang in the participation held in BCGTA		-		1 173
Adjustments related with securitization operations		5 759		138
Dissolution of BSTI Porto Rico		8 806		-
Dissolution of TOTTA & AÇORES,INC.		93		-
Dissolution of Santander Gestão de Ativos, SGPS, S.A.		-		(8 370)
Other		(298)		(171)
Consolidated net income for the period		192 804		102 652

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the financial year.

	30/06/2016	30/06/2015
Consolidated net income attributable to the shareholders of BST	192 804	102 652
Weighted average number of ordinary shares issued	1 113 316 691	656 723 284
Weighted average number of own shares	14 883 750	14 864 617
Weighted average number of ordinary shares outstanding	1 098 432 941	641 858 667
Basic earnings per share attributable to the shareholders of BST (in Euros)	0.18	0.16

Basic earnings per share coincide with the diluted earnings per share since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

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

29. NON-CONTROLLING INTERESTS

Third parties' shareholdings in Group companies in the first half-year of 2016 and financial year 2015 have the following detail, by entity:

	Balance sheet		**Income statment**	
	30/06/2016	31/12/2015	30/06/2016	31/12/2015
Preference shares of BSTI	-	330 670	-	-
Dividends received in advance	-	(10 027)	-	-
Taxagest	557	557	-	-
Other	113	115	-	-
	670	321 315	-	-

On June 30, 2006, BST International Bank, Inc (BST Puerto Rico) issued 3,600 non-voting preference shares with a nominal value of US Dollars 100,000 each, which were fully subscribed and paid up by Banco Santander, S.A.. BST Puerto Rico guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56%, payable if, and when, declared by BST Puerto Rico's Directors, at the beginning of January of each year. In the first half-year of 2016, BST Puerto Rico fully redeemed the preference shares.

On June 29, 2005 TAF issued 300,000 non-voting preference shares with a nominal value of Euros 1,000 each, which were fully subscribed and paid up by Banco Santander, S.A.. TAF guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 4.12%, payable if, and when, declared by TAF's Directors, at the beginning of January of each year. TAF may redeem the preference shares, in full or in part, as from June 30, 2015 at Euros 1,000 per share plus the amount of the dividend accrued monthly since the last payment made. On December 30, 2015 TAF fully redeemed the preference shares.

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

30. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	30/06/2016	31/12/2015
Guarantees given and other contingent liabilities		
Guarantees and sureties	1 389 806	1 460 948
Documentary credits	250 742	255 497
Other contingent liabilities	6	6
Assets pledged as guarantee		
Bank of Portugal	142 884	142 884
Deposit Guarantee Fund	66 162	68 251
Investor Indemnity System	6 603	5 803
Assets pledged as guarantee (former Banif)	-	1 402 875
	1 856 203	3 336 264
Commitments		
Credit lines		
Revocable	4 434 583	4 599 351
Irrevocable	518 695	658 346
Deposit Guarantee Fund	63 655	63 655
Investor Indemnity System	5 133	4 891
Other revocable commitments	89 911	106 202
Credit lines	65 659	88 274
	5 177 636	5 520 719
Liabilities for services rendered		
Deposit and custodial services	21 629 244	20 975 056
Amounts received for collection	207 340	207 034
Other values	5	5
Other	396	398
	21 836 985	21 182 493

Deposits Guarantee Fund (Fundo de Garantia de Depósitos)

The Deposits Guarantee Fund was created in November 1994 as provided for in Decree-Law No. 298/92, of December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, set by a Ministry of Finance Ordinance, was made through the delivery of cash and deposit securities, having been amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

Until 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, having also accepted an irrevocable commitment to the Deposits Guarantee Fund to pay the remaining 10% of the annual contribution if, and when, required to do so. The total accumulated unpaid amount of this commitment as at June 30, 2016 and December 31, 2015 amounted to tEuros 63,655. Assets pledged as a guarantee to the Bank of Portugal are recorded in off-balance sheet headings at market value. In the first half-year of 2016 and 2015, the Bank paid and recorded the full amount of the annual contribution amounting to tEuros 12 and tEuros 728, respectively (Note 40).

Investors Indemnity System (Sistema de Indemnização aos Investidores (SII))

The liabilities to the Investors Indemnity System are not recorded as a cost but are guaranteed through the acceptance of an irrevocable commitment to pay said liabilities, if required to do so, with part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. At June 30, 2016 and December 31, 2015, such liabilities amounted to tEuros 5,133 and tEuros 4,891, respectively.

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

31. INTEREST AND SIMILAR INCOME

This heading is made up as follows:

	30/06/2016	30/06/2015
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	27	33
In credit institutions	6	28
Interest on applications		
In domestic credit institutions	1 647	1 967
In foreign credit institutions	14 241	19 044
Interest on loans and advances to customers		
Domestic loans	270 022	249 091
Foreign loans	6 828	6 111
Other loans and receivables (commercial paper)	45 036	29 388
Interest from securitized assets not derecognized	41 899	11 654
Receivables associated to amortized cost	19 716	17 089
Interest on overdue loans	5 808	4 923
Interest and similar income on other financial assets		
Available-for-sale financial assets	1 193	1 866
Financial assets held for trading	74 917	85 129
Investments held to maturity	5 183	-
Hedging derivatives	77 994	100 451
Other interest and similar income		
Swap agreements	9 144	13 141
Others	912	883
	574 573	540 798

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

32. INTEREST AND SIMILAR CHARGES

This heading is made up as follows:

	30/06/2016	30/06/2015
Interest on resources of Central Banks		
Bank of Portugal	3 870	1 585
Interest on resources of credit institutions		
Domestic	2 321	130
Foreign	4 254	12 067
Interest on customers' deposits		
Deposits		
Residents	65 677	117 445
Non-residents	3 521	6 518
Interest on debt securities issued		
Deposit certificates	714	-
Bonds	29 763	33 086
Other debt securities	70	105
Interest on subordinated liabilities		
Subordinated loans	36	41
Interest on hedging derivatives	75 767	71 877
Swap Agreements	12 334	15 316
Payables associated to amortized cost		
Loans to customers	5	12
Debt securities	5 476	10
Subordinated liabilities	45	45
Other operations	738	-
	204 591	258 237

33. INCOME FROM EQUITY INSTRUMENTS

This heading refers to dividends and income received and is made up as follows:

	30/06/2016	30/06/2015
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	-	1 090
BANIF PROPERTY	280	-
Unicampos	43	43
Other	7	1
	330	1 134

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

34. INCOME FROM SERVICES AND COMMISSIONS

This heading is made up as follows:

	30/06/2016	30/06/2015
On guarantees given		
Guarantees and sureties	9 348	7 053
Documentary credits	2 005	1 631
On commitments to third parties		
Irrevocable credit lines	201	984
Revocable commitments	178	658
On services rendered		
Deposit and custody services	2 319	2 617
Asset management and collection	6 252	4 119
Real estate and mutual fund management	8 933	10 383
Transfers	592	671
Card transactions	33 475	30 613
Annuities	10 173	7 633
Credit operations	17 963	16 313
Other	1 574	56
On operations carried out on behalf of third parties		
On securities	9 203	12 246
Other	83	118
Other commission received		
Insurance companies (Note 44)	44 290	44 854
Demand deposits	15 318	13 569
Cheques	3 948	4 139
Other	24 473	7 150
	190 328	164 807

35. CHARGES WITH SERVICES AND COMMISSIONS

This heading is made up as follows:

	30/06/2016	30/06/2015
On guarantees received		
Guarantees and sureties	754	-
On banking services rendered by third parties		
Funds for collection and management	1 560	777
Customer transactions	21 090	15 786
Credit operations	5 117	6 839
Other	2 605	4 405
On operations carried out by third parties		
Securities	841	795
Other	760	525
Other commission paid	281	376
	33 008	29 503

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

36. RESULT OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	30/06/2016	31/06/2015
Financial assets held for trading:		
Debt instruments	-	(1 698)
Equity instruments	41	35
Derivative instruments:		
Swaps:		
Currency swaps	(344)	(58)
Interest rate swaps	(34 221)	(5 282)
Equity swaps	347	31
Other	1	(279)
Futures:		
Contracts on prices	-	19
Options:		
Foreign exchange rate contracts	183	101
Equity options	(18)	-
Other	1	9
Interest rate guarantee contracts	401	16
Other	125	-
	(33 484)	(7 106)
Hedging derivatives:		
Swaps		
Interest rate swaps	(29 768)	24 166
Equity swaps	3 880	(826)
Autocallable options	618	(1 722)
Hedged adjustments on assets and liabilities	25 235	(21 425)
	(35)	193
	(33 519)	(6 913)

37. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	30/06/2016			30/06/2015		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	83 590	(1 721)	81 869	17 776	-	17 776
Other residents	-	-	-	2 780	-	2 780
Equity instruments						
Measured at fair value	8 180	(8)	8 172	47	-	47
Measured at historical cost	478	-	478	14	(30)	(16)
	92 248	(1 729)	90 519	20 617	(30)	20 587

In the first half-year of 2016 and 2015, the gains recorded under the heading "Result of available-for-sale financial assets" were mainly justified by the sale of Portuguese Treasury Bonds.

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

38. RESULT OF FOREIGN EXCHANGE REVALUATION

This heading is made up as follows:

	30/06/2016	30/06/2015
Gains on the revaluation of the foreign exchange position	181 061	72 940
Exchange gains on investments in foreign operations	1 717	-
Losses on the revaluation of the foreign exchange position	(178 376)	(68 321)
	4 402	4 619

39. RESULT OF THE SALE OF OTHER ASSETS

This heading is made up as follows:

	30/06/2016	30/06/2015
Gains on the sale of loans and advances to customers (Note 10)	12 658	56
Gains on the repurchase of bonds issued associated with securitization operations (Note 22)	8 678	4 489
Gains on non-current assets held for sale	4 162	3 075
Gains on tangible assets	2 271	2 532
Other gains on financial operations	19	774
	27 788	10 926
Losses on tangible assets	(936)	(2 990)
Losses on the sale of loans and advances to customers (Note 10)	(131)	-
Losses on non-current assets held for sale	(272)	(690)
Other losses on financial operations	(60)	(85)
	(1 399)	(3 765)
	26 389	7 161

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

40. OTHER OPERATING RESULTS

This heading is made up as follows:

	30/06/2016	30/06/2015
Operating income		
Rents received	9 097	9 325
Capital gains on investment properties	4 637	6 801
Reimbursement of expenses	4 033	1 214
Income from rendering of services	4 408	2 052
Rents of automatic payment terminals	7 363	6 938
Other	2 576	1 226
	32 114	27 556
Other operating expenses		
Subscriptions and donations	(3 220)	(3 095)
Contributions to the Deposit Guarantee Fund	(12)	(728)
Contributions to the Resolution Fund	(15 090)	(2 357)
Unrealized losses on investment properties	(5 792)	(8 610)
Charges related to transactions made by customers	(2 173)	(3 272)
Expenses with automatic teller machines	(5 183)	(5 222)
Other charges and operating expenses	(4 572)	(1 293)
Other taxation		
Direct	(654)	(598)
Indirect	(847)	(764)
	(37 543)	(25 939)
	(5 429)	1 617

For the six-month periods ended June 30, 2016 and 2015, the heading "Rents received" includes the amounts of tEuros 8,967 and tEuros 9,180, respectively, related to the income earned by the Novimovest Fund.

Decree-Law No. 24/2013, of February 19, established the contributory regime by the banks to the new Resolution Fund created for the purpose of preventing, mitigating and containing systemic risk. According to Notice No. 1/2013 and the Instructions No. 6/2013 and 7/2013 of the Bank of Portugal, the Bank is to pay an initial and a regular contribution to the Resolution Fund. BST’s periodic contribution for the years 2016 and 2015 amounted to tEuros 2,850 and tEuros 2,357, respectively.

In accordance with the Single Resolution Mechanism these contributions will be transferred to the Single Resolution Fund, in accordance with Article 3, paragraph 3 of the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014.

The Bank of Portugal, as resolution authority, determines the value of the contribution of each institution based on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of tEuros 13,318, based on the letter received from the Bank of Portugal in November 2015. In the first half-year of 2016 and as foreseen in a letter from the Bank of Portugal, the Single Resolution Board (Conselho Único de Resolução (“CUR”)) permitted that for the year 2016, banks could opt for the use of an irrevocable commitment to pay, in respect of 15% of the annual contribution amount. The annual contribution amounted to tEuros 14,400 and the irrevocable commitment in cash amounted to tEuros 2,160.

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

41. STAFF COSTS

This heading is made up as follows:

	30/06/2016	30/06/2015
Remuneration		
Management and supervisory boards (Note 47)	2 309	1 786
Employees	110 478	92 026
Stock option plans (Note 48)	342	310
Other variable remuneration	16 217	12 370
	129 346	106 492
Mandatory social charges		
Charges on remuneration	30 912	25 393
Pension Funds (Note 45)	2 168	1 179
Other mandatory social charges	689	398
	33 769	26 970
Other staff costs		
Complementary pension plan (Note 45)	291	291
Staff transfers	255	339
Other	2 421	1 982
	2 967	2 612
	166 082	136 074

In the first half-year of 2016 and 2015, the Bank did not record any cost with early retirements as it used part of the provisions that had been recorded for that purpose (Note 23).

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

42. GENERAL ADMINISTRATIVE COSTS

This heading is made up as follows:

	30/06/2016	30/06/2015
External services		
Specialized services	40 459	24 275
Maintenance of software and hardware	19 521	21 670
Rent and leases	8 667	4 754
Communications	7 977	5 564
Advertising and publishing	6 111	5 386
Travel, lodging and representation expenses	2 586	2 301
Maintenance and repairs	1 917	1 950
Transportation	1 807	1 221
Insurance	1 143	584
Staff training	1 034	847
Other	3 586	2 510
External supplies		
Water, electricity and fuel	4 603	3 801
Current consumable material	1 092	867
Other	124	134
	100 627	75 864

43. RESULTS FROM ASSOCIATED COMPANIES

This heading is made up as follows:

	30/06/2016	30/06/2015
Partang, SGPS, S.A.	-	8 923
Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	2 233	28
Benim - Sociedade Imobiliária, S.A.	(223)	-
	2 010	8 951

At December 31, 2014 Partang SGPS, S.A. was held by the Bank in 49%. The bank, in turn, held 51% of the share capital of Banco Caixa Geral Totta de Angola, S.A.. In May 2015, the Bank exercised its put option to sell its shareholding in Partang to CGD.

44. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered relates mainly to the commissions earned with the commercialization of life and non-life insurance products, and is made up as follows:

	30/06/2016			30/06/2015		
	Life Products	Non-Life Products	Total (Note 34)	Life Products	Non-Life Products	Total (Note 34)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	26 002	-	26 002	38 706	124	38 830
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	13 360	-	13 360	-		-
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	664	664	-	-	-
Liberty Seguros	-	-	4 264	-	5 607	5 607
Other	-	-	-	-	417	417
	39 362	664	44 290	38 706	6 148	44 854

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

At June 30, 2016 and December 31, 2015, the heading “Other assets – Income receivable” (Note 18) included commissions’ receivable from insurance companies, as follows:

	30/06/2016	31/12/2015
Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	11 895	12 975
Aegon Santander Portugal Vida – Companhia de Seguros de Vida, S.A.	3 022	6 756
Aegon Santander Portugal Não Vida – Companhia de Seguros, S.A.	93	238
Other	4 331	1 003
	19 341	20 972

These amounts relate, essentially, to the commissions accrued in respect of insurance premiums sold and not yet invoiced during the second quarter of 2016 and the last quarter of 2015, respectively.

45. EMPLOYEES’ POST EMPLOYMENT BENEFITS

For the purpose of determining BST’s past service liability relating to active and retired employees, actuarial studies were carried out by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability, as well as the corresponding current service costs, were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy as of June 30, 2016 and in the four previous years, as well as the respective coverage, are as follows:

	30/06/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Estimate of responsibilities for past services:					
Pensions					
Current employees	304 519	303 523	308 223	282 028	251 252
Pensioners	28 439	26 928	26 343	22 891	21 002
Retired staff and early retired staff	402 554	399 942	415 679	399 434	388 656
	735 512	730 393	750 245	704 353	660 910
Healthcare systems (SAMS)	152 268	151 544	151 903	137 970	129 267
Death subsidy	5 872	5 759	5 543	4 562	4 331
	893 652	887 696	907 691	846 885	794 508
Coverage of responsibilities:					
Net assets of the Fund	893 089	914 204	910 580	840 543	784 937
Excess / insufficient funding	(563)	26 508	2 889	(6 342)	(9 571)
Actuarial and financial deviations generated in the period/year					
Change in assumptions	-	-	37 912	42 565	73 518
Experience adjustments:					
Other actuarial (gains) / losses	(6 986)	(9 857)	6 580	(1 775)	(25 383)
Financial (gains) / losses	(9 686)	(17 675)	1 111	(3 115)	(15 796)
	(16 672)	(27 532)	7 691	(4 890)	(41 179)
	(16 672)	(27 532)	45 603	37 675	32 339

In 2011, a tripartite agreement was established, between the Finance Ministry, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE), regarding the transfer to Social Security of part of the liabilities with pensioners who, at December 31, 2011, were covered by the substitutive Social Security regime under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank’s Pension Fund assets covering such liabilities were also transferred to Social Security. According to Decree-Law No. 127/2011, of December 31, the amount of the pension liabilities transferred to Social Security was determined considering the following assumptions:

Mortality table - male population	TV 73/77 minus 1 year

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

Mortality table - female population	TV 88/90
Actuarial technical rate (discount rate)	4%

The liabilities transferred to Social Security amounted to tEuros 456,111 and were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the updated financial and actuarial assumptions, amounted to tEuros 435,260.The difference between the liabilities transferred to Social Security calculated using the assumptions set out in Decree-Law No. 127/2011, of December 31 (tEuros 456,111) and those used by the Bank (tEuros 435,260), amounting to tEuros 20,851, was recorded in the heading “Staff costs” of the income statement for 2011.

The assumptions used by the Bank to determine the liabilities immediately before the transfer to Social Security were the following:

	Active Employees	Retired Employees
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above mentioned assumptions amounted to tEuros 1,186,387, of which tEuros 435,260 corresponding to the liabilities transferred to Social Security, as mentioned above.

The main assumptions used by the Bank to determine its liabilities with retirement pensions as of June 30, 2016 and December 31, 2015 were as follows:

	30/06/2016	31/12/2015
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	2.50%	2.50%
Actuarial technical rate (discount rate)	2.50%	2.50%
Salary growth rate for 2016	0.75%	0.75%
Salary growth rate after 2017	1.00%	1.00%
Pension growth rate for 2016	0.00%	0.00%
Pension growth rate after 2017	0.75%	0.75%
Inflation rate	0.75%	0.75%

Changes in the past service liabilities for the first half-year of 2016 and financial year 2015 may be detailed as follows, with regard to the Bank’s pension plan:

	30/06/2016	31/12/2015
Liabilities at the beginning of the financial period/year	887 696	907 691
Current service cost	1 574	1 916
Interest cost	10 641	21 738
Actuarial (gains)/losses	6 986	(9 857)
Early retirement	8 824	3 940
Amounts paid	(23 263)	(40 095)
Contributions of employees	1 194	2 363
	-----------	------------
Liabilities at the end of the financial period/year	893 652	887 696
	======	======

The cost for the financial year relating to pensions includes the current service cost and the interest cost, net of the estimated return on the assets of the Pension Fund. In the six-month periods ended June 30, 2016 and 2015, pension costs were made up as follows (Note 41):

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

	30/06/2016	30/06/2015
Current service cost	1 574	959
Interest cost	10 641	10 869
Return on assets calculated with the discount rate	(10 641)	(10 869)
	---------	---------
Defined benefits plan	1 574	959
Defined contribution plan	434	26
London Branch plan	160	194
	-------	-------
	2 168	1 179
	====	====

As from January 1, 2009, employees hired by BST are integrated in Social Security, and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. Said plan is supported by contributions of the employees (1.5%) and of BST (1.5%) based on the amount of the effective monthly salary. For this purpose, each employee can choose an open pension fund to which BST transfers its contribution.

Changes occurring in actuarial gains and losses in the first half-year of 2016 and financial year 2015 were as follows:

Balance at December 31, 2014	666 672

Actuarial gains on pensions generated in 2015	(10 197)
Financial gains on pensions generated in 2015	(14 895)
Actuarial losses on healthcare benefits and death subsidy in 2015	340
Financial gains on healthcare benefits and death subsidy in 2015	(2 780)

Balance at December 31, 2015 (Note 27)	639 140
Actuarial losses on pensions generated in 2016	6 336
Financial losses on pensions generated in 2016	7 926
Actuarial losses on healthcare benefits and death subsidy in 2016	650
Financial losses on healthcare benefits and death subsidy in 2016	1 760

Balance at June 30, 2016 (Note 27)	655 812
	=====

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. At June 30, 2016 and December 31, 2015, the number of Fund participants was as follows:

	30/06/2016	30/06/2015
Active employees (1)	5 176	5 238
Pensioners	1 092	1 052
Retired and early retired staff	5 347	5 325
	---------	---------
	11 615	11 615
	=====	=====

(1) Of whom 266 and 236 employees are included in the new defined contribution plan as of June 30, 2016 and December 31, 2015, respectively.

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

The main demographic changes occurring in the first half-year of 2016 and in the 2015 financial year, were the following:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2014	195	5 067	5 373	1 031
Leavers:				
Current employees	(14)	(24)	-	(10)
Due to mortality	-	(2)	(101)	(28)
Transfers	-	(43)	43	-
Joiners	55	4	10	59
Total number at December 31, 2015	236	5 002	5 325	1 052
Leavers:				
Current employees	(10)	(16)	-	(14)
Due to mortality	-	(8)	(53)	-
Transfers	-	(68)	68	-
Joiners	40	-	7	54
Total number at June 30, 2016	266	4 910	5 347	1 092

Changes occurring in BST's Pension Fund during the first half-year of 2016 and financial year 2015 were the following:

Net assets at December 31, 2014	910 580
Contributions made by the Bank (cash)	1 943
Contributions made by employees	2 363
Net return of the Fund:	
. Return on assets calculated with the discount rate	21 738
. Fund performance above the discount rate	17 675
Pensions paid	(40 095)
Net assets at December 31, 2015	914 204
Contributions made by employees	1 194
Net return of the Fund:	
. Return on assets calculated with the discount rate	10 641
. Fund performance below the discount rate	(9 687)
Pensions paid	(23 263)
Net assets at June 30, 2016	893 089

The return rates of the Pension Fund in 2016 and 2015 were 0.21% and 4.33%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including shares, bonds, other debt instruments, shareholdings in collective investment institutions, bank deposits and other assets of a monetary nature as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, with the Fund

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

Management Company having the choice to adopt a more or less conservative policy, by increasing or decreasing the exposure to shares or bonds, according to its expectations about the market developments and in accordance with the defined investment limits.

The current investment policy of BST´s Pension Fund defines the following limits:

Class of assets	Limits
Bonds	40% to 95%
Real Estate	0% to 25%
Shares	0% to 20%
Liquidity	0% to 15%
Other	0% to 10%
Commodities	0% to 5%

At June 30, 2016 and December 31, 2015, BST's Pension Fund breakdown was as follows:

	30/06/2016	31/12/2015
Debt instruments:		
. Rating A	23 668	10 605
. Rating BBB	194 877	239 174
. Rating BB	126 914	97 990
. Without rating attributed either to the issue or the issuer	74 444	46 689
Real Estate Investment Funds	186 712	196 957
Securities Investment Funds	154 944	180 399
Deposits	19 815	27 385
Real estate:		
. Commercial buildings	52 041	52 060
. Land	862	862
Equity instruments:		
. Portuguese listed companies	1 265	1 636
. Portuguese non-listed companies	112	120
. Foreign listed companies	45 385	47 968
Derivative financial instruments:		
. Listed options	766	852
Other	11 284	11 507
	893 089	914 204

At June 30, 2016 and December 31, 2015, the methodology adopted by the Management Company of BST´s Pension Fund to determine the fair value of the above mentioned assets and liabilities, taking in consideration IFRS 13 (Note 49), was as follows:

	30/06/2016				31/12/2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	410 119	-	9 784	419 903	386 182	-	8 276	394 458
Investment Funds	161 188	-	180 468	341 656	153 618	-	223 738	377 356
Equity instruments	46 650	-	112	46 762	49 604	-	120	49 724
Derivative financial instruments	766	-	-	766	852	-	-	852
Real estate	-	-	52 903	52 903	-	-	52 922	52 922
	618 723	-	243 267	861 990	590 256	-	285 056	875 312

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

At June 30, 2016 and December 31, 2015, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	30/06/2016	31/12/2015
Property leased out	15 726	15 726
Securities (including participation units in funds managed by the Group)	160 677	190 563
	-----------	-----------
	176 403	206 289
	======	======

In 2010 an insurance contract was undertaken with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from a new supplementary retirement plan granted to the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In the six-month periods ended June 30, 2016 and 2015, the premium paid by the Bank amounted to tEuros 291 (Note 41).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disability.

For all the possibilities, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of the death of the beneficiary, said amount will be increased by Euros 6,000.

At June 30, 2016 and December 31, 2015, 107 persons were covered by this plan.

Defined benefit pension plan – London Branch

At June 30, 2016 and December 31, 2015, the main assumptions used in the reckoning of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London Branch of BST were the following:

	30/06/2016	31/12/2015
Mortality table	AMC00/AFC00	AMC00/AFC00
Actuarial technical rate (discount rate)	2.70%	3.80%
Salary growth rate	3.10%	3.40%
Pension growth rate	1.80%	2.00%
Inflation rate	2.10%	2.40%

At June 30, 2016 and December 31, 2015, the liabilities with the defined benefit pension plan of the London Branch of BST and its coverage were as follows:

	30/06/2016	31/12/2015
Estimated liabilities for past services	49 575	44 559
Net assets of the Pension Fund	38 244	40 125
	--------	--------
Not financed amount – London Branch	(11 331)	(4 434)
	====	====

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

Regarding to the specific pension plan of the London Branch of BST, the changes in the past service liabilities in the first half-year of 2016 and financial year 2015 may be presented as follows:

Liabilities at December 31, 2014	42 855

Current service cost	202
Interest cost	1 627
Actuarial gains	(1 892)
Amounts paid	(857)
Foreign exchange fluctuations	2 624

Liabilities at December 31, 2015	44 559

Current service cost	86
Interest cost	742
Actuarial losses	4 570
Amounts paid	(382)

Liabilities at June 30, 2016	49 575
	=====

Changes in the Pension Fund of the London Branch of BST during the first half-year of 2016 and financial year 2015 were as follows:

Net assets at December 31, 2014	38 223

Net return of the Fund	305
Contribution made by the Branch	113
Pensions paid	(857)
Foreign exchange fluctuations	2 341

Net assets at December 31, 2015	40 125

Net return of the Fund:	
. Return on assets calculated with the discount rate	668
. Fund performance below the discount rate	(2 236)
Contribution made by the Branch	69
Pensions paid	(382)

Net assets at June 30, 2016	38 244
	=====

The costs with the defined benefit pension plan of BST's London Branch in the six-month periods ended June 30, 2016 and 2015 were as follows:

	30/06/2016	30/06/2015
Current service cost	86	104
Interest cost	742	834
Return on assets calculated with the discount rate	(668)	(744)
	-------	------
	160	194
	===	===

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

The changes and the detail of the actuarial gains and losses of BST's London Branch during the first half-year of 2016 and financial year 2015 were as follows:

Balance at December 31, 2014	8 867
Actuarial gains on pensions in 2015	(1 892)
Financial losses on pensions in 2015	1 142
Foreign exchange fluctuations	280
Balance at December 31, 2015 (Note 27)	8 397
Actuarial losses on pensions in 2016	4 570
Financial losses on pensions in 2016	2 236
Balance at June 30, 2016 (Note 27)	15 203

At June 30, 2016 and December 31, 2015, BST's London Branch Pension Fund portfolio included the following assets:

	30/06/2016	31/12/2015
Debt instruments	32 979	34 374
Equity instruments	5 180	5 667
Deposits	85	84
Fund's net asset value	38 244	40 125

The liabilities with defined benefit pension plans exposes the Bank to the following risks:

- Investment risk – the discounted value of the liabilities is reckoned based on a discount rate determined by reference to bonds denominated in Euros with high quality in terms of credit risk; if the profitability of the Pension Fund is lower than the discount rate, this will create a shortfall in the funding of the liabilities.

- Interest rate risk – a decrease in the bonds' interest rate will increase pension liabilities.

- Longevity risk – the discounted value of the liabilities is reckoned considering the best estimate of the expected mortality of the participants before and after the date of retirement. An increase in the life expectancy of plan participants will increase pension liabilities.

- Salary risk – the discounted value of the liabilities is reckoned based in an assumption of the estimated future salaries of the participants. Hence, an increase in participants' salaries will increase pension liabilities.

Pension Fund - former Banif

Following the resolution measure applied to Banif on December 20, 2015, a group of employees of the former Banif was transferred to BST, including their liabilities for past services. Responsibilities were also transferred for 511 retired employees, early retirees, pensioners and former participants with acquired rights. On January 27, 2016, the Bank requested the Insurance and Pension Fund Supervisory Authority's approval to the transfer to BST of Banif's position whilst member of the Banif Pension Fund, in the defined benefit pension plan, subpopulations A and B and in the defined contribution pension plans II and III.

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

The employees of the former Banif were covered by different types of pension plans:

a) The first defined benefit pension plan, was subdivided into the Banif and the former Banco Banif e Comercial dos Açores (“BBCA”) populations, with different benefits. Defined benefit pension plan I – subpopulation BANIF: (i) payment of disability, presumed disability and survival pension supplements to Social Security payments; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS). For employees that are eligible for retirement pension, the contribution of 6.5% is based on the pensions and for employees with a defined contribution plan, the benefit is converted into a capital lump sum at retirement, representing 6.5% of the paid-in capital, based on the initial contribution increased by the value of future contributions.

b) Defined benefit pension plan I – subpopulation former BBCA (closed to new participants): (i) payment of retirement, disability, presumed disability and survival pensions, according to ACT and the changes introduced by Decree-Law No. 1-A/ 2011, of January 3, and Decree-Law No. 127/2011, of December 31; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS), with a rate of 6.5% and (iii) death benefit, under the ACTV.

The former Banif also had two defined contribution pension plans:

c) Pension Plan II – Monthly contribution by the former Banif of 4.5% of the reference remuneration and an initial contribution at the date of the incorporation of the Plan, which included all employees admitted into service in the former Banif before January 1, 2007, with the exception of the employees admitted following the merger with the former BBCA, who are not covered by the Company Agreement. The initial contribution, allocated to the respective separate accounts, was calculated in function of: (i) the supplementary old-age pensions estimated in the assessment of responsibility made by the Actuary Responsible for the Pension Plan at December 31, 2006; and (ii) the present value of future contributions.

d) Pension Plan III – monthly contribution by the former Banif of 1.5% of the reference remuneration of the employees admitted into service after January 1, 2007, who had not passed away or terminated their employment up to the date of the Company Agreement.

The former Banif’s responsibilities with pension plans were assumed by BST. The detail of the population transferred is as follows:

	Subpopulation Banif	Subpopulation Former BBCA	Total
Current employees	894	228	1 122
Rerired staff and pensioners	90	193	283
Early retired staff	14	182	196
Former participants with vested rigths	-	32	32
	998	635	1 633

Defined contribution pension plan - employees covered

Plan II	594
Plan III	313
	907

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

The estimated liabilities for past services, based on the assumptions used by BST, for the defined benefit pension plan (considering both subpopulations: the former Banif and the former BBCA), are as follows:

	Liabilities			
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Total
Current Employees	32 982	5 104	104	38 190
Retired staff	54 312	5 170	125	59 607
Pensioners	4 695	670	-	5 365
Early retired staff	16 005	3 506	167	19 678
Former participants with vested rights	4 213	-	-	4 213
Total liabilities for past services	112 207	14 450	396	127 053
Book value of the transferred pension fund				117 138
Insufficient fund				(9 915)

The liabilities for past services of employees of the former Banif amount to tEuros 127,053, which are recognized as follows:

Other liabilities (Note 26)	118 021
Provisions (Note 23)	9 032
	----------
	127 053
	======

The portfolio of the former Banif Pension Fund associated with the defined benefit pension plan was as follows:

Type of Asset	Total	Relative weight
Debt instruments	46 205	38,16%
Securities investment fund	49 094	40,54%
Real estate fund	3 388	2,80%
Real estate properties	18 885	15,60%
Equity instruments	1 332	1,10%
Deposits	1 314	1,09%
Other	869	0,72%
	121 087	
Assets to be transferred	(3 949)	
	117 138	

The net asset amount to be transferred corresponds to the amount of the assets of the Pension Fund portfolio that will cover the liabilities of the employees of the former Banif who were not transferred to the Bank.

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

46. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolio, through twelve operations, with a total initial amount of tEuros 23,250,000. The loans were sold at their nominal value (book value) to securitization funds denominated Fundos Hipototta FTC (hereinafter Hipototta FTC Funds), with the exception of the last securitization operations (Hipototta No. 11 and Hipototta No. 12), for which the loans were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus). A substantial part of the securitization operations were repurchased by BST under those agreements, with the remaining securitization operations being Hipototta No. 1, Hipototta No. 4 and Hipototta No. 5.

Hipototta FTC Funds are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under those loans to Hipototta Funds. The Santander Group does not hold any direct or indirect shareholding in Navegator.

To finance these operations, Hipototta Funds issued participation units for the same amount of the loan portfolios purchased, which were fully subscribed by Hipototta PLC Funds, with registered offices in Ireland.

Furthermore, Hipototta FTC Funds channel all the amounts received from BST and from the Portuguese Treasury (Direcção Geral do Tesouro) to Hipototta PLC Funds, segregating the instalments between principal and interest.

To finance these operations, the Hipottota PLC Funds issued bonds with different levels of subordination and rating and, consequently, of return. At June 30, 2016, the bonds issued and still outstanding are as follows:

Hipototta No. 1 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A	1 053 200	111 675	A	A1	November 2034	August 2012	Euribor 3 months + 0.27%	Euribor 3 months + 0.54%
Class B	32 500	7 201	A-	A3	November 2034	August 2012	Euribor 3 months + 0.65%	Euribor 3 months + 0.95%
Class C	14 300	3 173	A-	Baa1	November 2034	August 2012	Euribor 3 months + 1.45%	Euribor 3 months + 1.65%
	1 100 000	122 049						
Class D	17 600	11 000			November 2034	August 2012	Residual income of the securitized portfolio	
	1 117 600	133 049						

Hipototta No. 4 PLC

Issued debt	Amount		Rating	Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P			Up to early redemption date	After early redemption date
Class A	2 616 040	731 247	A	December 2048	December 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44 240	26 934	A	December 2048	December 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139 720	84 055	CCC	December 2048	December 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2 800 000	842 236					
Class D	14 000	14 000		December 2048	December 2014	Residual income of the securitized portfolio	
	2 814 000	856 236					

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

Hipototta No. 5 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A1	200 000	-			February 2060	February 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1 693 000	670 944	A-	A1	February 2060	February 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26 000	26 000	A-	Baa1	February 2060	February 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24 000	24 000	BB+	Baa3	February 2060	February 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26 000	26 000	BB+	Ba3	February 2060	February 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31 000	31 000	BB-	B3	February 2060	February 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	2 000 000	777 944						
Class F	10 000	7 779	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2 010 000	785 723						

The bonds issued by Hipototta No. 1 PLC and Hipototta No. 4 PLC pay interest quarterly on March 30, June 30, September 30 and December 30 of each year. The bonds issued by Hipototta No. 5 PLC pay interest quarterly on February 28, May 30, August 30 and November 30 of each year.

BST has the option to early redeem the bonds on the above mentioned dates. For all Hipototta, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or lower than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, all Hipototta have the option to make partial repayments of the Class A, B and C bonds, as well as of Class D and E bonds in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

The Class D bonds of Hipototta No. 1 and Hipototta No. 4, and the Class F bonds of Hipottota No. 5 constitute the last liabilities to be paid.

The remuneration of these bonds corresponds to the difference between the income generated by the securitized loan portfolio and the sum of all the costs related to the operation, namely:

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodian fees and servicer fees, both charged by BST, and the management fee, charged by the Funds);
- Interest on the other classes of bonds; and
- Impairment losses.

When the securitization operations were contracted, the estimated income from the securitized loan portfolios included in the computation of the remuneration of the Class D bonds for Hipototta No. 1 PLC and Hipototta No. 4 PLC corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F bonds of Hipototta No. 5 PLC, this corresponded to an annual average of 0.9% of the total loan portfolio.

When the securitization operations were contracted, subordinated loans were granted by BST to Hipototta as facilities/credit lines in case of need of liquidity by Hipototta. Swap agreements were also celebrated between the Santander Group and the first Hipototta issued and between BST and the remaining securitization vehicles to cover the interest rate risk.

Securitization operations of the former Banif

Following the resolution measure applied to the former Banif, BST acquired a number of securitization operations issued by this entity, and the corresponding securitized loans and bonds issued were transferred.

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

Securitization operations acquired are presented below:

Atlantes Mortgage No. 1

Operation implemented in February 2003 by the former Banif, where mortgage loans were sold to Atlantes Mortgage No.1 FTC, a securitization fund that issued participation units subscribed by Atlantes Mortgage No.1 PLC based in Ireland. For funding purposes, Atlantes Mortgage No.1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitization is managed by Navegator.

Atlantes Mortgage No. 1 PLC

Issued	Amount		Rating			Remuneration
debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	462 500	46 028	A	A3	January 2036	Euribor 3 months + 0.054%
Class B	22 500	22 500	BB-	Baa2	January 2036	Euribor 3 months + 1.3%
Class C	12 500	12 500	B-	Ba3	January 2036	Euribor 3 months + 2.6%
Class D	2 500	2 500	B-	B3	January 2036	Euribor 3 months + 4.75%
	500 000	83 528				
Class E	15 400	15 400	NR	NR	January 2036	Residual income of the securitized portfolio
	515 400	98 928				

Azor Mortgage No. 1

Operation implemented in November 2004 by the former Banif, where mortgage loans originated in the former BBCA (Banif e Banco Comercial dos Açores, S.A.) were sold to Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes, bonds fully subscribed by Azor Mortgages PLC, based in Ireland. For funding purposes, Azor Morgages PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and the respective rights to receive payments on the loans and the duties to pay to Azor Mortgages PLC were transferred from Sagres STC to Gamma Sociedade de Titularização de Créditos (“Gamma STC”), a company currently owned by Oitante.

Azor Mortgage No. 1

Issued	Amount		Rating			Remuneration
debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253 000	14 427	A	Baa3	September 2047	Euribor 3 months + 0.3%
Class B	19 000	19 000	BB	Ba1	September 2047	Euribor 3 months + 0.76%
Class C	9 000	9 000	BB	Ba3	September 2047	Euribor 3 months + 1.75%
	281 000	42 427				
Class D	10 000	10 000	NR	NR	September 2047	Residual income of the securitized portfolio
	291 000	52 427				

Atlantes Mortgage No. 2

Operation implemented in March 2008 by the former Banif, where mortgages loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 2 Class A, B, C and D bonds with different levels of subordination and rating and, consequently, of remuneration.

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

Atlantes Mortgage No. 2

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	349 100	174 437	BBB+	A	September 2060	Euribor 3 months + 0.33%
Class B	18 400	13 817	BB+	BBB	September 2060	Euribor 3 months + 0.95%
Class C	7 500	5 632	B-	BB	September 2060	Euribor 3 months + 1.65%
	375 000	193 885				
Class D	16 125	16 125	NR	NR	September 2060	Residual income of the securitized portfolio
	391 125	210 010				

Azor Mortgage No. 2

Operation implemented in July 2008 by the former Banif, where mortgage loans originated by the former BBCA were sold to Gamma STC. To finance the operation, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage No. 2

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	253 000	137 165	A+	A	December 2065	Euribor 3 months + 0.3%
Class B	46 500	43 080	NR	NR	December 2065	Euribor 3 months + 0.8%
	299 500	180 245				
Class D	6 750	6 750	NR	NR	December 2065	Residual income of the securitized portfolio
	306 250	186 995				

Atlantes Mortgage No. 3

Operation implemented in October 2008 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 3 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 3

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	558 600	296 552	A	A+	August 2061	Euribor 3 months + 0.2%
Class B	41 400	35 441	NR	NR	August 2061	Euribor 3 months + 0.5%
	600 000	331 993				
Class C	57 668	57 668	NR	NR	August 2061	Residual income of the securitized portfolio
	657 668	389 661				

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

Atlantes Mortgage No. 4

Operation implemented in February 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 4 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 4

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	514 250	337 963	A+	A+	December 2064	Euribor 3 months + 0.2%
Class B	35 750	34 947	NR	NR	December 2064	Euribor 3 months + 0.5%
	550 000	372 910				
Class C	74 250	74 250	NR	NR	December 2064	Residual income of the securitized portfolio
	624 250	447 160				

Atlantes Mortgage No. 5

Operation implemented in December 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 5 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

Atlantes Mortgage No. 5

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	455 000	284 062	A+	A+	December 2068	Euribor 3 months + 0,15%
Class B	45 000	43 806	NR	NR	December 2068	Euribor 3 months + 0,3%
	500 000	327 868				
Class C	66 250	66 250	NR	NR	December 2068	Residual income of the securitized portfolio
	566 250	394 118				

Atlantes Mortgage No. 6

Operation implemented in June 2010 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 6 Class A and B bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 6

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	91 000	49 090	NR	NR	December 2016	4.50%
	91 000	49 090				
Class B	22 000	22 000	NR	NR	December 2016	Residual income of the securitized portfolio
	113 000	71 090				

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

Altantes Mortgage No. 7

Operation implemented in November 2010 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 7 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 7

Issued	Amount		Rating			Remuneration
debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	357 300	220 420	A+	A+	August 2066	Euribor 3 months + 0.15%
Class B	39 700	36 907	NR	NR	August 2066	Euribor 3 months + 0.3%
	397 000	257 327				
Class C	63 550	63 550	NR	NR	August 2066	Residual income of the securitized portfolio
	460 550	320 877				

Atlantes NPL No. 1

Operation implemented in December 2012, under which Banif and Banif Banco Mais (currently Cofidis) sold to Gamma STC a portfolio of mortgage or real estate collateralized loans. The transaction was financed through the issuance of Atlantes NPL No. 1 Class A and B bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes NPL No. 1

Issued	Amount		Rating			Remuneration
debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	168 000	107 141	NR	NR	December 2018	6.0%
	168 000	107 141				
Class B	45 000	45 000	NR	NR	December 2018	Residual income of the securitized portfolio
	213 000	152 141				

Atlantes Finance No. 6

Operation implemented in December 2013, under which Banif and Banif Banco Mais (currently Cofidis) sold to Gamma STC a consumer loan portfolio. The transaction was financed through the issuance of Atlantes Finance No. 6 Class A, B, C and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Finance No. 6

Issued	Amount		Rating			Remuneration
debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	176 800	32 550	A-	NR	March 2033	Euribor 3 months + 2.4%
Class B	40 100	40 100	NR	NR	March 2033	Euribor 3 months + 3%
	216 900	72 650				
Class C	10 900	6 365	NR	NR	March 2033	Residual income of the securitized portfolio
Class S	7 400	3 949	NR	NR	March 2033	Without payment
	235 200	76 599				

As mentioned above, the Bank has only 22% of the equity (Class C) and, therefore, the loans were derecognized. The bonds held are recorded under “Available-for-sale financial assets” and “Investments in associated companies”.

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

Atlantes SME No. 4

Operation implemented in September 2014 by the former Banif, where a corporate loan portfolio was sold to Gamma STC. To finance this operation, Gamma STC issued Atlantes SME No. 4 Class A, B, C, D and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes SME No. 4

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	465 000	55 778	A	NR	December 2043	Euribor 3 months + 0.98%
Class B	55 000	55 000	BB	NR	December 2043	Euribor 3 months + 1.48%
Class C	180 000	180 000	BB	NR	December 2043	Euribor 3 months + 6.00%
	700 000	290 778				
Class D	186 400	186 400	NR	NR	December 2043	Residual income of the securitized portfolio
Class S	41 000	20 045	NR	NR	December 2043	Without payment
	927 400	497 223				

Atlantes SME No. 5

Operation implemented in July 2015 by the former Banif, where a corporate loan portfolio was sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes SME No. 5 Class A, B, C, D and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes SME No. 5

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Remuneration Up to early redemption date
Class A	440 000	283 133	A-	A3	January 2044	Euribor 3 months + 1.20%
Class B	35 600	35 600	BBB	B1	January 2044	Euribor 3 months + 1.75%
Class C	164 400	164 400	NR	NR	January 2044	Euribor 3 months + 6.00%
	640 000	483 133				
Class D	172 800	172 800	NR	NR	January 2044	Residual income of the securitized portfolio
Class S	33 200	23 647	NR	NR	January 2044	Without payment
	846 000	679 580				

47. RELATED ENTITIES DISCLOSURES

The related entities of the Bank with which it had balances or transactions in the first half-year of 2016 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
BST International Bank, Inc. - Porto Rico	Puerto Rico
Santotta Internacional, S.G.P.S, Sociedade Unipessoal, LDA	Portugal
Taxagest, SGPS, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Portugal
Banif International Bank, Ltd	Bahamas
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
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 Bank & Trust Ltd.	Bahamas
Santander Consumer Bank A.S.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	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 Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Santander UK plc	United Kingdom
Santander Issuances, SA	Spain
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Allfunds Bank International S.A.	Luxembourg
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal

The related entities of the Bank with which it had balances or transactions in 2015 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman Island
Serfin International Bank & Trust	Cayman Island
Banif International Bank, Ltd.	Bahamas
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
Gamma STC (1)	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

(1) See Note 4

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestão Comércio & Aluguer Veículos, S.A.	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 Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

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

At June 30, 2016 and December 31, 2015, the balances and off-balance sheet items maintained with related entities were as follows:

	30/06/2016		
	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	26 946	-	139
Financial assets held for trading	87 419	-	1 739
Loans and advances to credit institutions	1 128 353	-	235 433
Loans and advances to customers	-	54 120	1 415
Hedging derivatives	123 340	-	-
Investments in associated companies	-	38 650	-
Other assets	11 858	3 920	18 697
Liabilities:			
Financial liabilities held for trading	1 573 539	-	28 844
Resources of other credit institutions	340 187	51 840	1 819
Resources of customers and other debts	186 561	-	905 049
Debt securities	61 405	-	18 251
Hedging derivatives	183 849	-	-
Subordinated liabilities	-	-	4 299
Other liabilities	2 842	-	10 420
Costs:			
Interest and similar charges	62 871	-	23 318
Charges with services and commissions	825	-	978
Result of assets and liabilities at fair value through profit or loss	628 385	-	35 010
General administrative costs	-	-	23 443
Income:			
Interest and similar income	83 896	-	1 658
Result of assets and liabilities at fair value through profit or loss	321 211	-	37 201
Income from services and commissions	96	-	49 408
Result of foreign exchange revaluation	18	-	-
Result from associates	-	2 010	-
Other operating results	-	-	102
Off balance sheet items:			
Guarantees provided and other contingent liabilities	25 461	-	10 438
Guarantees received	1	-	1 000
Commitments to third parties	37 916	3 000	156 281
Currency operations and derivatives	11 407 239	-	332 100
Responsibilities for services rendered	3 311 390	25 707	2 155 400

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

	31/12/2015		
	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	21 036		525
Financial assets held for trading	174 230	-	4 192
Available-for-sale financial assets	-	-	400
Loans and advances to credit institutions	952 003	1	228 887
Loans and advances to customers	-	39 027	5 851
Hedging derivatives	127 036	-	-
Investments in associated companies	-	42 213	-
Other assets	10 505	7 840	22 067
Liabilities:			
Financial liabilities held for trading	1 534 391	-	46 867
Resources of other credit institutions	359 041	65 046	1 639
Resources of customers and other debts	93 652	-	1 100 942
Debt securities	69 592	-	18 095
Hedging derivatives	170 095	-	-
Subordinated liabilities	-	-	4 302
Other liabilities	3 462	-	1 694
Costs:			
Interest and similar charges	138 134	30	39 518
Charges with services and commissions	990	-	3 870
Result of assets and liabilities at fair value through profit or loss	963 166	-	35 760
General administrative costs	-	-	49 016
Income:			
Interest and similar income	192 925	23	4 429
Result of assets and liabilities at fair value through profit or loss	952 619	6 867	31 903
Income from services and commissions	231	-	99 907
Result of foreign exchange revaluation	1 794	937	-
Result from associates	-	14 499	-
Other operating results	-	-	156
Off balance sheet items:			
Guarantees provided and other contingent liabilities	25 717	-	13 005
Guarantees received	1	-	1 000
Commitments to third parties	71 074	3 000	153 768
Currency operations and derivatives	13 642 089	-	453 067
Responsibilities for services rendered	590 996	-	2 221 970

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

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

At June 30, 2016 and December 31, 2015 loans and advances granted to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 303 and tEuros 554, respectively. At June 30, 2016 and 2015, fixed and variable remuneration amounted to tEuros 2,309 and tEuros 1,786, respectively (Note 41).

In 2015 financial year the Bank approved a new Individual Long-term Incentive Plan, to be a part of the multiannual variable remuneration, which is described in Note 48. For the members of the Board of Directors, the amount recorded in the heading "Staff costs" in the six-month periods ended June 30, 2016 and 2015 is presented below:

	30/06/2016	30/06/2015
Individual Long-term Incentive Plan	152	198
	===	===

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement (Acordo Colectivo de Trabalho - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. l).

At the General Meeting held on May 30, 2007, BST's shareholders approved the "Regulation for the supplementary attribution of retirement pensions for age or disability" for the executive members of the Board of Directors of the former Totta and who are executive members of BST's Board of Directors (Executive Committee), as previously defined in the former Totta regulation. Members of the Board of Directors whose time in office is at least fifteen years, whether consecutive or interpolated, will be entitled to a pension supplement equivalent to 80% of their gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when their time in office is less than fifteen years. For these situations, it has been currently defined that the pension supplement will be 65% of the gross annual salary, whenever the time in office is equal to or greater than ten years, and 75% of the gross annual salary, whenever the time in office is equal to or greater than twelve years. This defined benefit plan is a supplementary plan that is dependent of the general Social Security regime.

At June 30, 2016 and December 31, 2015, the liabilities with this plan amounted to tEuros 21,111 and tEuros 20,676, respectively, and were covered by a provision in the same amount recorded in the heading "Provision for pensions and other charges" (Note 23).

With regard to employment termination benefits, in accordance with the Company Law (Código das Sociedades Comerciais), whenever the term of a member of the management or supervisory board is early terminated by BST, the latter will pay the member the future remuneration that he/she would be entitled to up to the end of the respective term-of-office.

48. LONG-TERM INCENTIVE PLANS - SHARES

During financial year 2015, an Individual Long-term Incentive Plan was approved for a restricted number of employees. This incentive takes into account the performance, relative to 2014, of the Total Shareholder Return ("TSR") of Banco Santander, S.A., compared with a bucket of 15 credit institutions. The Individual Long-term Incentive Plan value takes as a reference 15% of the Bank's base performance bonus, and corresponds to 100% of that value if Banco Santander's TSR is ranked among the first eight positions of the referred group of credit institutions, 50% if it is ranked between the ninth and twelfth position and 0% if it is in a lower position.

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

As described in Note 1.3. o), the accounting of the share incentive plans consists in recognizing the right of the Bank's employees to such instruments in the income statement for the year, under the heading "Staff costs", given these correspond to a remuneration for services rendered. The management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees, on a worldwide basis, covered by the Plan.

At June 30, 2016 and 2015, the total cost of the Share Plan Incentive for all the employees of the Bank covered by same was as follows:

	30/06/2016	30/06/2015
Individual Long-term Incentive Plan	342	310
	===	===

The employees are entitled to the shares provided they remain in the Santander Group.

49. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

BALANCE SHEET

Categories of financial instruments

At June 30, 2016 and December 31, 2015, financial instruments had the following book value:

	30/06/2016				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	724 423	244 242	-	968 665
Balances due from banks	-	334 727	67 340	-	402 067
Financial assets held for trading	1 679 638	-	-	-	1 679 638
Available-for-sale financial assets	5 590 354	-	93 331	(71 628)	5 612 057
Loans and advances to credit institutions	-	1 830 797	-	-	1 830 797
Loans and advances to customers	355 176	33 656 281	-	(2 160 581)	31 850 876
Held-to-maturity investments	-	-	301 730	-	301 730
Hedging derivatives	126 281	-	-	-	126 281
	7 751 449	36 546 229	706 643	(2 232 209)	42 772 111
Liabilities					
Resources of central banks	-	2 450 427	-	-	2 450 427
Financial liabilities held for trading	1 687 799	-	-	-	1 687 799
Resources of other credit institutions	-	3 124 569	-	-	3 124 569
Resources of customers and other debts	2 894 564	25 501 139	51 218	-	28 446 921
Debt securities	16 310	4 609 683	-	-	4 625 993
Hedging derivatives	183 854	-	-	-	183 854
Subordinated liabilities	-	4 299	-	-	4 299
	4 782 527	35 690 117	51 218	-	40 523 862

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

	31/12/2015				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	2 849 364	284 668	-	3 134 032
Balances due from banks	-	399 605	64 293	-	463 898
Financial assets held for trading	1 750 694	-	-	-	1 750 694
Available-for-sale financial assets	6 454 935	-	95 039	(82 161)	6 467 813
Loans and advances to credit institutions	-	1 535 436	-	-	1 535 436
Loans and advances to customers	195 661	33 930 790	-	(2 345 486)	31 780 965
Hedging derivatives	130 292	-	-	-	130 292
	8 531 582	38 715 195	444 000	(2 427 647)	45 263 130
Liabilities					
Resources of central banks	-	4 952 679	-	-	4 952 679
Financial liabilities held for trading	1 721 691	-	-	-	1 721 691
Resources of other credit institutions	-	3 545 229	-	-	3 545 229
Resources of customers and other debts	3 215 210	23 862 374	48 729	-	27 126 313
Debt securities	16 261	5 027 184	-	-	5 043 445
Hedging derivatives	170 133	-	-	-	170 133
Subordinated liabilities	-	4 302	-	-	4 302
	5 123 295	37 391 768	48 729	-	42 563 792

In the first half-year of 2016 a number of securities was reclassified from the “Available-for-sale financial assets” portfolio to the “Investments held to maturity” portfolio. In financial year 2015 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

INCOME STATEMENT

In the six-month periods ended June 30, 2016 and 2015, the net gains and losses on financial instruments were as follows:

	30/06/2016					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1 026 851	(1 059 146)	(32 295)	-	-	-
Available-for-sale financial assets	202 751	(15 227)	187 524	-	(157 523)	(157 523)
Balances in central banks and other credit institutions	15 921	-	15 921	-	-	-
Loans and advances to customers	535 108	(155 727)	379 381	-	-	-
Hedging derivatives	84 508	(107 549)	(23 041)	-	(10 097)	(10 097)
Resources in central banks and other credit institutions	-	(10 445)	(10 445)	-	-	-
Resources of customers and other debts	27 990	(74 042)	(46 052)	-	-	-
Debt securities	8 987	(36 023)	(27 036)	-	-	-
Subordinated liabilities	-	(81)	(81)	-	-	-
	1 902 116	(1 458 240)	443 875	-	(167 619)	(167 619)
Guarantees given	12 511	(630)	11 881			
Credit lines	379	-	379			

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

	30/06/2015					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1 231 096	(1 236 335)	(5 239)	-	-	-
Available-for-sale financial assets	83 835	(4 571)	79 264	-	(108 941)	(108 941)
Balances in central banks and other credit institutions	21 074	-	21 074	-	-	-
Loans and advances to customers	465 082	(177 642)	287 440	-	-	-
Hedging derivatives	133 945	(83 753)	50 192	-	(11 032)	(11 032)
Resources in central banks and other credit institutions	-	(13 782)	(13 782)	-	-	-
Resources of customers and other debts	28 055	(123 963)	(95 908)	-	-	-
Debt securities	5 882	(33 201)	(27 319)	-	-	-
Subordinated liabilities	-	(86)	(86)	-	-	-
	1 968 969	(1 673 333)	295 636	-	(119 973)	(119 973)
Guarantees given	8 824	(553)	8 271			
Credit lines	2 986	(1 669)	1 317			

The above mentioned amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the six-month periods ended June 30, 2016 and 2015, corresponded to net gains of tEuros 2,685 and tEuros 4,619, respectively (Note 38).

In the first half-year of 2016 and 2015, the income and expenses with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	30/06/2016			30/06/2015		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	27	-	27	33	-	33
Balances due from other banks	6	-	6	28	-	28
Available-for-sale financial assets	74 917	-	74 917	85 129	-	85 129
Loans and advances to credit institutions	15 888	-	15 888	21 011	-	21 011
Loans and advances to customers	387 853	(740)	387 113	318 257	(12)	318 245
Held-to-maturity investments	5 183	-	5 183	-	-	-
	483 874	(740)	483 134	424 458	(12)	424 446
Liabilities						
Resources of central banks	-	(3 870)	(3 870)	-	(1 585)	(1 585)
Resources of other credit institutions	-	(6 575)	(6 575)	-	(12 197)	(12 197)
Resources of customers and other debts	-	(69 198)	(69 198)	-	(123 963)	(123 963)
Debt securities	-	(36 023)	(36 023)	-	(33 201)	(33 201)
Subordinated liabilities	-	(81)	(81)	-	(86)	(86)
	-	(115 747)	(115 747)	-	(171 032)	(171 032)
Guarantees given	11 353	-	11 353	8 684	-	8 684
Credit Lines	379	-	379	1 642	-	1 642

In the first half-year of 2016 and 2015, commission income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	30/06/2016			30/06/2015		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advances to customers	20 834	(5 877)	14 957	19 070	(7 364)	11 706
Liabilities						
Resources of customers and other debts	26 568	-	26 568	22 585	-	22 585

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

In the first half-years of 2016 and 2015, the Bank recognized financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to tEuros 5,808 and tEuros 4,923, respectively (Note 31).

OTHER DISCLOSURES

Hedge accounting

At June 30, 2016 and December 31, 2015, hedging derivatives and financial instruments designated as hedged items were as follows:

	30/06/2016					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	344 423	347 013	7 928	354 941	344 417	(10 098)
Result of assets and liabilities at fair value through profit or loss						
Available-for-sale financial assets	600 000	608 590	44 709	653 299	600 000	(71 650)
Cash and deposits at central banks						
Resources of customers and other debts	(2 877 016)	(2 895 523)	959	(2 894 564)	2 958 262	13 902
Debt securities	(14 930)	(15 818)	(492)	(16 310)	14 930	1 374
Cash flow hedge:						
Loans and advances to customers	1 970 097	1 970 097	-	1 970 097	1 475 000	92 137
Debt securities	711 223	711 223	-	711 223	650 000	(83 238)
	733 797	725 582	53 104	778 686	6 042 609	(57 573)

	31/12/2015					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	191 786	191 919	3 527	195 446	191 787	(3 792)
Result of assets and liabilities at fair value through profit or loss						
Available-for-sale financial assets	850 000	867 212	20 761	887 973	850 000	(76 981)
Cash and deposits at central banks						
Resources of customers and other debts	(3 189 489)	(3 219 631)	4 421	(3 215 210)	3 277 463	19 604
Debt securities	(14 930)	(15 463)	(798)	(16 261)	14 930	1 317
Cash flow hedge:						
Loans and advances to customers	2 767 567	2 767 567	-	2 767 567	2 050 000	89 440
Debt securities	794 542	794 542	-	794 542	650 000	(69 429)
	1 399 476	1 386 146	27 911	1 414 057	7 034 180	(39 841)

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

Cash flow hedges

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

	30/06/2016					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	(29 628)	(17 571)	(5 765)	20 628	41 235	8 899

	31/12/2015					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	5 131	9 725	11 069	(1 287)	(4 627)	20 011

The gains and losses recognized in the income statement for the half-years ended June 30, 2016 and 2015, arising from fair value hedging operations, were as follows:

	30/06/2016			30/06/2015		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	4 402	(4 402)	-	(390)	390	-
Available-for-sale financial assets	23 948	(23 948)	-	(27 127)	27 127	-
Resources of customers and other debts	(3 420)	3 385	(35)	5 472	(5 279)	193
Debt securities	305	(305)	-	620	(620)	-
	25 235	(25 270)	(35)	(21 425)	21 618	193

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

Fair value of financial instruments

At June 30, 2016 and December 31, 2015, financial instruments were made up as follows:

	30/06/2016			31/12/2015		
	Measured at fair value	Not measured at fait value	Total	Measured at fair value	Not measured at fait value	Total
Assets						
Cash and deposits at central banks	-	968 665	968 665	-	3 134 032	3 134 032
Balances due from other banks	-	402 067	402 067	-	463 898	463 898
Financial assets held for trading	1 679 638	-	1 679 638	1 750 694	-	1 750 694
Available-for-sale financial assets	5 550 153	61 904	5 612 057	6 403 006	64 807	6 467 813
Loans and advances to credit institutions	-	1 830 797	1 830 797	-	1 535 436	1 535 436
Loans and advances to customers	354 941	31 495 935	31 850 876	195 446	31 585 519	31 780 965
Held-to-maturity investments	-	301 730	301 730	-	-	-
Hedging derivatives	126 281	-	126 281	130 292	-	130 292
	7 711 013	35 061 098	42 772 111	8 479 438	36 783 692	45 263 130
Liabilities						
Resources of central banks	-	2 450 427	2 450 427	-	4 952 679	4 952 679
Financial liabilities held for trading	1 687 799	-	1 687 799	1 721 691	-	1 721 691
Resources of other credit institutions	-	3 124 569	3 124 569	-	3 545 229	3 545 229
Resources of customers and other debts	2 894 564	25 552 357	28 446 921	3 215 210	23 911 103	27 126 313
Debt securities	16 310	4 609 683	4 625 993	16 261	5 027 184	5 043 445
Hedging derivatives	183 854	-	183 854	170 133	-	170 133
Subordinated liabilities	-	4 299	4 299	-	4 302	4 302
	4 782 527	35 741 335	40 523 862	5 123 295	37 440 497	42 563 792

The financial assets and liabilities to which hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

At June 30, 2016 and December 31, 2015, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	30/06/2016					
	Acquisition cost	Accrued interest	Valuation	Hedge adjustments	Impairment	Net book value
Assets						
Financial assets held for trading	4 115	-	1 675 523	-	-	1 679 638
Available-for-sale financial assets	5 461 053	55 415	29 177	44 709	(40 201)	5 550 153
Loans and advances to customers	344 423	2 825	-	7 928	(235)	354 941
Hedging derivatives	-	-	126 281	-	-	126 281
	5 809 591	58 240	1 830 981	52 637	(40 436)	7 711 013
Liabilities						
Financial liabilities held for trading	-	-	1 687 799	-	-	1 687 799
Resources of customers and other debts	2 877 015	18 508	-	(959)	-	2 894 564
Debt securities	14 930	888	-	492	-	16 310
Hedging derivatives	-	-	183 854	-	-	183 854
	2 891 945	19 396	1 871 653	(467)	-	4 782 527

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

	31/12/2015					
	Acquisition cost	Accrued interest	Valuation	Hedge adjustments	Impairment	Net book value
Assets						
Financial assets held for trading	4 065	-	1 746 629	-	-	1 750 694
Available-for-sale financial assets	6 129 912	125 609	178 283	20 761	(51 559)	6 403 006
Loans and advances to customers	191 785	349	-	3 527	(215)	195 446
Hedging derivatives	-	-	130 292	-	-	130 292
	6 325 762	125 958	2 055 204	24 288	(51 774)	8 479 438
Liabilities						
Financial liabilities held for trading	-	-	1 721 691	-	-	1 721 691
Resources of customers and other debts	3 189 489	30 142	-	(4 421)	-	3 215 210
Debt securities	14 930	533	-	798	-	16 261
Hedging derivatives	-	-	170 133	-	-	170 133
	3 204 419	30 675	1 891 824	(3 623)	-	5 123 295

The methods used to determine the fair value of the financial instruments were based on listed prices on active markets or other valuation techniques, such as discounted cash flows. At June 30, 2016 and December 31, 2015, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	30/06/2016			
	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	-	1 676 560	3 078	1 679 638
Available-for-sale financial assets	3 672 727	1 831 962	45 464	5 550 153
Loans and advances to customers	-	354 941	-	354 941
Hedging derivatives	-	126 281	-	126 281
	3 672 727	3 989 743	48 542	7 711 013
Liabilities				
Financial liabilities held for trading	-	1 687 799	-	1 687 799
Resources of customers and other debts	-	2 894 564	-	2 894 564
Debt securities	-	16 310	-	16 310
Hedging derivatives	-	183 854	-	183 854
	-	4 782 527	-	4 782 527

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

	31/12/2015			
	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	-	1 632 210	118 484	1 750 694
Available-for-sale financial assets	6 110 637	137 380	154 989	6 403 006
Loans and advances to customers	-	195 446	-	195 446
Hedging derivatives	-	130 292	-	130 292
	6 110 637	2 095 328	273 473	8 479 438
Liabilities				
Financial liabilities held for trading	-	1 721 691	-	1 721 691
Resources of customers and other debts	-	3 215 210	-	3 215 210
Debt securities	-	16 261	-	16 261
Hedging derivatives	-	170 133	-	170 133
	-	5 123 295	-	5 123 295

In accordance with IFRS 7 and IFRS 13, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published on active markets, comprising mainly government debt, some private debt, open securities investment funds and shares.

- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets, valued with indicative bids provided by external counterparties, and the majority of the derivative financial instruments used for hedging and trading purposes. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flow models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or an entity with a similar rating.

  For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

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

Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with listed credit default swaps – published price quotations on active markets;

- Counterparties without listed credit default swaps:
  - Published prices quotations on active markets for counterparties with similar risk; or
  - Probability of default estimated taking into consideration the internal rating assigned to the customer (see Credit Risk section of these Notes to the Consolidated Financial Statements) x loss given default (the specific figure for project finance customers and 60% for other customers).

When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Bank classified the derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Bank, the financial instruments were classified as Level 3.

- Level 3 – In this level, the Bank classifies the financial instruments that are valued using internal models, with some inputs that do not correspond to market observable data. Some unlisted securities for which the Bank uses market data extrapolations were classified in this category.

In the first half-year of 2016, changes in financial instruments classified as “Level 3” were as follows:

	Financial assets held for trading		Available-for-sale financial assets	
	Securities	Derivatives		Total
At December 31, 2014	3 670	221 297	248 512	473 479
Acquisitions	108	8 769	-	8 877
Disposals	-	(79 842)	(11 684)	(91 526)
Settlements	(648)	-	(39 429)	(40 077)
Reclassifications	-	-	(48 749)	(48 749)
Fair value changes	(34)	(34 836)	6 339	(28 531)
At December 31, 2015	3 096	115 388	154 989	273 473
Acquisitions	-	-	63	63
Settlements	-	-	(1 568)	(1 568)
Reclassifications	-	(115 388)	(109 064)	(224 452)
Fair value changes	(18)	-	818	800
Impairment recognized in the period	-	-	226	226
At June 30, 2016	3 078	-	45 464	48 542

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

At June 30, 2016 and December 31, 2015, the valuation techniques, the inputs used and the relationship between those inputs and the fair value determined for financial instruments classified as Level 3 were as follows:

Financial instruments	Valuation techniques	Inputs used	Relation between the inputs used and the fair value determined
Financial assets held for trading			
Participation units in Real Estate Investment Funds	Price disclosed by respective Managing Company	. Capitalization rates . Lease values per m2 . Occupation rates	In the event of an increase in the lease value per m2 or occupation rate or a decrease in the capitalization rate, the fair value determined will increase. In the event of a decrease in the lease value per m2 or occupation rate or an increase in the capitalization rate, the fair value determined will decrease.
Derivative financial instruments	Discounted cash flows / Valuation models	. Probability of default (PD) considering the internal credit ratings attributed by the Bank . Specific LGDs	In the event a higher probability of default or LDG is used, the fair value of the financial instrument will decrease. On the other hand, in the event a lower probability of default or LDG is used, the fair value of the financial instrument will increase.
Available-for-sale financial assets			
Debt securities	Discounted cash flows	. Credit spreads determined internally by the Bank	In the event a higher credit risk is used, the fair value of the security will decrease. On the other hand, in the event a lower credit risk is used, the fair value of the security will increase.
Participation units in Real Estate Investment Funds	Price disclosed by respective Managing Company	. Capitalization rates . Lease values per m2 . Occupation rates	In the event of an increase in the lease value per m2 or occupation rate or a decrease in the capitalization rate, the fair value determined will increase. In the event of a decrease in the lease value per m2 or occupation rate or an increase in the capitalization rate, the fair value determined will decrease.

The most representative interest rate curves used in the valuation of financial instruments, by maturity and currency, were the following:

	30/06/2016		31/12/2015	
	EUR	USD	EUR	USD
Overnight	-0.17%	0.98%	-0.04%	0.61%
1 month	-0.17%	0.98%	-0.02%	0.57%
3 months	-0.17%	0.98%	-0.02%	0.61%
6 months	-0.18%	0.92%	-0.04%	0.70%
9 months	-0.19%	0.92%	-0.05%	0.78%
1 year	-0.20%	0.92%	-0.06%	0.86%
3 years	-0.21%	0.81%	0.06%	1.42%
5 years	-0.10%	0.98%	0.33%	1.76%
7 years	0.08%	1.14%	0.62%	1.99%
10 years	0.36%	1.35%	1.00%	2.22%

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

At June 30, 2016 and December 31, 2015, the book value and the fair value of the financial instruments valued at amortized cost or historical cost was as follows:

	30/06/2016		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	968 665	972 627	3 962
Balances due from other banks	402 067	402 067	-
Available-for-sale financial assets	61 904	61 904	-
Loans and advances to credit institutions	1 830 797	1 840 691	9 894
Loans and advances to customers	31 495 935	31 001 218	(494 717)
Investments held to maturity	301 730	301 730	-
	35 061 098	34 580 237	(480 861)
Liabilities			
Resources of central banks	(2 450 427)	(2 466 914)	(16 487)
Resources of other credit institutions	(3 124 569)	(3 134 591)	(10 022)
Resources of customers and other debts	(25 552 357)	(25 597 853)	(45 496)
Debt securities	(4 609 683)	(4 604 017)	5 666
Subordinated liabilities	(4 299)	(4 299)	-
	(35 741 335)	(35 807 674)	(66 339)

	31/12/2015		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	3 134 032	3 134 032	-
Balances due from other banks	463 898	463 898	-
Available-for-sale financial assets	64 807	64 807	-
Loans and advances to credit institutions	1 535 436	1 567 464	32 028
Loans and advances to customers	31 585 519	31 023 382	(562 137)
	36 783 692	36 253 583	(530 109)
Liabilities			
Resources of central banks	(4 952 679)	(4 955 163)	(2 484)
Resources of other credit institutions	(3 545 229)	(3 582 827)	(37 598)
Resources of customers and other debts	(23 911 103)	(23 983 746)	(72 643)
Debt securities	(5 027 184)	(4 950 983)	76 201
Subordinated liabilities	(4 302)	(4 283)	19
	(37 440 497)	(37 477 002)	(36 505)

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

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows. At June 30, 2016 and December 31, 2015, the financial instruments recorded at amortized cost or historical cost presented the following detail, by valuation methodology:

	30/06/2016			
	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	-	968 665	-	968 665
Balances due from other banks	-	402 067	-	402 067
Available-for-sale financial assets	-	-	61 904	61 904
Loans and advances to credit institutions	-	1 830 797	-	1 830 797
Loans and advances to customers	-	-	31 495 935	31 495 935
Held-to-maturity investments	64 249	121 095	116 386	301 730
	64 249	3 322 624	31 674 225	35 061 098
Liabilities				
Resources of central banks	-	(2 450 427)	-	(2 450 427)
Resources of other credit institutions	-	(3 124 569)	-	(3 124 569)
Resources of customers and other debts	-	-	(25 552 357)	(25 552 357)
Debt securities	-	-	(4 609 683)	(4 609 683)
Subordinated liabilities	-	-	(4 299)	(4 299)
	-	(5 574 996)	(30 166 339)	(35 741 335)

	31/12/2015			
	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	-	3 134 032	-	3 134 032
Balances due from other banks	-	463 898	-	463 898
Available-for-sale financial assets	-	-	64 807	64 807
Loans and advances to credit institutions	-	1 535 436	-	1 535 436
Loans and advances to customers	-	-	31 585 519	31 585 519
	-	5 133 366	31 650 326	36 783 692
Liabilities				
Resources of central banks	-	4 952 679	-	4 952 679
Resources of other credit institutions	-	3 545 229	-	3 545 229
Resources of customers and other debts	-	-	23 911 103	23 911 103
Debt securities	-	-	5 027 184	5 027 184
Subordinated liabilities	-	-	4 302	4 302
	-	8 497 908	28 942 589	37 440 497

The main assumptions used in the assessment of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- For purposes of determining the future cash flows of the portfolio, the fair value of variable rate loans was determined considering the average spread of the production of the last quarter of the period/financial year. Regarding the fixed rate loans, the future cash flows were discounted at the average rates applied by the Bank in the last quarter of the period/financial year;

- The fair value of demand deposits from customers was considered to be equal to its book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the period/financial year for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the period/ financial year; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes the identification, measurement, integration and evaluation of the different credit risk exposures and the analysis of its return adjusted for its risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group’s Risk Area, which is responsible for managing the special customer vigilance system, the credit risk segmentation based on customer and product characteristics and the scoring and rating systems (applicable to mortgage loans, consumer credit and credit cards) used by the Bank.

Counterparty risk consists of the potential credit risk in transactions on financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and the subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks of certain customer segments, the control perimeter is defined in accordance with the segments involved.

The control over these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the control over risk concentrations by groups of customers/counterparties on a transversal basis (at several levels).

Derivative position risk (denominated Equivalent Credit Risk) is determined as the sum of the present value of each contract (or current replacement cost) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and the contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating in the quantitative control variables relating to the credit quality of each counterparty.

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

At June 30, 2016 and December 31, 2015, the maximum exposure to credit risk and the corresponding book value of the financial instruments were as follows:

	30/06/2016		31/12/2015	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	968 665	968 665	3 134 032	3 134 032
Balances due from other banks	402 067	402 067	463 898	463 898
Financial assets held for trading	1 679 638	1 679 638	1 750 694	1 750 694
Available-for-sale financial assets	5 612 057	5 612 057	6 467 813	6 467 813
Loans and advances to credit institutions	1 830 797	1 830 797	1 535 436	1 535 436
Loans and advances to customers	31 850 876	36 804 154	31 780 965	37 038 662
Investments held to maturity	301 730	301 730	-	-
Hedging derivatives	126 281	126 281	130 292	130 292
Investments in associates	38 663	38 663	42 957	42 957
	42 810 774	47 764 052	45 306 087	50 563 784
Guarantees and sureties and open documentary credits	1 640 548	1 640 548	1 716 445	1 716 445

The maximum exposure in “Loans and advances to customers” at June 30, 2016 includes tEuros 518,695 and tEuros 4,434,583 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 658,346 and tEuros 4,599,351 at December 31, 2015, respectively).

Loans granted

The Bank reviews loans and advances to customers and other receivables monthly, in order to identify evidence of impairment. For the purpose of the collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in “Carta-Circular” No. 02/2014/DSP issued by the Bank of Portugal on February 26, 2014, the Bank shows the following information reported as at June 30, 2016 and December 31, 2015:

Credit exposure and respective impairment by segment, excluding credit transferred from the former Banif:

	Exposure at June 30, 2016						Impairment at June 30, 2015		
Segment	Total Exposure	Performing loans	Of which cured credit	Of which restructured	Non-performing loans	Of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	8 904 515	8 727 153	3 911	273 166	177 362	47 574	(244 505)	(89 823)	(154 682)
Construction and CRE	2 685 120	2 334 793	2 819	242 100	350 327	153 560	(321 074)	(56 190)	(264 884)
Mortgage	14 571 977	14 248 609	9 489	1 158 443	323 368	124 554	(208 436)	(49 529)	(158 907)
Retail	1 739 793	1 659 525	1 878	190 495	80 268	37 660	(113 324)	(27 079)	(86 245)
Guarantees not included in other segments	1 217 410	1 217 410	-	-	-	-	(1 612)	(842)	(770)
	29 118 815	28 187 490	18 097	1 864 204	931 325	363 347	(888 952)	(223 463)	(665 489)

	Exposure at December 31, 2015						Impairment at December 31, 2015		
Segment	Total Exposure	Performing loans	Of which cured credit	Of which restructured	Non-performing loans	Of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	8 455 216	8 234 418	2 444	275 098	220 798	65 629	(245 225)	(66 689)	(178 536)
Construction and CRE	2 677 947	2 264 075	800	272 840	413 872	195 426	(349 302)	(52 560)	(296 742)
Mortgage	14 661 579	14 277 028	5 347	1 152 581	384 551	125 667	(273 911)	(36 165)	(237 746)
Retail	1 793 075	1 660 786	975	210 218	132 289	74 407	(162 487)	(27 859)	(134 628)
Guarantees not included in other segments	1 245 282	1 245 282	-	-	-	-	(1 273)	(792)	(481)
	28 833 099	27 681 589	9 566	1 910 737	1 151 510	461 129	(1 032 198)	(184 065)	(848 133)

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

The reconciliation between the maximum credit exposure referred to in the table above and the total exposure presented in this table for the six-month periods ended June 30, 2016 and the one-year period ended December 31, 2015, is as follows:

	30/06/2016	31/12/2015
Maximum exposure to credit risk	36 804 154	37 038 662
Commitments with revocable credit lines	(4 434 583)	(4 599 351)
Guarantees provided and other - guarantees and sureties	1 389 806	1 460 948
Guarantees provided and other - open documentary credits	250 742	255 497
Impairment recognized	2 171 240	2 356 673
Exposure related to former Banif		
Loans and advances portfolio	(5 991 723)	(6 552 587)
Oitante bonds	(746 444)	(746 000)
Guarantees and sureties	(260 340)	(303 627)
Documentary credits	(10 652)	(19 861)
Irrevocable commitments	(82 756)	(87 954)
Deferred expenses	(65 948)	(65 659)
Commissions associated with amortized cost (net)	103 247	99 885
Value adjustments of hedged assets	(7 928)	(3 527)
	29 118 815	28 833 099

Detail of total impairment is as follows:

	30/06/2016	31/12/2015
Impairment of loans and advances to customers	(878 293)	(1 021 013)
Provisions and impairment for guarantees and commitments assumed	(10 659)	(11 185)
	-------------	------------
	(888 952)	(1 032 198)
	========	========

The aging of the credit exposure and respective impairment losses, excluding loans transferred from the former Banif, at June 30, 2016 and December 31, 2015 is as follows:

		Total exposure at June 30, 2016			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	8 904 515	8 679 000	48 153	-	177 362
Construction and CRE	2 685 120	2 314 605	20 188	-	350 327
Mortgage	14 517 977	14 106 728	141 881	-	323 368
Retail	1 739 793	1 629 874	29 650	-	80 268
Guarantees not included in other segments	1 217 410	1 217 410	-	-	-
	29 118 815	27 947 617	239 872	-	931 325
Impairment					
Corporate	(244 505)	(82 538)	(7 285)	-	(154 682)
Construction and CRE	(321 074)	(52 231)	(3 958)	-	(264 884)
Mortgage	208 436	(35 716)	(13 813)	-	(158 907)
Retail	(113 324)	(16 298)	(10 781)	-	(86 245)
Guarantees not included in other segments	(1 612)	(842)	-	-	(770)
	(888 952)	(187 625)	(35 838)	-	(665 489)
	28 229 863	27 759 991	204 034	-	265 837

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

		Total exposure at December 31, 2015			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	8 455 216	8 197 466	36 952	-	220 798
Construction and CRE	2 677 947	2 245 991	18 084	-	413 872
Mortgage	14 661 579	14 137 900	139 128	-	384 551
Retail	1 793 075	1 634 060	26 726	-	132 289
Guarantees not included in other segments	1 245 282	1 245 282	-	-	-
	28 833 099	27 460 699	220 890	-	1 151 510
Impairment					
Corporate	(245 225)	(61 663)	(5 026)	-	(178 536)
Construction and CRE	(349 302)	(48 938)	(3 622)	-	(296 742)
Mortgage	(273 911)	(19 628)	(16 537)	-	(237 746)
Retail	(162 487)	(17 428)	(10 431)	-	(134 628)
Guarantees not included in other segments	(1 273)	(792)	-	-	(481)
	(1 032 198)	(148 449)	(35 616)	-	(848 133)
	27 800 901	27 312 250	185 274	-	303 377

At June 30, 2016 and December 31, 2015, the credit exposure and respective impairment losses by year of production, excluding loans transferred from the former Banif, are as follows:

30/06/2016

	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	2 059	150 360	(2 543)	3 135	110 301	(6 442)	117 414	3 725 268	(66 232)	95 080	113 907	(3 938)	1 724	173 249	(127)
2005	836	37 477	(1 438)	667	62 554	(5 802)	24 880	1 205 959	(20 219)	14 402	19 910	(580)	124	5 212	(24)
2006	873	55 712	(2 832)	769	54 582	(8 621)	25 816	1 421 539	(22 954)	14 839	22 955	(958)	148	33 769	(332)
2007	1 402	71 660	(2 936)	1 177	85 850	(15 868)	35 133	1 976 201	(36 067)	22 938	33 993	(1 682)	165	45 510	(9)
2008	1 303	121 085	(3 513)	1 429	119 238	(15 382)	25 645	1 447 300	(30 511)	22 263	38 248	(3 362)	366	66 865	(90)
2009	1 521	147 037	(9 614)	1 585	127 706	(33 065)	16 805	1 001 807	(13 972)	19 146	32 667	(4 223)	266	36 780	(9)
2010	2 079	153 193	(7 937)	1 856	152 523	(29 019)	15 087	1 044 492	(8 765)	21 051	47 257	(7 732)	339	47 392	(70)
2011	2 496	168 458	(9 616)	2 325	153 231	(23 177)	7 228	458 695	(4 878)	34 444	65 234	(10 992)	380	29 193	(327)
2012	3 807	200 080	(19 086)	2 233	319 372	(99 482)	4 579	291 636	(2 410)	49 613	124 785	(20 217)	427	35 962	(4)
2013	5 872	339 103	(35 306)	2 371	185 038	(31 118)	3 733	268 987	(749)	62 367	196 155	(16 526)	552	89 681	(169)
2014	8 357	801 061	(25 777)	2 874	356 323	(22 305)	4 381	352 554	(642)	63 164	276 698	(17 923)	851	148 760	(411)
2015	12 638	1 218 049	(30 675)	4 176	398 316	(20 334)	8 320	742 749	(609)	120 649	472 685	(18 803)	1 357	261 348	(12)
2016	81 319	5 441 240	(93 232)	18 667	560 085	(10 459)	7 601	634 789	(428)	69 102	295 299	(6 388)	1 404	243 689	(29)
	124 562	8 904 515	(244 505)	43 264	2 685 120	(321 074)	296 622	14 571 977	(208 436)	609 058	1 739 793	(113 324)	8 103	1 217 410	(1 612)

31/12/2015

	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	2 832	173 544	(3 624)	1 649	123 039	(5 321)	127 884	3 968 877	(69 624)	114 634	125 581	(4 484)	1 961	203 680	(126)
2005	1 147	47 530	(2 528)	888	67 457	(6 364)	26 270	1 263 635	(27 106)	18 124	22 345	(726)	189	5 353	(22)
2006	1 178	75 577	(4 033)	1 078	61 090	(8 972)	27 245	1 493 960	(34 714)	18 473	26 478	(1 258)	213	78 643	(331)
2007	1 801	92 824	(4 397)	1 604	109 222	(23 048)	36 880	2 073 411	(55 430)	27 504	38 703	(2 542)	226	46 884	(13)
2008	2 238	164 056	(5 581)	2 172	144 482	(17 838)	27 030	1 519 491	(44 821)	30 947	43 190	(4 674)	505	47 480	(93)
2009	2 941	193 722	(15 454)	2 483	158 543	(38 223)	17 792	1 054 185	(19 171)	29 001	42 965	(7 311)	508	16 942	(12)
2010	5 634	238 582	(17 314)	3 320	201 040	(36 449)	15 898	1 091 875	(11 827)	54 716	64 760	(16 049)	542	54 751	(79)
2011	7 972	245 029	(18 220)	3 873	183 670	(34 215)	7 720	480 975	(6 117)	68 483	106 285	(22 485)	572	47 779	(433)
2012	8 419	315 052	(32 977)	3 819	352 258	(97 871)	4 995	306 838	(2 763)	81 923	166 309	(33 180)	619	50 117	(9)
2013	10 542	490 671	(60 411)	3 448	215 769	(35 312)	4 010	284 065	(845)	90 847	264 129	(28 598)	893	130 687	(55)
2014	118 482	1 058 999	(39 531)	18 097	395 198	(28 112)	4 576	367 242	(684)	78 564	349 208	(24 163)	2 127	154 531	(29)
2015	106 362	5 359 630	(41 155)	20 760	666 179	(17 577)	8 415	757 025	(809)	115 749	543 122	(17 017)	2 452	408 435	(71)
	269 548	8 455 216	(245 225)	63 191	2 677 947	(349 302)	308 715	14 661 579	(273 911)	728 965	1 793 075	(162 487)	10 807	1 245 282	(1 273)

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

At June 30, 2016 and December 31, 2015, the impairment losses estimated individually and using the collective analysis statistical model (excluding loans transferred from the former Banif), by segment, were as follows:

	30/06/2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	1 787 750	7 116 765	8 904 515	(151 943)	(92 562)	(244 505)
Construction and CRE	767 170	1 917 949	2 685 120	(285 893)	(35 181)	(321 074)
Mortgage	-	14 571 977	14 571 977	-	(208 436)	(208 436)
Retail	-	1 739 793	1 739 793	-	(113 324)	(113 324)
Guarantees not included in other segments	26 355	1 191 055	1 217 410	(1 548)	(64)	(1 612)
	2 581 275	26 537 540	29 118 815	(439 384)	(449 567)	(888 952)

	31/12/2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	1 372 189	7 083 027	8 455 216	(150 202)	(95 023)	(245 225)
Construction and CRE	781 079	1 896 868	2 677 947	(301 503)	(47 799)	(349 302)
Mortgage	-	14 661 579	14 661 579	-	(273 911)	(273 911)
Retail	-	1 793 075	1 793 075	-	(162 487)	(162 487)
Guarantees not included in other segments	55 879	1 189 403	1 245 282	(1 097)	(176)	(1 273)
	2 209 147	26 623 952	28 833 099	(452 802)	(579 396)	(1 032 198)

At June 30, 2016 and December 31, 2015, the credit risk analysed individually and using the collective analysis statistical model (excluding loans transferred from the former Banif), had the following composition by sector, for the “Corporate” and "Construction and CRE" segments:

	30/06/2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1 138 649	2 194 289	3 332 938	(91 335)	(19 737)	(111 072)
Consulting, scientific, technical and similar consultancy activities	21 064	214 157	235 221	(7 819)	(3 522)	(11 341)
Human health and social support activities	6 325	165 070	171 396	(93)	(1 753)	(1 846)
International organizations activities and other extraterritorial institutions	-	19 741	19 741	-	(29)	(29)
Manufacturing industries	303 845	1 346 820	1 650 665	(13 592)	(22 846)	(36 438)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	1 708	69 404	71 112	(443)	(419)	(861)
Construction	778 744	1 037 337	1 816 081	(240 883)	(21 893)	(262 776)
Real Estate	117 652	567 280	684 932	(41 533)	(6 664)	(48 197)
Education	1 276	55 024	56 299	(20)	(610)	(630)
Other service activities	534	28 100	28 633	(226)	(637)	(863)
Transport and storage	4 747	399 240	403 987	(2 160)	(4 234)	(6 394)
Art, entertainment, recreation and sports activities	8 958	26 783	35 741	(2 240)	(1 166)	(3 405)
Agriculture, Livestock, Hunting, Forestry and Fishing	2 855	114 842	117 697	(592)	(2 050)	(2 641)
Wholesale and retail trade	106 676	1 280 764	1 387 440	(29 704)	(32 892)	(62 597)
Administrative and support activities	16 970	175 061	192 031	(1 147)	(1 794)	(2 941)
Information and communication activities	1 194	76 724	77 918	(537)	(1 276)	(1 814)
Electricity, gas and water	7 269	924 118	931 387	(738)	(223)	(961)
Hotels, restaurants and similar	34 427	313 029	347 455	(4 617)	(4 380)	(8 997)
Extractive industries	2 028	12 386	14 414	(157)	(1 283)	(1 440)
Public administration, defense and social security	-	14 250	14 250	-	(41)	(41)
Other	-	296	296	-	(294)	(294)
	2 554 920	9 034 715	11 589 635	(437 836)	(127 743)	(565 579)

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

	31/12/2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1 016 353	1 466 872	2 483 225	(28 184)	(11 463)	(39 647)
Consulting, scientific, technical and similar consultancy activities	21 118	230 679	251 797	(8 356)	(3 032)	(11 388)
Human health and social support activities	8 303	154 146	162 449	(224)	(1 548)	(1 772)
International organizations activities and other extraterritorial institutions	-	32 628	32 628	-	(29)	(29)
Manufacturing industries	71 038	1 455 472	1 526 510	(15 626)	(27 129)	(42 755)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	-	71 913	71 913	-	(711)	(711)
Construction	713 766	1 042 141	1 755 907	(301 578)	(28 697)	(330 275)
Real Estate	123 515	423 486	547 001	(47 530)	(9 552)	(57 082)
Education	1 316	50 334	51 650	(27)	(552)	(579)
Other service activities	15 868	38 051	53 919	(781)	(764)	(1 545)
Transport and storage	4 693	302 169	306 862	(1 794)	(4 763)	(6 557)
Art, entertainment, recreation and sports activities	9 120	25 568	34 688	(2 280)	(1 248)	(3 528)
Agriculture, Livestock, Hunting, Forestry and Fishing	12 766	105 004	117 770	(911)	(1 807)	(2 718)
Wholesale and retail trade	97 244	1 356 816	1 454 060	(37 287)	(39 790)	(77 077)
Administrative and support activities	2 080	166 962	169 042	(512)	(2 182)	(2 694)
Information and communication activities	3 140	132 917	136 057	(1 139)	(1 486)	(2 625)
Electricity, gas and water	7 493	903 629	911 122	(761)	(701)	(1 462)
Hotels, restaurants and similar	45 455	251 449	296 904	(4 715)	(5 623)	(10 338)
Extractive industries	-	16 568	16 568	-	(1 397)	(1 397)
Public administration, defense and social security	-	752 710	752 710	-	(38)	(38)
Other	-	381	381	-	(310)	(310)
	2 153 268	8 979 895	11 133 163	(451 705)	(142 822)	(594 527)

At June 30, 2016 and December 31, 2015, the credit risk analysed individually and using the collective analysis statistical model (excluding loans transferred from the former Banif) had the following composition by geography:

	30/06/2016			
	Portugal		England	
	Exposure	Impairment	Exposure	Impairment
Individual	2 581 275	(439 384)	-	-
Collective	26 089 612	(434 214)	447 928	(15 353)
	28 670 887	(873 598)	447 928	(15 353)

	31/12/2015			
	Portugal		England	
	Exposure	Impairment	Exposure	Impairment
Individual	2 209 147	(452 802)	-	-
Collective	25 754 726	(559 649)	869 226	(19 747)
	27 963 873	(1 012 451)	869 226	(19 747)

The risk analysis for customers or economic groups where the Bank has an exposure in excess of Euros 500,000 is performed by risk analysts that monitor those customers and are supported by an internally developed rating model approved by the regulators. These models are mandatorily prepared. The attribution of various levels of internal rating, which vary from 1 to 9, consider the risk level inherent to the customer and a one year probability of default, which the Bank monitors and calibrates on a constant and regular basis. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Owners/Management;
. Access to credit;
. Profitability;
. Generation of flows;
. Solvency.

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

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Equity holders/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Cash flow generation	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by weighting parameter, is subsequently introduced into the Bank's IT system.

In general terms, the Bank's internal rating system may be described as follows:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with moderate credit risk;
Rating 7 – 9: Customer with low credit risk.

At June 30, 2016 and December 31, 2015, the loan portfolio of the Bank (excluding loans transferred from the former Banif) presents the following segmentation by internal rating:

	30/06/2016				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	213 040	4 611 598	1 554 371	2 525 506	8 904 515
Construction and CRE	399 067	1 558 532	162 427	565 094	2 685 120
Mortgage	2 022 932	1 340 836	9 570 900	1 637 309	14 571 977
Retail	297 875	261 535	799 951	380 432	1 739 793
Guarantees not included in other segments	10 230	756 308	383 580	67 291	1 217 410
	2 943 144	8 528 809	12 471 230	5 175 632	29 118 815

	31/12/2015				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	217 791	4 447 680	1 424 162	2 365 583	8 455 216
Construction and CRE	385 256	1 593 084	108 311	591 296	2 677 947
Mortgage	2 077 886	1 375 513	9 828 958	1 379 222	14 661 579
Retail	325 308	272 085	830 911	364 771	1 793 075
Guarantees not included in other segments	7 061	783 692	393 606	60 923	1 245 282
	3 013 302	8 472 054	12 585 948	4 761 795	28 833 099

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

At June 30, 2016 and December 31, 2015, the book value of guarantees and other collateral executed relating to credit operations granted amounted to tEuros 200,282 and tEuros 211,832, respectively, and presented the following detail:

	30/06/2016	31/12/2015
Non-current assets held for sale (Note 13)		
Properties received as settlement of defaulting loans	242 274	253 626
Participating units	18 663	18 663
Equipment	2 178	2 253
Other assets received as settlement of defaulting loans (Note 18)	43 689	42 479
Available-for-sale financial assets	22 121	22 121
	328 925	339 142
Impairment of non-current assets held for sale (Note 13)		
Properties received as settlement of defaulting loans	(90 755)	(89 822)
Participating units	(4 000)	(4 000)
Equipment	(1 823)	(1 642)
Impairment of other assets received as settlement of defaulting loans (Note 18)	(9 944)	(9 725)
Impairment of available-for-sale financial assets	(22 121)	(22 121)
	(128 643)	(127 310)
	200 282	211 832

At June 30, 2016 and December 31, 2015, the detail of the fair value and the net book value of property received in settlement of defaulted loans, by type of asset, is as follows:

Asset	30/06/2016			31/12/2015		
	Number of real estate assets	Fair value of asset (*)	Carrying book value	Number of real estate assets	Fair value of asset (*)	Carrying book value
Land						
Urban	127	19 983	16 286	131	22 661	18 124
Rural	96	8 695	7 087	96	9 908	8 171
Constructed buildings						
Commercial	429	40 044	32 327	514	56 361	46 725
Residential	1 495	116 376	92 526	1 463	102 136	83 016
Other	15	3 798	3 030	35	11 172	7 420
Other	11	360	263	4	393	348
	2 173	189 256	151 519	2 243	202 631	163 804

(*) does not include the selling costs or the estimated historical loss on the disposal of this type of asset

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

At June 30, 2016 and December 31, 2015, the detail of the net book value of property received in settlement of defaulted loans, by aging, is as follows:

	30/06/2016				
Asset	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	501	597	4 651	10 537	16 286
Rural	82	177	5 948	880	7 087
Constructed buildings					
Commercial	4 727	8 136	17 392	2 072	32 327
Residential	24 395	26 528	30 323	11 280	92 526
Other	-	1 154	769	1 107	3 030
Other	26	91	146	-	263
	29 731	36 683	59 229	25 876	151 519

	31/12/2015				
Asset	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	774	1 162	4 050	12 138	18 124
Rural	220	3 342	3 952	657	8 171
Constructed buildings					
Commercial	6 060	15 131	22 652	2 882	46 725
Residential	23 605	23 147	31 871	4 393	83 016
Other	1 927	2 082	3 207	204	7 420
Other	-	206	142	-	348
	32 586	45 070	65 874	20 274	163 804

Restructured credit

At June 30, 2016 and December 31, 2015, the restructured credit operations were identified in accordance with Instruction No. 32/2013 of the Bank of Portugal (replacing Instruction No. 18/2012) which establishes the definition of restructured credit due to customers' financial difficulties.

According to said Instruction, the institutions shall identify and mark in their information systems the credit operations of customers with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, extension of the reimbursement deadline, introduction of grace periods, capitalization of interest, reduction of interest rates, interest or principal pardon) or the institution contracts new credit lines to settle (totally or partially) the existing debt service, in which cases the institutions shall include the reference "restructured credit due to financial difficulties of the customer."

A customer is considered to be in a difficult financial position whenever he/she/it has failed to fulfil any of its financial obligations vis-à-vis the institution or if it is predictable, given the information available, that such situation will occur.

The unmarking of restructured credit due to financial difficulties of the customer can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

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

The change occurring in the restructured credit operations (excluding credit transferred from the former Banif) during the six-month period ended June 30, 2016 and financial year 2015 was as follows:

Balance of the restructured portfolio (gross of impairment) at December, 31 2014	2 520 350
Restructured loans in the period	359 094
Accrued interest of the restructured portfolio	(1 513)
Restructured loans settlement (partial or total)	(477 059)
Other	(29 006)
Balance of the restructured portfolio (gross of impairment) at December, 31 2015	2 371 866
Restructured loans in the period	285 084
Accrued interest of the restructured portfolio	(2 156)
Restructured loans settlement (partial or total)	(422 987)
Reclassified credit from "restructured" to "normal"	(4 256)
Balance of the restructured portfolio (gross of impairment) at June 30, 2016	2 227 551

At June 30, 2016 and December 31, 2015, the portfolio of restructured credit (excluding credit transferred from the former Banif) by restructuring measure adopted had the following detail:

	30/06/2016								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	33 422	943 418	(32 895)	4 993	139 695	(101 694)	38 415	1 083 113	(134 588)
Others	28 423	920 786	(95 697)	4 640	223 652	(171 927)	33 063	1 144 438	(267 623)
	61 845	1 864 204	(128 591)	9 633	363 347	(273 621)	71 478	2 227 551	(402 212)

	31/12/2015								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	34 899	992 152	(40 787)	7 659	166 422	(122 286)	42 558	1 158 574	(163 073)
Others	28 632	918 585	(88 846)	7 574	294 707	(209 502)	36 206	1 213 292	(298 348)
	63 531	1 910 737	(129 633)	15 233	461 129	(331 788)	78 764	2 371 866	(461 421)

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

<u>Collateral</u>

On June 30, 2016, the coverage of overdue loans by collateral was as follows:

	30/06/2016				
		Collateral			
Coverage level	Exposure	Mortgages	Other real guarantees	Total	Impairment
Corporate					
>= 100%	209 888	50 413	96 834	147 247	(120 898)
>= 80% and < 100%	208 422	114 581	118 473	233 054	(101 718)
>= 60% and < 80%	220 836	184 147	137 179	321 326	(122 055)
< 60%	868 644	1 569 184	423 584	1 992 768	(461 383)
Without guarantee	699 475	-	-	-	(453 221)
Mortgage					
>= 100%	98 629	76 849	3 503	80 352	(41 403)
>= 80% and < 100%	166 738	183 946	4 437	188 383	(54 438)
>= 60% and < 80%	216 427	309 300	2 602	311 902	(66 403)
< 60%	235 868	515 241	6 011	521 252	(88 267)
Without guarantee	19 117	-	-	-	(15 064)
Other					
>= 100%	14 183	3 470	7 631	11 101	(10 918)
>= 80% and < 100%	29 128	8 400	24 244	32 644	(23 481)
>= 60% and < 80%	53 971	49 283	27 645	76 928	(40 961)
< 60%	81 706	148 435	40 469	188 904	(59 544)
Without guarantee	136 406	-	-	-	(102 457)
	3 259 438	3 213 249	892 612	4 105 861	(1 762 211)

At December 31, 2015, the coverage of overdue loans by collateral (excluding loans transferred from the former Banif) was as follows:

	2015						
	Exposure			Collaterals			
Coverage level	Non overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collaterals	Total	Impairment
Corporate							
>= 100%	16 340	31 678	48 018	18 545	11 575	30 120	(25 039)
>= 80% and < 100%	8 628	13 022	21 650	22 303	2 330	24 633	(8 554)
>= 60% and < 80%	12 382	38 029	50 411	65 220	8 371	73 591	(22 661)
< 60%	32 962	132 504	165 466	352 564	25 914	378 478	(71 870)
Without guarantee	176 310	271 337	447 647	-	-	-	(263 115)
Mortgage							
>= 100%	22 885	99 528	122 413	103 326	11	103 337	(41 913)
>= 80% and < 100%	94 889	81 587	176 476	198 004	-	198 004	(38 196)
>= 60% and < 80%	106 406	65 707	172 113	244 691	-	244 691	(32 376)
< 60%	117 263	100 324	217 587	472 797	27	472 824	(47 972)
Without guarantee	2 098	2 080	4 178	-	-	-	(1 239)
Other						-	
>= 100%	3 634	5 588	9 222	2 369	2 683	5 052	(5 182)
>= 80% and < 100%	1 831	2 329	4 160	2 701	1 778	4 479	(2 447)
>= 60% and < 80%	1 791	1 703	3 494	1 891	2 901	4 792	(1 777)
< 60%	5 637	3 064	8 701	11 979	7 379	19 358	(4 374)
Without guarantee	67 783	106 393	174 176	-	-	-	(124 824)
	670 839	954 873	1 625 712	1 496 390	62 969	1 559 359	(691 539)

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

At June 30, 2016 and December 31, 2015, the book value of the debt instruments by external rating, in accordance with Standard & Poor's rating classification, was made up as follows:

	30/06/2016	31/12/2015
Financial assets held for trading		
Rating S&P		
BBB+ / BBB / BBB-	-	9 929
BB+ / BB / BB-	5 394 652	6 045 447
B+ / B / B-	104 389	108 577
Without external rating	12 956	185 267
	5 511 997	6 349 220

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

The liquidity risk management policy is decided by the top level body of the organizational area responsible for Asset and Liability Management ("ALM"), the Assets and Liabilities Committee (ALCO), which is presided by the Chairman of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and decides the strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin ("NIM") sensitivity and asset value ("MVE") sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through the liquidity coefficient and the accumulated net illiquidity indicators.

The Bank's financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level considering the credit lines available, the dispersion of the maturities and the minimization of funding activity related costs.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

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

The projected cash flows of the financial instruments (not discounted) at June 30, 2016 and December 31, 2015, in accordance with their contractual maturity, were as follows:

	30/06/2016							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	244 242	-	-	-	724 340	-	-	968 581
Balances due from other banks	402 067	-	-	-	-	-	-	402 067
Financial assets held for trading	1 679 638	-	-	-	-	-	-	1 679 638
Available-for-sale financial assets	2	8 715	259 334	1 639 717	829 486	3 895 201	166 431	6 798 887
Loans and advances to credit institutions	904 126	22 926	34 872	566 249	13 543	278 172	-	1 819 888
Loans and advances to customers	169 324	2 533 864	3 552 638	6 843 031	6 184 421	17 133 892	-	36 417 169
Held-to-maturity investments	-	1 844	7 565	206 378	56 342	84 483	-	356 612
Hedging derivatives	126 281	-	-	-	-	-	-	126 281
Investments in associates	-	-	-	-	-	-	40 163	40 163
	3 525 680	2 567 348	3 854 409	9 255 375	7 808 132	21 391 747	206 594	48 609 285
Liabilities								
Resources of central banks	4 427	-	-	-	2 446 000	-	-	2 450 427
Financial liabilities held for trading	1 687 799	-	-	-	-	-	-	1 687 799
Resources of other credit institutions	478 473	2 026 606	3 977	1 857	1 860	600 521	-	3 113 294
Resources of customers and other debts	10 605 580	4 627 628	6 334 584	6 555 665	566 626	18 098	-	28 708 181
Debt securities	692	86 182	1 240 358	1 013 546	937 304	1 615 381	-	4 893 463
Hedging derivatives	183 854	-	-	-	-	-	-	183 854
Subordinated liabilities	-	4 309	-	-	-	-	-	4 309
	12 960 825	6 744 725	7 578 919	7 571 068	3 951 790	2 233 999	-	41 041 328

	31/12/2015							
	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	284 667	360	1 089	2 891	2 854 750	-	-	3 143 757
Balances due from other banks	463 898	-	-	-	-	-	-	463 898
Financial assets held for trading	1 750 694	-	-	-	-	-	-	1 750 694
Available-for-sale financial assets	2	48 792	175 493	1 352 981	2 476 589	2 970 632	191 477	7 215 966
Loans and advances to credit institutions	364 581	40 269	677 660	169 392	15 802	275 884	-	1 543 588
Loans and advances to customers	187 542	6 322 392	4 243 992	5 293 685	5 434 510	14 726 040	-	36 208 161
Hedging derivatives	130 292	-	-	-	-	-	-	130 292
	3 181 676	6 411 813	5 098 234	6 818 949	10 781 651	17 972 556	191 477	50 456 356
Liabilities								
Resources of central banks	1 404 484	1 100 149	-	2 453 964	-	-	-	4 958 597
Financial liabilities held for trading	1 721 691	-	-	-	-	-	-	1 721 691
Resources of other credit institutions	284 592	1 445 647	1 329 884	3 280	3 038	601 900	-	3 668 341
Resources of customers and other debts	8 905 366	5 048 603	6 907 147	6 036 093	882 570	22 315	-	27 802 094
Debt securities	798	31 300	320 609	1 352 224	1 739 228	2 108 026	-	5 552 185
Hedging derivatives	170 133	-	-	-	-	-	-	170 133
Subordinated liabilities	-	-	-	-	-	-	4 313	4 313
	12 487 064	7 625 699	8 557 640	9 845 561	2 624 836	2 732 241	4 313	43 877 354

The projected cash flows of the financial instruments were determined based on the principles and assumptions used by the Bank to manage and control the liquidity resulting from its operations, namely:

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

- Financial instruments classified as "non-structural" were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months; and

- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity instrument prices, precious metals and commodities.

The standard methodology applied for the Bank's trading activity is Value at Risk ("VaR"). The Historical Simulation with a 99% confidence level and a time horizon of one day is used as the standard, with statistical adjustments being applied to include the more recent occurrences that affect the level of risk assumed. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measurements.

The reckoned VaR represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

Other measures are simultaneously implemented that permit an additional control of market risk. For abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios for different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of the scenarios seeks to identify the potential risk under extreme market conditions and on the fringes of the probability of occurrence not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being realized over the changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measurements and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results due to parallel changes in the interest rate curves. For the control of the derivative activities, due to the unusual nature of same, specific sensitivity measurements are performed daily, namely estimating sensitivity to changes in the underlying prices (delta and gamma), volatility (i) and time (theta).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed at protecting the volume of effective losses or the results already achieved during the period (Loss Triggers and Stop Losses).

As for the interest rate structural risk, the model used in the analysis permits the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and repricing structure, which determines the sensitivity of the financial margin and the sensitivity of the net asset value of the balance sheet instruments.

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

Interest rate risk

At June 30, 2016 and December 31, 2015, financial instruments, by exposure to interest rate risk, were as follows:

	30/06/2016				
	Exposure to		Non subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	724 423	244 242	-	968 665
Balances due from other banks	-	-	402 067	-	402 067
Financial assets held for trading	-	-	3 078	1 676 560	1 679 638
Available-for-sale financial assets	5 217 475	168 239	226 343	-	5 612 057
Loans and advances to credit institutions	1 025 891	783 893	21 013	-	1 830 797
Loans and advances to customers	4 720 173	27 643 943	(513 240)	-	31 850 876
Hedging derivatives	-	-	-	126 281	126 281
	10 963 539	29 320 498	383 503	1 802 841	42 470 381
Liabilities					
Resources of central banks	2 446 000	-	4 427	-	2 450 427
Financial liabilities held for trading	-	-	-	1 687 799	1 687 799
Resources of other credit institutions	16 609	3 107 909	51	-	3 124 569
Resources of customers and other debts	18 293 862	10 021 142	131 917	-	28 446 921
Debt securities	2 720 769	1 972 567	(67 343)	-	4 625 993
Hedging derivatives	-	-	-	183 854	183 854
Subordinated liabilities	-	4 275	24	-	4 299
	23 477 240	15 105 893	69 076	1 871 653	40 523 862

	31/12/2015				
	Exposure to		Non subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2 849 364	284 668	-	3 134 032
Balances due from other banks	-	-	463 898	-	463 898
Financial assets held for trading	-	-	3 096	1 747 598	1 750 694
Available-for-sale financial assets	5 609 518	424 326	433 969	-	6 467 813
Loans and advances to credit institutions	1 112 740	371 308	51 388	-	1 535 436
Loans and advances to customers	3 524 326	29 095 874	(839 235)	-	31 780 965
Hedging derivatives	-	-	-	130 292	130 292
	10 246 584	32 740 872	397 784	1 877 890	45 263 130
Liabilities					
Resources of central banks	2 446 000	2 500 000	6 679	-	4 952 679
Financial liabilities held for trading	-	-	-	1 721 691	1 721 691
Resources of other credit institutions	162 807	2 863 654	518 768	-	3 545 229
Resources of customers and other debts	18 297 662	8 626 069	202 582	-	27 126 313
Debt securities	2 733 748	2 291 199	18 498	-	5 043 445
Hedging derivatives	-	-	-	170 133	170 133
Subordinated liabilities	-	4 275	27	-	4 302
	23 640 217	16 285 197	746 554	1 891 824	42 563 792

Financial instruments – non-trading

The methodology used for the estimating the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities based on changes of 100 basis points (“bp”) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin may change as a result of changes in market rates;

- The assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- Future cash flows, duly distributed by repricing dates (variable rate) or maturity dates (fixed rate), are estimated for each sensitive operation (contract);

- Operations are sub-grouped by repricing/maturity date for each previously defined group;

- The intended time ranges for measurement of the interest rate gaps are defined;

- For each group, the cash flows are re-grouped based on the ranges created;

- For each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- The total inflows and outflows are estimated for each range and the difference between these, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap permits the obtaining of an approximate value of the sensitivity of the net assets value and the financial margin to variations in market rates. This approximate value uses the following assumptions:

- Volumes remain constant in the balance sheet and are automatically renewed;

- The movements in the interest rates are assumed to be parallel, whilst the possibility of actual changes for different periods of the interest rate curve is not considered; and

- Different elasticities between the various products are not considered.

Regarding the variation in Net Asset value, an increase in the interest rates originates a decrease in the value of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain unchanged during the period under analysis;

- Maturities and repricing – the actual maturity and repricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- Characteristics of new operations “New business” (term, repricing, volumes, spread, indexing factor, etc.) – the conditions inscribed in the budget for each product are used. When these characteristics cease to fall within market conditions for certain products, the average conditions practised in the last month or the new commercial directives for each product under review are used.

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

At June 30, 2016 and December 31, 2015, the sensitivity of the Bank's financial instruments to positive and negative changes of 100 basis points (bp) in the interest rates, over a time frame of one year, corresponded to:

	30/06/2016		31/12/2015	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	(42)	11 848	1 627	83 080
Available-for-sale financial assets	(416 009)	278 899	(326 835)	288 920
Loans and advances to credit institutions	(4 471)	14 051	(6 493)	7 016
Loans and advances to customers	(216 934)	88 444	(182 767)	110 011
	(637 456)	393 242	(514 468)	489 027
Hedging derivatives	27 417	(26 334)	22 224	(40 417)
Liabilities				
Resources of central banks	(96 168)	22 800	(68 348)	23 265
Resources of other credit institutions	(3 641)	5 085	(8 501)	6 124
Resources of customers and other debts	(640 363)	236 589	(532 907)	338 888
Debt securities	(68 916)	30 156	(80 645)	48 438
Other subordinated liabilities	(6)	1	(6)	2
	(809 094)	294 631	(690 407)	416 717

Financial instruments - held for trading

Besides the Bank’s own calculation methodology, the basic parameters for the calculation of the VaR are as follows:

- Time horizon: The period of time used for estimating the potential losses on a portfolio, for purposes of measuring the VaR (daily) is 1 day;

- Confidence level: both the VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, for the distribution of losses and gains);

- Exponential deterioration factor: Permits the amount of the changes in market factors to be exponentially weighted over time, by giving less weight to observations that are more distant in time. The exponential deterioration factor applied is calculated periodically taking in consideration the Market Risk methodology;

  The VaR values used are the higher of those arising from the estimate made with the deterioration factor in force and the calculation made using uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that the local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow for the accumulation of different units; and

- Time window of market data: A 2 year time window or at least 520 items of data obtained from the VaR calculation reference date, going back in time, is used.

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

The reckoning of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight for the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using historic changes as a distribution model of the possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between these, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires the valuation of each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. On using revaluation methods, the implicit non-linear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At June 30, 2016 and December 31, 2015, the VaR associated with the interest rate risk corresponds to:

	30/06/2016	31/12/2015
VaR Percentil 99%	(4)	(4)
VaR Weighted Percentil 99%	(1)	(25)

Currency risk

The profile defined for currency risk is very conservative and is based on the hedging policy adopted. The implementation of such policy is the responsibility of the Treasury Department so that the risks involved are maintained at a low level, this being achieved mainly through the use of currency swaps. Currency risk limits are established and monitored by the Market Risk Area.

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

At June 30, 2016 and December 31, 2015, financial instruments, by currency, were as follows:

	30/06/2016			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	965 926	1 288	1 451	968 665
Balances due from other banks	275 293	102 786	23 988	402 067
Financial assets held for trading	1 676 549	2 714	375	1 679 638
Available-for-sale financial assets	5 612 057	-	-	5 612 057
Loans and advances to credit institutions	927 896	753 033	149 868	1 830 797
Loans and advances to customers	31 538 059	268 491	44 326	31 850 876
Held-to-maturity investments	301 730	-	-	301 730
Hedging derivatives	125 596	684	-	126 281
Investments in associates	38 663	-	-	38 663
	41 461 769	1 128 997	220 007	42 810 773
Liabilities				
Resources of central banks	2 450 427	-	-	2 450 427
Financial liabilities held for trading	1 684 615	2 768	416	1 687 799
Resources of other credit institutions	3 045 334	76 151	3 083	3 124 569
Resources of customers and other debts	26 909 217	1 314 166	223 538	28 446 921
Debt securities	4 596 367	28 426	1 200	4 625 993
Hedging derivatives	182 718	1 136	-	183 854
Subordinated liabilities	4 299	-	-	4 299
	38 872 978	1 422 647	228 237	40 523 862

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

	31/12/2015			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	3 128 135	2 486	3 411	3 134 032
Balances due from other banks	408 863	34 345	20 690	463 898
Financial assets held for trading	1 748 022	2 574	98	1 750 694
Available-for-sale financial assets	6 467 813	-	-	6 467 813
Loans and advances to credit institutions	819 396	636 260	79 780	1 535 436
Loans and advances to customers	31 458 868	300 746	21 351	31 780 965
Hedging derivatives	129 584	708	-	130 292
	44 160 681	977 119	125 330	45 263 130
Liabilities				
Resources of central banks	4 948 209	-	4 470	4 952 679
Financial liabilities held for trading	1 701 878	19 715	98	1 721 691
Resources of other credit institutions	3 157 960	383 597	3 672	3 545 229
Resources of customers and other debts	25 556 896	1 346 985	222 432	27 126 313
Debt securities	5 013 954	28 205	1 286	5 043 445
Hedging derivatives	168 116	2 017	-	170 133
Subordinated liabilities	4 302	-	-	4 302
	40 551 315	1 780 519	231 958	42 563 792

At June 30, 2016 and December 31, 2015, the VaR associated with currency risk corresponded to:

	30/06/2016	31/12/2015
VaR Percentil 99%	(4)	(8)
VaR Weighted Percentil 99%	(3)	(10)

Asset quotation risk

Financial instruments - held for trading

At June 30, 2016 and December 31, 2015, the Bank had no asset quotation risk associated with financial instruments held for trading and, therefore, the VaR related to this risk is zero.

50. LEGAL SUITS IN PROGRESS

At the end of the first quarter of 2013 a publicly prominent motion surged in Portugal as a result of which the validity of some interest rate swap agreements, established between some financial institutions and several Portuguese State-owned companies, namely in the railway and road transportation sectors, have been challenged. These agreements were mostly celebrated before 2008, that is, prior to the emergence of the recent financial crisis and could render those companies liable to significant charges.

Some of those agreements subscribed with the Bank were challenged; their positive fair values at June 30, 2016 and December 31, 2015 amounting to approximately tEuros 1,228,700 and tEuros 1,228,000, respectively, which are reflected in the accompanying balance sheet under the heading "Financial assets held for trading" (Note 7). These agreements were executed without incidents until September 2013.

As a result of the above mentioned motion, the Bank, certain of the total regularity and binding force of the agreements subscribed with the Portuguese State-owned companies, took the initiative to request a legal statement regarding their validity, considering that it was its duty to contribute, in an appropriate manner, to the elimination of any doubts subsisting as to their validity and binding force. This initiative occurred during the second quarter of 2013, in the English courts of law, which were chosen by the parties as expressly stated in the respective agreement.

In September 2013, after the lodging of the above mentioned suits, the Portuguese State-owned companies notified the Bank that they would suspend, as from that date, the payment of the interest associated with those swap agreements until the on-going legal suits were decided. At June 30, 2016 and December 31, 2015, the balance sheet heading "Other assets - Other" includes approximately tEuros 396,000 and tEuros 311,000, respectively, relating to the unpaid interest (Note 18).

In November 2013, the Portuguese State-owned companies placed before the English courts of law their challenge to the suits lodged by the Bank, requesting the nullity of the agreements and the refund of the net interest paid in the past, which amounted to approximately tEuros 134,000.

On February 14, 2014, the Bank placed before the English courts of law its plea regarding the challenge submitted by the Portuguese State-owned companies and, on April 4, 2014, the defence placed its counter arguments. On May 16, 2014, the preliminary hearing was held. The hearings occurred between October and November 2015, with the final oral arguments being placed in December 2015.

On March 4, 2016, the decision of London’s Commercial Court was made known, which favoured the Bank’s claims, declaring the validity and binding force of the interest rate swap agreements and sentencing the respective companies to the payment of the flows overdue. This process is currently in the appeal stage, at the initiative of the transport companies.

Additionally, during the first half-year of 2014, five legal suits regarding the validity and binding force of certain interest rate swap agreements were raised against the Bank in the Portuguese courts by some entities comprised in the Regional Government of Madeira (belonging in the Portuguese public sector), which have also suspended the payment of the interest associated with those swap contracts. At June 30, 2016 and December 31, 2015, the positive fair value of those swaps amounted to tEuros 87,100 and tEuros 87,000, respectively, and was recorded under the heading “Financial assets held for trading” (Note 7). On the other hand, at June 30, 2016 and December 31, 2015, the balance sheet heading "Other assets - Other" includes approximately tEuros 39,000 and tEuros 31,000, respectively, related to the unpaid interest (Note 18). Finally, the above mentioned entities are also requesting the refund of the net interest paid by them in the past, which amounted to circa tEuros 20,000. The Bank placed its challenge to these suits. Until this date, all court decisions on these suits have been in the Bank’s favour, including second- and third-instance court decisions, and three of these suits have already been concluded in favour of the Bank. For those three suits, the Supreme Court rulings confirmed the rulings of the Courts of first instance and, for one of them, of the Lisbon Court of Appeal (given that the other two legal suits went directly from the Court of first instance to the Supreme Court) that declared their incompetence to judge such suits, and accepting the arguments of the Bank, the grounds that the issues raised are the competence of the English courts. In respect of another suit, the ruling of the Supreme Court referred the matter to the Court of Justice of the European Union (“CJEU”) questioning the applicability of Article 23 of Regulation No. 44/2001, as to whether the jurisdiction pact sufficed as an element of extraneousness or, if not, whether the other facts in the relationship in question sufficed. This decision to refer the matter to CJEU suspended the appeal to the Supreme Court on February 4, 2016.

The Board of Directors of the Bank believes, supported by the opinion of its English and Portuguese legal attorneys, by the ruling of the Commercial Court of London and by the decisions to date of the Portuguese Courts, that the outcome of these suits will be favourable to the Bank and, consequently, no provisions were recorded in the accompanying financial statements for these situations.

Finally, during 2014, two new class actions were raised against the Bank and two Portuguese State-owned companies, Metropolitano de Lisboa, E.P.E. and Metro do Porto, S.A., involving a total amount of approximately tEuros 350,000, which are not included in those indicated above. These suits are focused on the cancellation of some swap agreements established between the Bank and those two Portuguese State-owned companies, which are already being judged by the English courts since the second quarter of 2013, as a result of the initiative taken by the Bank as described in the initial part of this Note. These legal suits were concluded in favour of the Bank, on the grounds of the incompetence of the Portuguese courts, one in February 2016 and the other in June 2016.

51. RESOLUTION FUND

In accordance with a statement issued by the Bank of Portugal on August 3, 2014, it was decided that a resolution measure be applied to Banco Espírito Santo, S.A., which resulted in the transfer of the majority of its activity to a “transitory bank”, named Novo Banco, incorporated especially for that purpose. According to EU legislation, the capitalization of Novo Banco was provided through the Resolution Fund, which was established by Decree-Law No. 31-A/2012, of February 10. As provided for in that Decree-Law, the Resolution Fund is financed through the payment of the contributions due by the participating institutions of the Fund and through the banking sector contribution. In addition, it is also established that if such resources are insufficient to fulfil the Fund’s obligations other financing sources may be used, namely: (i) special contributions from credit institutions; and (ii) loans granted.

In the specific case of the resolution measure applied to Banco Espírito Santo, S.A., the Resolution Fund provided tEuros 4,900,000 to subscribe the share capital of Novo Banco. Of this amount, tEuros 377,000 corresponded to the Resolution Fund’s own resources, resulting from the contributions already paid by the participating institutions and from the banking sector contribution. In addition, a syndicated loan of tEuros 700,000 was granted to the Resolution Fund, with the contribution of each credit institution depending on several factors, including their size. The participation of BST in that loan was tEuros 116,200. The remaining amount needed to finance the resolution measure adopted came from a loan granted by the Portuguese State, which will be repaid and remunerated by the Resolution Fund. When Novo Banco is sold, the proceeds of the sale will be primarily assigned to the Resolution Fund.

In September 2015, the Bank of Portugal suspended the sale process of the Resolution Fund’s shareholding in Novo Banco, started in 2014, and concluded the sale process underway without accepting any of the three binding proposals, considering that their terms and conditions were not satisfactory. In a statement dated December 21, 2015, the Bank of Portugal announced the agreement reached with the European Commission which provided, amongst other commitments, for the extension of the deadline for the sale of the Resolution Fund’s shareholding in Novo Banco.

On November 15, 2015, the Resolution Fund issued a statement, with the following text: “it is also clarified that it is not expected that the Resolution Fund will propose the creation of a special contribution to fund the resolution measure applied to BES. The eventual collection of a special contribution appears, therefore, remote.” Hence, it is foreseen that any Resolution Fund deficits will be financed through regular contributions under Article 9 of Decree-Law No. 24/2013, of February 19, which states that periodic contributions to the Resolution Fund must be paid by the participating institutions that are in active on the last day of the month of April of the year to which the periodic contribution relates.

On December 29, 2015, the Bank of Portugal issued an announcement related to the approval of a set of decisions completing the resolution measure applied to BES. The Bank of Portugal decided to retransfer to BES the responsibility for non-subordinated bonds issued by this entity and that were aimed at institutional investors. The nominal amount of the bonds retransferred to

BES is Euros 1,941 million, corresponding to a book value of Euros 1,985 million. The bonds were originally issued by BES and placed with qualified investors. In addition to this measure, the Bank of Portugal also clarified that the Resolution Fund is required to compensate Novo Banco for the possible adverse effects of future decisions, resulting from the resolution process, which may result in liabilities or contingencies.

On March 31, 2016, the Bank of Portugal issued a new statement on the sale process of Novo Banco, advising that it had defined the terms of the new sale procedure following the relaunch of the sale process announced on January 15, 2016.

Up to the approval date of the accompanying financial statements by the Board of Directors, BST does not have information available to reliably estimate the amounts potentially involved in the sale of Novo Banco. For the same reason, it is not possible to reliably estimate whether, as a result of that sale process, a shortfall of resources will occur in the Resolution Fund will occur, and, if so, how this will be financed. Therefore, at this date, it is not possible to evaluate the potential impact of this situation on the financial statements of BST, since the potential costs involved will depend on the sale price of Novo Banco and the measures that may be taken by the Finance Ministry, under the powers legally assigned to it.

Additionally, on December 20, 2015, the Bank of Portugal applied a resolution measure to Banif, under which an asset management vehicle was created, Oitante, owned by the Resolution Fund. The greater part of Banif's assets that have not been sold were transferred to Oitante. Oitante was incorporated with a share capital of tEuros 50. Under the resolution measure, Oitante issued debt instruments for the payment of the rights and obligations corresponding to the assets transferred from Banif. The bonds were issued for an amount of tEuros 746,000, corresponding to the preliminary valuation of the assets transferred in accordance with paragraph 8 of Article 145º-H of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). Additionally, in the resolution measure it was also determined that the Resolution Fund should provide a guarantee for the Oitante debt instruments as well as financial support to cover the losses of Banif. Banif's losses amounted to tEuros 489,000. The debt instruments of Oitante received by Banif in return for the assets transferred to Oitante were transferred to BST. In addition, the debt instruments also have an additional guarantee provided by the Portuguese State.

The proceeds from the sale of the assets transferred from Banif to Oitante will be used to pay the bonds and to repay the amounts paid by the Resolution Fund to cover the losses of Banif. Up till the date of approval of the attached financial statements, BST has no information available on the estimated disposal value of the assets transferred from Banif to Oitante and on the costs incurred by the latter, in order to analyse any potential impact at the BSTl via the Resolution Fund.

52. FINANCIAL STATEMENTS' APPROVAL

These financial statements were approved by the Board of Directors on July 22, 2016.

53. NOTE ADDED FOR TRANSLATION

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