

Annual  
Report  
2017

PROPOSAL



 **Santander Totta**

Banco Santander Totta, SA

**Annual  
Report**

2017

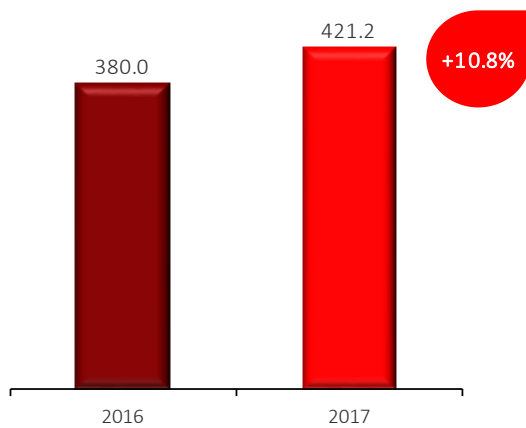
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## Main Highlights

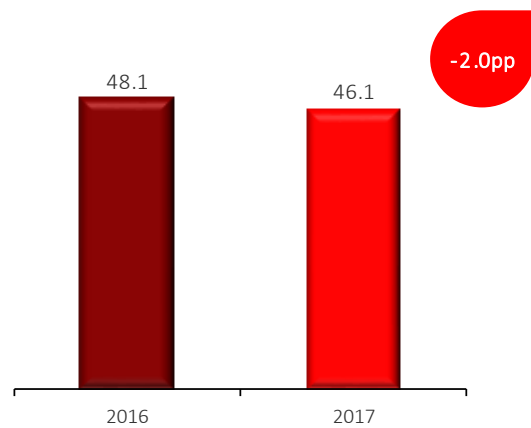


We closed 2017 as the largest private Bank in Portugal in terms of assets and credit and with the best results, capital ratings and ratios of the whole financial system, a position acquired through organic growth and through the acquisition of Banco Popular Portugal. This integration brings us greater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

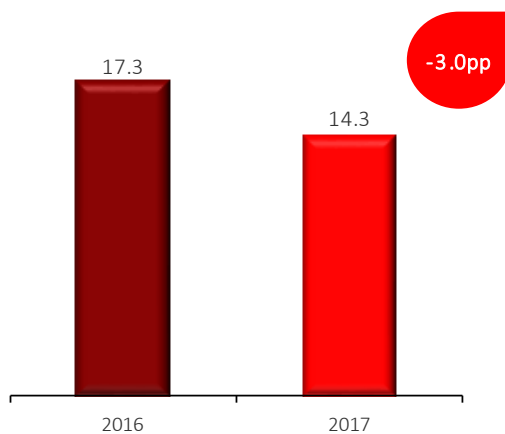
**NET INCOME**  
million euro



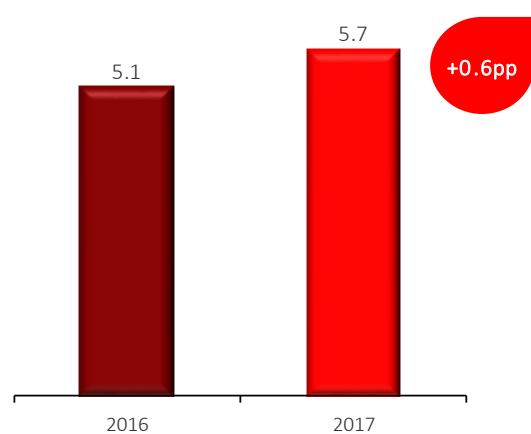
**EFFICIENCY RATIO**  
%



**CET I RATIO**  
%



**NON-PERFORMING EXPOSURE RATIO**  
%



## Indicator Chart

<b>BALANCE SHEET AND RESULTS</b> (million euro)	2017	2016	Var.
Net Assets	50,642	42,977	+17.8%
Loans and advances to customers (net)	39,633	31,452	+26.0%
Customers' Resources	37,378	32,691	+14.3%
Total de Capital	3,662	3,266	+12.1%
Net Interest Income	699.4	734.2	-4.7%
Fees and Other Income	312.1	303.9	+2.7%
Net Income from Banking Activities	1,133.3	1,174.2	-3.5%
Net Operating Income	611.0	609.2	+0.3%
Income before taxes and non-controlling interests	579.1	528.1	+9.7%
Consolidated net income attributable to the shareholders' of BST	421.2	380.0	+10.8%

<b>RATIOS</b>	2017	2016	Var.
ROE	12.9%	12.3%	+0.6 p.p.
ROA	0.8%	0.9%	-0.1 p.p.
Efficiency ratio	46.1%	48.1%	-2.0 p.p.
CET I ratio* (phasing-in)	14.3%	17.3%	-3.0 p.p.
Tier I* ratio	14.2%	17.3%	-3.1 p.p.
Capital* ratio	14.3%	17.3%	-3.0 p.p.
Credit at Risk Ratio	5.1%	5.6%	-0.5 p.p.
Non-Performing Exposure Ratio	5.7%	5.1%	+0.6 p.p.
Restructured loans / Total loans	7.6%	8.6%	-1.0 p.p.
Restructured loans not included in credit at risk / Total loans	4.6%	6.5%	-1.9 p.p.
Credit at risk coverage ratio	82.1%	89.4%	-7.3 p.p.
Non-Performing Exposure Coverage Ratio	55.4%	65.3%	-9.9 p.p.
Cost of credit	0.1%	0.1%	-0.0 p.p.
Loan-to-deposit ratio	120.4%	108.5%	+11.9 p.p.

<b>RATING</b>	2017	2016
FitchRatings		
short term	F2	F2
long term	BBB+	BBB
Moody's		
short term	NP	NP
long term	Ba1	Ba1
Standard & Poor's		
short term	A-3	B
long term	BBB-	BB+
DBRS		
short term	R-1L	R-1L
long term	AL	BBBH

<b>Other Data</b>	2017	2016	Var.
Employees	6,777	6,159	+618
Employees in Portugal	6,742	6,126	+616
Branches	682	657	+25
Total Branches and Corporate Centers in Portugal	670	642	+28

\* With results net of payout

## Message from the Chairman of the Board of Directors



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

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

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

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

Banco Santander is focused on its digitalization process; we want to become a digital Bank with digital solutions that ease our customers' requirements and our employees' procedures. In February 2017, Banco Santander announced the setting up of Santander Digital with the objective to accelerate the attainment of its

commercial objectives and to place Santander as one of the most digital and innovatory banks worldwide. Santander Digital is carrying out a fundamental role in order to achieve 18.6 million loyal customers and 30 million digital customers by the end of 2018.

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

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

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

*António Basagoiti*

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

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

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

## Message from the Chairman of the Executive Committee



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

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

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

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

Banco Santander Totta, SA closed 2017 with consolidated net income amounting to 421.2 million euros, a 10.8% year on year increase, and with highlights on the Bank's rating levels, attributed by the several notation agencies: Fitch – BBB+; Moody's – Ba1; S&P –

BBB-; and DBRS – A(l), some of which in excess of those of the Republic itself.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*António Vieira Monteiro*

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

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

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

## Prizes and Awards



### Best Bank in Portugal - Euromoney

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



### Bank of the Year in Portugal - The Banker

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



### Best Bank in Portugal - Global Finance

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



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

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



### Banking Brand with Best Reputation - Onstrategy

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



### 5 Star Bank - Usoot

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



### Safest Bank – Global Finance

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



### Best Trade Finance Provider – Global Finance

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





### **Best Private Banking Services Overall 2018 - Euromoney**

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



### **Best Private Bank Award – Global Finance**

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



### **Best Place to Work**

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



## **Other Awards**

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

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

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

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

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

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

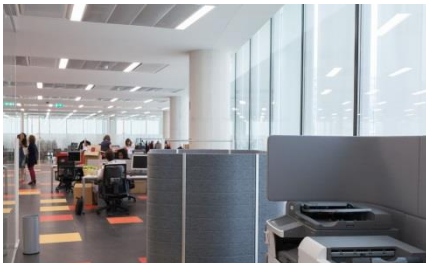
- **"Sustainability Prize" for Santander Totta Centre**, within the scope of the 10<sup>th</sup> Edition of "Construir" Prizes

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

## Other Relevant Facts in 2017

### Santander Totta opens new head office

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



### Santander Totta more digital and closer to its customers



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

+ 11% Digital Customers

### Santander Advance for Companies, a Bank siding with the Economy

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



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

### Santander Totta committed to society

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



7.5 million euros invested in corporate social responsibility

21,300 beneficiaries

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



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

360,000 Mundo 1|2|3 customers

### Santander Totta integrates Banco Popular Portugal

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



Largest private bank in Portugal

## Acquisition of Banco Popular Portugal

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

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

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

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

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

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

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

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

Main data of the former Banco Popular Portugal:



**118 branches**



**6,107M€ credit (gross)**



**890 employees**



**3,954M€ deposits**

### Brand

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

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

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

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



### Soundness, trust and reputation

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

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

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

As previously referred, Santander Totta was also considered as the financial brand with the best reputation, reaching first place in the assessment of positioning and reputation in *Global RepScore Pulse*, carried out by OnStrategy,

representative of Brand Finance in Portugal. The results shown assess trust, preference and recommendation, products and services, innovation and differentiation, business and financial performance, governance and ethics, leadership and social responsibility.



### Our vision

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

### Strategic priorities

### Metrics



#### Employees

- Be the best Bank to work and rely on a strong internal culture
- Top 1 in “Best Bank to Work In”



#### Customers

- Have the trust and loyalty of our private and company customers
- Support the Economy
- Operational excellence and digital transformation
- Loyal private customers
- Loyal company customers
- Growth in loans granted to customers



#### Shareholders

(4.0 million – Santander Group)

- Capital soundness and risk management
- Improve profitability
- Fully loaded CET 1 capital ratio
- NPL Ratio
- RoTE
- *Cost-to-Income*



#### Society in General

- Santander Universities
- Support people in the communities where the Bank operates
- Number of Scholarships
- Number of people supported by the Bank’s social programmes



#### Our purpose

Contribute towards the development of people and companies



#### Our way of doing things

Simple | Personal | Fair

## Corporate Bodies of Banco Santander Totta, SA

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### General Meeting

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

### Board of Directors

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

### Audit Committee

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Manuel Maria de Olazabal y Albuquerque
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

### Auditors

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

### Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	Inês Oom Ferreira de Sousa
	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	João Afonso Pereira Gomes da Silva
Alternate	Raquel João Branquinho Nunes Garcia

\*Resigned on 20 February 2017

\*\* Elected on 31 May 2017

## Executive Committee

### João Baptista Leite

Technology, Operations, Data Integration, Computer Security and Technological Risk

### Pedro Castro e Almeida

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

### José Leite Maia

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

### Luís Bento dos Santos

Communication, Corporate Marketing, Quality and Public Policy

### Manuel Preto

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



### Inês Oom de Sousa

Means of Payment, Multi-channelling, Segments, Universities, Sustainability and *Cross Segment*

### António Vieira Monteiro

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

### José Carlos Sítima

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

### Introduction

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

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

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

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



7.5 million euros in support projects to the



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



**21,314** people under support

### Santander Universities

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

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

- **Universidade de Coimbra 2017** – Prize awarded annually to Portuguese individualities that stood out in the ranges of culture or sciences, the winner receiving a 25,000 euro prize. In the 2017 edition the award went to choreographer, professor and programmer Madalena Victorino, an initiative that once again counted on the participation and support of Santander Totta.
- **Mário Quartin Graça** - Diogo Canavarró, Fábio Fernandes, Aziz José de Oliveira Pedrosa and Naldeir Vieira are the winners of the 8th edition of the Mário Quartin Graça scientific prize, a partnership between Santander Totta and

the House of Latin America which aims to distinguish doctorate degrees earned by Portuguese and Latin-American researchers in Universities on both sides of the Atlantic Ocean.

- **Investigação Colaborativa Santander Totta/Universidade NOVA de Lisboa** – This award aims to distinguish, annually, research projects to be developed by NOVA University junior researchers and which involve, at least, two of the University's organic units. The project "The Policy of Constraints: Discourse Strategies in a Three Level Game" was distinguished in the 10<sup>th</sup> edition of this award
- **Primus Inter Pares** – Since 2003, the Primus Inter Pares Prize, a partnership between Santander Totta and the weekly Expresso, has been distinguishing the best finalists in the courses of Management, Economy and Engineering in Portugal, awarding the winners the opportunity to attend MBA courses in some of the best worldwide Business Schools.
- **Inovação Tecnológica – Universidade do Porto** – The Bank supported the University of Porto prize for technological innovation, whose aim is to promote enterprising eco-systems in Universities. Adélio Mendes, professor and researcher in the Porto Faculty of Engineering (FEUP), received the Technological Innovation Trophy, having registered more than 20 pioneering technology patents, mainly connected to the development of clean energies.
  - **Universidade de Lisboa/Santander Universidades** – These prizes aim to encourage scientific research and the publication of articles and essays in internationally recognized magazines. In the 2017 edition 4 prizes and 13 honourable mentions were awarded. Each of the prize winners received a monetary award of 6,500 euros, which will aid the financing of their respective research projects and sabbaticals.
- **Santander Idea Puzzle** – This prize aims to distinguish the best research designs for doctorate degree purposes conceived with the *Idea Puzzle software*, both domestically and abroad. The national prize, in the 2017 edition was awarded to Sara Soares, with the research design "Biological consequences of exposure to social adversity in childhood". Internationally, the prize was awarded to Leonardo La Rosa, of the *Carlos III University* with the Doctorate degree project "El periodismo de datos en España".
- **Jornalismo em Saúde Global e Medicina Tropical** – This is a joint initiative of Santander Universities and the Association for the Development of Tropical Medicine (ADMT), with the collaboration of Casa da Imprensa (Press Association) and the Institute of Tropical Medicine of Lisbon's NOVA



University (IHMT). The objective of this prize is to reward news reports that promote the public knowledge of tropical sicknesses and of issues related to global health. In its 2<sup>nd</sup> edition, the prize was awarded to Sara Sá, for her report “Public Enemy #1” covering the *zika* virus, published in *Visão* magazine.

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

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

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

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

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

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

- **European Innovation Academy** - The *European Innovation Academy* (EIA), the largest university programme on acceleration in digital innovation, was held in Cascais - Portugal, with Santander Totta as the exclusive partner with Higher Education Institutions and in the finance area. EIA brings together the best university students from well-established American, Asian and European universities, with the objective to create technological *startups* which may become market leaders. The event had 300 participants, from 40 different universities.
- **Concurso Nacional de Jovens Empreendedores** - Santander Totta supported the 1st edition of the National Young Entrepreneurs Competition, which was held in June 2017, aiming to promote creative and social entrepreneurialism, promoting the creation of innovative business ideas. The

targeted public of this initiative were Secondary and Higher Education students between the ages of 18 and 25.

- **2ª Edição do Startup Fest** – Within the scope of the agreement with Porto University, Santander Universities supported the *Startup Fest*, the largest entrepreneurialism and innovation event of this University.

In the 2017 edition, the prize for the “*Startup of the Year*” was awarded to Facestore, the first worldwide platform to permit direct purchasing through the social networks (including payment), without the need to be redirected to the site of the company or brand.

- **Gala da Inovação da Universidade do Porto 2017** – This gala performance pays tribute to the members of the academic community who stood out in the areas of technological innovation, social innovation and artistic innovation and aims, at the same time, to dynamize relations between Porto University and the entrepreneurial fabric.

- **Santander X: the largest worldwide platform for university entrepreneurialism** – In October 2017, the launching occurred of Santander X platform, the largest network of university entrepreneurialism in the World, in which 40 Universities from the 7 countries which were founder members of the platform take part: Argentina, Brazil, Chile, Spain, Mexico, Portugal and Uruguay.

Through Santander X, Universities and entrepreneurs from all over the World may collaborate, sharing ideas and knowledge, but are also able to attract investment and find potential collaborators or mentors. The Universities may also disseminate their best practices and monitor the respective entrepreneurialism programmes, assessing their impact.

- **Poliempreende** - The Poliempreende prize aims to distinguish the most innovative business idea and encourage the entrepreneurialism of students in the domestic Polytechnic Institutions, stimulating the creation of own businesses. The winners of the 14<sup>th</sup> edition of Poliempreende were António Mendes and João Frazão whom, jointly with their team of Setúbal Polytechnic, intend placing personalized motorcycles in legal circulation.
- **Tecstorm no Instituto Superior Técnico** – The Tecstorm competition was held in Instituto Superior Técnico (IST) (Lisbon University Faculty of Engineering), which brought together 18 Higher Education students with the objective to develop previously selected innovatory ideas within a 28 hour delay. The initiative was organized by JUNITEC (Instituto Superior Técnico Junior Companies), with the support of Santander Universities. The winning team was “*IFS Mine Hunters*” of the Lisbon Engineering Higher Institute (ISEL), which developed an off-road system which aims economically to identify and combat terrestrial mines.
- **Work Placement Scholarship Programme for Startups** - In 2017, Santander Totta launched, in partnership with the Youth Foundation, the Santander Youth Startup

Programme, with the objective to provide to 50 young graduates or MBA degree holders with less than two years past their final examinations, and maximum 28 years of age, work placement experiences in domestic startups during a 3 month period.

## Support to the Community and Environment

### Social support

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

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

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

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

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



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

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

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

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

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

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

The **Association Greater Proximity Improved Living (Maior Proximidade Melhor Vida – MPMV)** provides support to approximately 130 aged people residing in the centre of Lisbon, through combating isolation, promoting health and well-being, as well as improving quality of life of aged people in their homes. Santander Totta supported two initiatives in the promotion of health and well-being of this IPSS: “Cuidar+” (“Care+”) and “Prevenir para não Remediar” (“Better Safe than Sorry”) projects.

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

## Health and Sports

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



Almshouses in both archipelagos.

In May, Santander Totta joined the Portuguese Cardiology Foundation, which aims to promote

health and prevention of cardiovascular diseases, to celebrate the "Month of the Heart" with its employees and customers. Cardiovascular screenings were thus carried out in several branches of the network. The objective of this initiative was to disseminate the importance of prevention and control of the risk factors of cardiovascular disease.

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



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

In the area of oral health, Santander Totta supported two projects developed by the **Associação Mundo a Sorrir ("World in Smiles Association")**, whose mission is the promotion of

health care and oral hygiene improvement with communities in vulnerable socioeconomic situations.

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

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

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

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



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

## Social Inclusion

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

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

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

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

After the fires that swept through the area of Pedrógão



Grande in June 2017, Santander Totta opened a Solidarity Account with the objective to aid the victims. The Bank contributed

with the amount of 500,000 euros and, thanks to the support provided by 1,500 persons, it was possible to collect a further 73,480 euros to support the people affected by the fires.

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

## Financial Education

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

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

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

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

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

## Volunteering

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

Aiming to encourage the practice of an active citizenry through volunteering and to recognize the efforts of the



younger people committed to society, Santander Universities launched, in 2016, the **University Volunteering Prize (PVU)**. The 2017 edition of this prize attracted a total of

50 candidacies, which mobilized 5,000 volunteers in several causes. The prize winners were announced on 5 December, International Volunteering Day.

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



In the celebration of the tercentenary of the Mafra Palace,



EPIS – Entrepreneurs for Social Inclusion – carried out the largest **volunteering action in the cleansing of the Mafra Park**. The action was promoted with several entities

that are EPIS associates, amongst them Santander Totta, which took part with a group of approximately 20 volunteers.

A group of the Bank's employees also took part in a corporate volunteering action which involved 150 volunteers from 24 different companies. The initiative took place in the Serras do Porto Park, in Valongo, within the scope of the **12th Edition of GIRO** which, in 2017, was dedicate to fire

prevention. The volunteers carried out tasks related to the maintenance of planted areas, cleaning up of eucalyptus forests, as well as the cutting and removal of invading species.

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

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

## Culture

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

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

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

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

Santander Totta supported a new edition of the **Arts Festival**, which is held every summer in the main historical sites of the

city of Coimbra. In its 9th edition, the Festival was dedicated to the theme "Metamorphosis" and comprised a Music Cycle, Gastronomy and Stage Arts.

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

## Environment

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

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

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

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

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

- Installation of presence sensors in meeting rooms, offices, sanitary facilities, *back-offices*, records and cupboards;

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

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

### International

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

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

#### World Economic Growth

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

Source: IMF (January 2018)

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

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

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

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

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

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

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

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

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

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

	GDP	Inflation
<b>Euro Area</b>	<b>2.4</b>	<b>1.5</b>
Germany	2.2	1.7
France	1.8	1.2
Spain	3.1	2.0
Italy	1.5	1.3

Source: EC (January 2018)

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

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

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

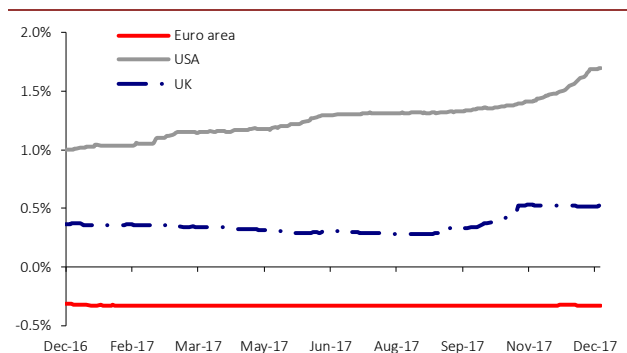
In the emerging economies the year was equally characterized by a recovery in economic activity. In China, which in latter years has been under close scrutiny and the focus of some uncertainty, measures adopted by the authorities allowed growth to become stabilized. GDP will have increased by 6.8% in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

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

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

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

### 3-Months Interest Rates

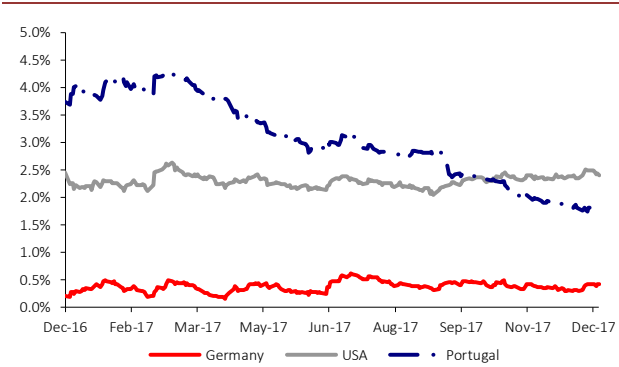


Source: Bloomberg

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



### 10 Year Bond Yields

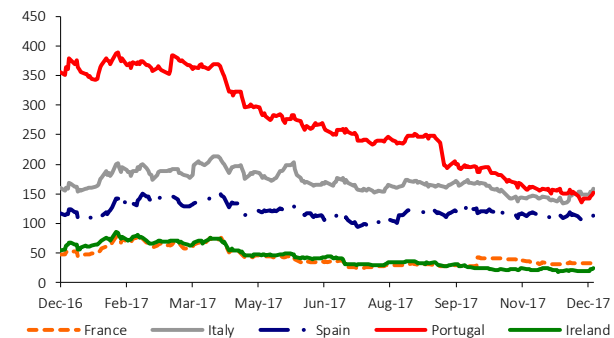


Source: Bloomberg

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

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

### 10 Year Bond Yield Spreads (bp)



Source: Bloomberg

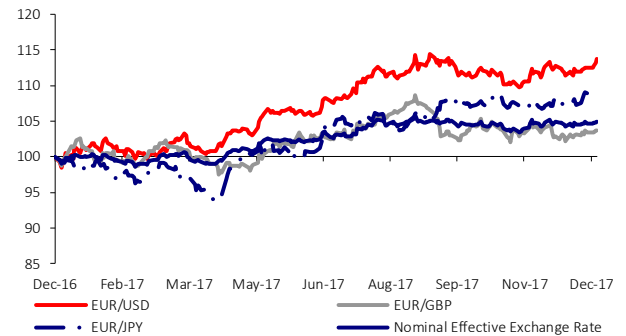
In this environment, and in the euro zone, the spreads, compared to Germany generally narrowed, with special reference, however, to the Portuguese public debt, which reduced from a peak of almost 400b.p. at the beginning of the year to 150b.p. at end-2017, even becoming placed below the spread of the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

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

a weak dollar was in the interest of the North-American economy.

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

### Main Exchange Rates (Dec-2016 = 100)

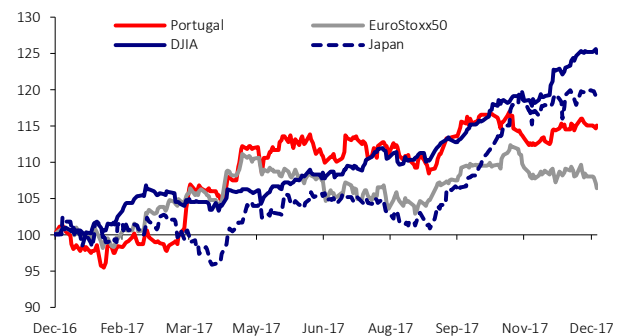


Source: BCE

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

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

### Equity Markets (Dec-2016 = 100)



Source: Bloomberg

In Europe, the recovery of the equity markets was more diffident, affected at times by the electoral processes in relevant countries, such as Holland, France and Germany. At

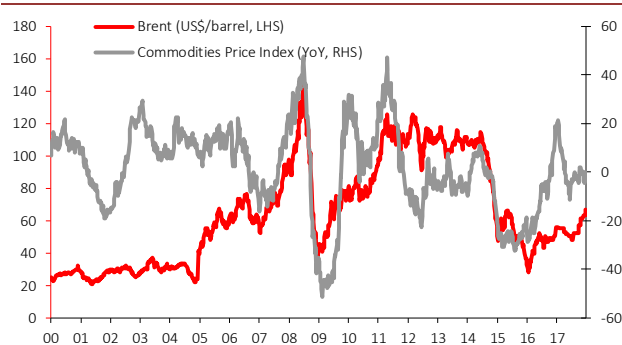
year-end, some uncertainty was felt due to the political developments in Catalonia and the expected early elections in Italy.

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

## Portuguese Economy

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

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



Source: Bloomberg

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

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

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

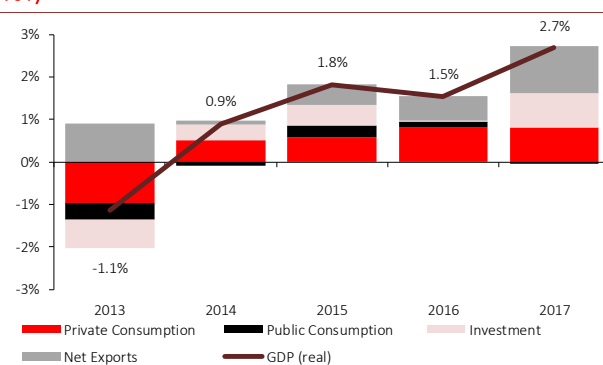
### Macroeconomic Data

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

Source: INE, Banco de Portugal, Ministério das Finanças

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

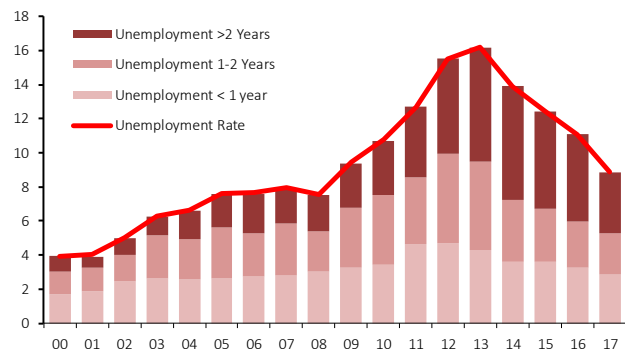
### Contributions to GDP Growth (YoY)



Source: INE

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

### Unemployment Rate



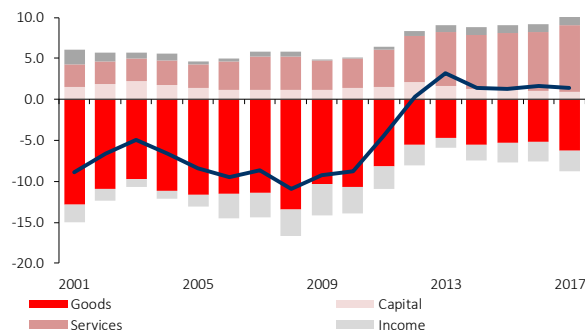
Source: INE

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

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

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

### Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

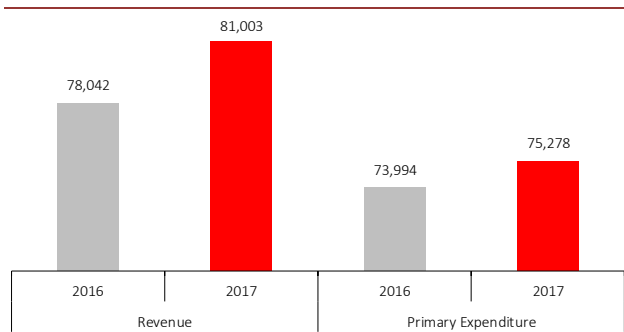
Service exports continued strengthening its surplus position, with tourism contributing with +5p.p. of GDP, from a total balance of +7p.p., in 2017. The weight of tourism exports in GDP is currently 7%.

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

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

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

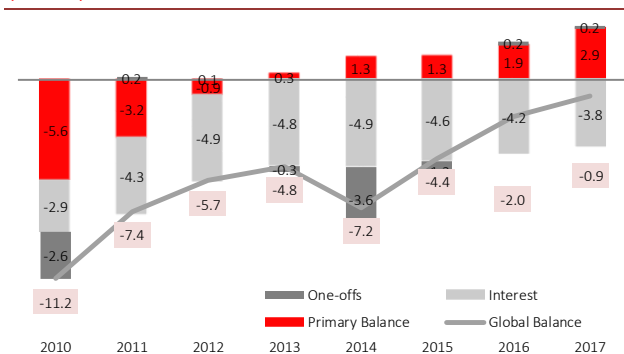
### Current Revenue and Primary Expenditure (€ mn)



Source: Ministério das Finanças

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

### Fiscal Balance (% GDP)



Source: Ministério das Finanças

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

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

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

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

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

## Main risks and uncertainties for 2018

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

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

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

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

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

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

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

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

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

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

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

### Commercial Banking

#### Private Customers

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

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

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

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

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

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

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

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

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

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

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

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

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

## Companies

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

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

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



value creation.

Regarding protocolled loans, particularly in the PME Capitalizar line, Banco Santander Totta exceeded the 20% market share

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



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

## Omni channelling

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

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

## Digital Channels

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

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



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

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

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

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



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

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



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

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

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

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

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

### **Public site**

During 2017 the strategy was maintained in the redesigning of the public site for retail customers with regard to standardizing and simplifying contents and images, always especially focusing conversion components (call-to-action). Measuring and analysis tools for optimizing contents (SEO) were developed and strengthened.

The launching of new areas of pension savings should be highlighted, jointly with the new Mundo 1|2|3 pages, mutual funds, cards, a new pension simulator and the launching of the eBroker platform.



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

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

### **Contact Centre**

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

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

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

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

Several functionalities were implemented in 2017, such as:

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



## International business – residents abroad

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

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

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

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

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

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

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

- New functionalities that allow increasing and expanding the potential of adhesion, viewing and subscribing of products in the customers' accounts in any location and at any moment, namely with the possibility of subscribing both mutual and financial funds, and life insurance;
- Promotion of visits by branch managers to Portuguese external communities. As a complement, visits were

undertaken by managers of representative offices to branches and real estate brokers in locations, in Portugal, which could allow maximizing commercial results and connections with commercial networks;

- In Switzerland, the moving of the representative offices in Geneva to a more central location was successfully carried out and a transfer agreement was concluded with PostFinance.

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

## Global Corporate Banking

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

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

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

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

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

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

## Insurance and investment funds marketed

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

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

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

"Proteção SafeCare" and "Proteção Lar" continued registering great demand, rising to upward of 70,000 policies

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

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

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

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

## Relevant factors after year-end

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

### Outlook for 2018

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

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

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

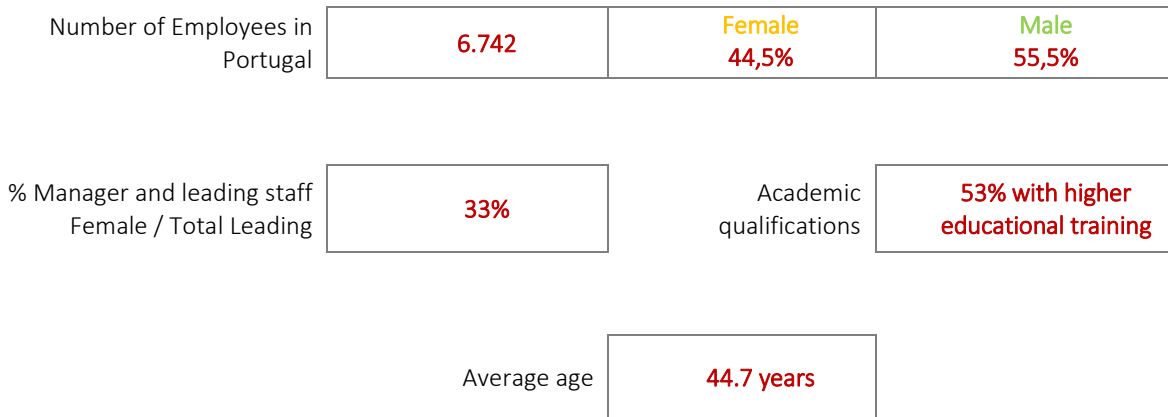
This integration will allow the strengthening of the competitive position of Santander Totta in the market, as the largest private Bank in the industry in Portugal, continuing to be the prime Bank in the support of the community.

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

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

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

Human Resources



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

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

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

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

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

In *e-learning* format, training actions stood out in regulatory and compliance issues such as Prevention of Money Laundering, General Code of Conduct, Business Continuity Model, Course in Insurance Brokerage or Reinsurance Intermediary and Euro Note. Regarding commercial strategy, specific programmes were carried out to support the

implementation of projects amongst which stand: **SmartRed**, **Ready Sales By Galileu** and **Santander Próximo**.

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

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

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

Specific courses took place in order to promote well-being and stress management, such as Mindfulness, Body Mind Flow and Bringing Performance to Human Capital. Also in the

range of Development, programmes took place in Executive Coaching and 31 Leading Staff.

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

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



**2.15** million euros invested in training



**83 hours** of training per employee

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

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

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

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

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

Also set up, in the beginning of the year, was a free transport service (Mini-Bus) for employees working in the Santander Totta Centre. The bus makes several daily runs between Sete Rios bus and tube terminals and Santander Totta Centre, and with an enlarged schedule both morning and evening, in

order to permit a flexible arrangement of the schedules required by each employee. The Mini-Bus had an average 200 daily users, or 46,600 annual passengers which prove the acceptance of this measure.

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

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

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

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

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

Corporate behaviours to become a **Simpler, Personal and Fairer Bank**

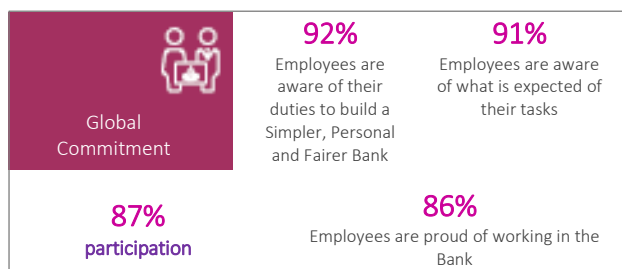
-  Show respect
-  Truly listen
-  Talk straight
-  Keep promises
-  Support people
-  Embrace change
-  Actively collaborate
-  Bring passion

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

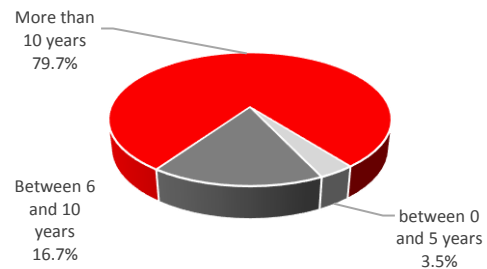
Employees' health and well-being was the reason for the implementation of the BeHealthy corporate programme that aims to promote and create healthy living habits for employees, and several initiatives were developed such as the opening of the Santander Totta Centre Gymnasium on Saturday mornings, establishing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

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

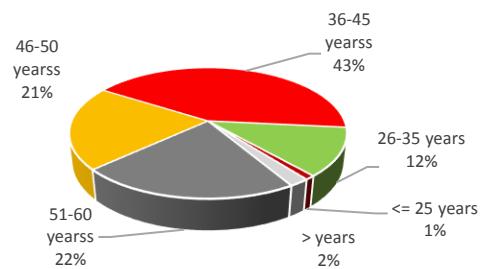
A further Global Commitment Survey was carried out in September. This allows identifying areas of improvement and to establish action plans and simultaneously analyse what is being achieved:



**Distribution of employees by length of service**



**Distribution of employees by age group**



**Technology**

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

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

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

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

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

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

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

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

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

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

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

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

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

## Quality

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

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

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

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

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

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

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

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

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

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

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

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

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

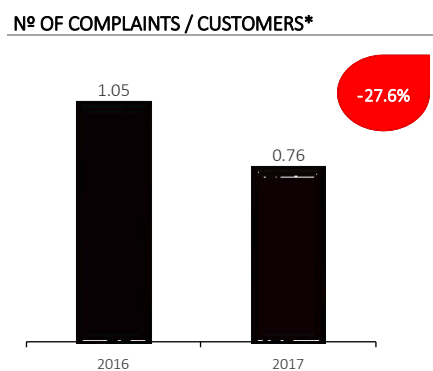
With respect to positioning compared with the competition, the Bank carries out an annual assessment that compares satisfaction of the Bank’s customers and of its main competitors. This assessment is carried out in all the geographies where the Santander Group is represented, with execution rules defined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

physical branch network and especially due to customer integration and commercial activity of the former Banif SA.

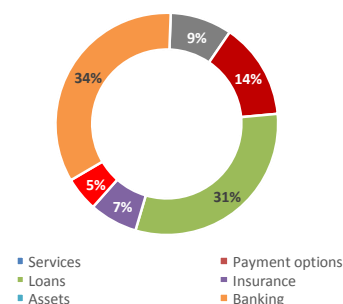
With regard to the management of customer dissatisfaction, 2017 confirms the decrease in the trend of levels of dissatisfaction and consequently of formal complaints, although complaining customers are nowadays opting to lodge their complaints directly with the supervising authority (Bank of Portugal) without, as happened previously, placing these first with the Bank and then, if not satisfied, with the supervising authority.

The issues which are the object of the greater number of complaints are normally the same type as in the previous years and are common to all the banking industry, specifically mortgage loans, cards, non-performing loans and sight accounts (closure and commissions).

### Complaint indicators



### COMPLAINTS TYPE





### Consolidated Business

#### Introduction

At the end of 2017, Banco Santander Totta obtained net income amounting to 421.2 million euros, a 10.8% year on year increase. This evolution resulted from banking business with an increase in market share of loans to companies and mortgage loans, and from reduction in expenses and impairments.

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

The credit portfolio increased by 24.9%, totalling 41.4 thousand million euros, with a 12.7% increase in loans to private customers and 45.3% in loans to companies. The incorporation of the loan portfolio of the former Banco Popular Portugal contributed to the improved balance in the structure of the total loan portfolio, due to the increase of the relative weight of the companies segment.

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

Customers' resources amounted to 37.4 thousand million euros, showing a 14.3% annual growth, with mutual funds, insurance and other resources increasing by 25.4% and deposits by 12.7%.

The transformation ratio, measured by the weight of net loans over deposits, stood at 120.4% in 2017 (108.5% at end-2016).

The *Common Equity Tier 1* (CET 1) regulatory ratio stood at 14.3%, exceeding the minimum requirements set by the European Central Bank.

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

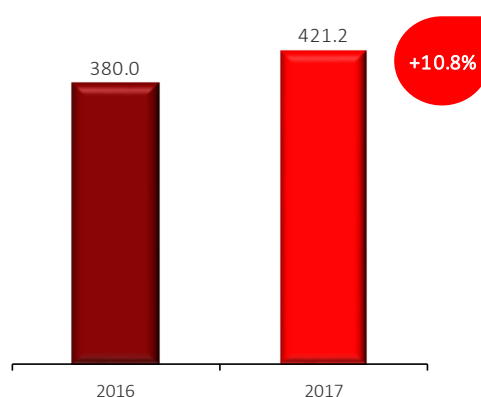
In April 2017, Banco Santander Totta placed a 7 year issue amounting to one thousand million euros in mortgage bonds, the first syndicated issue since 2015. In September, Banco Santander Totta placed a 10 year issue amounting to one thousand million euros in mortgage bonds with an interest rate of 100b.p.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

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

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

#### CONSOLIDATED NET INCOME

million euro



## Results

CONSOLIDATED INCOME STATEMENTS (million euro)	2017	2016	Var.
<b>Net interest income</b>	<b>699.4</b>	<b>734.2</b>	<b>-4.7%</b>
Income from equity instruments	2.9	4.2	-30.6%
Net fees	326.3	303.3	+7.6%
Other income	(14.2)	0.6	-2675.1%
<b>Commercial revenue</b>	<b>1,014.4</b>	<b>1,042.2</b>	<b>-2.7%</b>
Gain/losses on financial transactions	118.9	131.9	-9.9%
<b>Net income from banking activities</b>	<b>1,133.3</b>	<b>1,174.2</b>	<b>-3.5%</b>
Operating costs*	(522.3)	(565.0)	-7.6%
Staff Costs*	(308.7)	(312.7)	-1.3%
General Administrative Costs	(176.5)	(216.2)	-18.4%
Depreciation in the year	(37.1)	(36.2)	+2.5%
<b>Net operating Income</b>	<b>611.0</b>	<b>609.2</b>	<b>+0.3%</b>
Impairment, net provisions and other results	(38.2)	(94.9)	-59.7%
Result from associates and other	6.3	13.8	-54.6%
<b>Income before taxes and non-controlling interests</b>	<b>579.1</b>	<b>528.1</b>	<b>+9.7%</b>
Taxes	(157.9)	(148.1)	+6.7%
Non-controlling interests	0.0	0.0	>200%
<b>Consolidated net income attributable to the BST shareholders</b>	<b>421.2</b>	<b>380.0</b>	<b>+10.8%</b>

\*recurrent

At the end of 2017, net interest income amounted to 699.4 million, a 4.7% decrease relative to the 734.2 million obtained in the same period in 2016, resulting from the lesser weight of the portfolio of sovereign debt in the Bank's accounts, partly set-off by the reduction in financing costs, namely deposits' remuneration rates (averaging near to zero) and of the issued debt.

Net commissions amounted to 326.3 million euros, compared to the 303.3 million euros recorded in the homologous period, a 7.6% increase which was favourably influenced by the evolution shown in management commissions and maintenance of accounts, mutual funds and insurance. This positive development resulted from greater loyalty, digitalization and customer transactionality, from the favourable evolution of business dynamics, namely the volume of off balance sheet resources, and from the adaptation of the price Schedule to the value of the services provided by the Bank.

Other net operating income, amounting to -14.2 million euros, mainly comprised the Bank's obligatory contribution to the Resolution Fund.

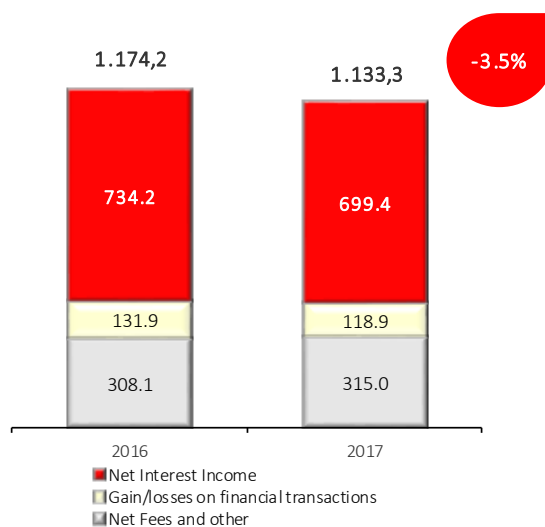
Commercial revenue amounted to 1,014.4 million euros, a 2.7% year on year decrease.

Results in financial operations amounted 118.9 million euros, a 9.9% decrease relative to those shown in the previous year, outcome of the decrease in revenue from the sale of the sovereign debt portfolio.

Operating income amounted to 1,133.3 million euros, a 3.5% reduction as compared to the 1,174.2 million euros recorded in the homologous period, mainly reflecting the decrease in net interest income and in the results of financial operations, partially set-off by the positive contribution of net commissions.

## NET INCOME FROM BANKING ACTIVITIES

million euro



Recurring operational expenses amounted to 522.3 million euros, showing a 7.6% decrease compared to the 565.0 million euros obtained in the previous year. Recurring personnel expenses decreased by 1.3% and general expenses decreased 18.4%, due to the optimization of the

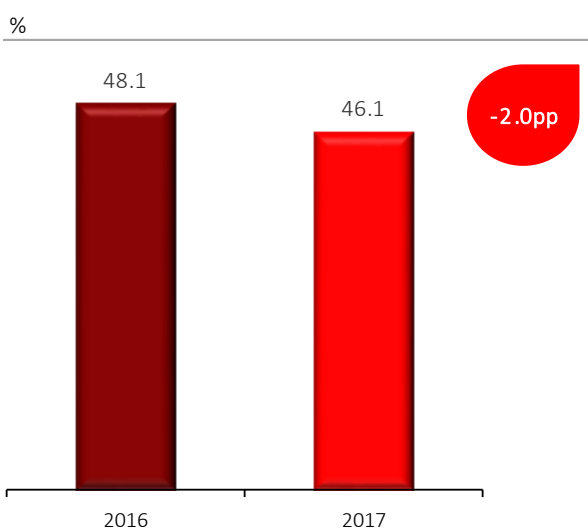
organizational structure, which derived from the resizing of the distribution network, adapted to current business, and to the savings obtained in external supplies and services. Depreciation increased 2.5% in the last year.

OPERATING COSTS* (million euro)	2017	2016	Var.
Staff costs*	(308.7)	(312.7)	-1.3%
Other administrative costs	(176.5)	(216.2)	-18.4%
Depreciation in the year	(37.1)	(36.2)	+2.5%
<b>Operating costs</b>	<b>(522.3)</b>	<b>(565.0)</b>	<b>-7.6%</b>
<b>Efficiency ratio</b>	<b>46.1%</b>	<b>48.1%</b>	<b>-2.0 p.p.</b>

\*recurrent

The evolution in revenue and expenses resulted in a 46.1% efficiency ratio, compared to the 48.1% obtained in homologous period, positively influenced by cost containment.

## EFFICIENCY RATIO



Net operating income amounted to 611.0 million euros, a 0.3% year on year increase.

Impairments, net provisions and other results amounted to 38.2 million euros, as compared with 94.9 million euros in the homologous period, with lower provisions related with credit and assets received in lieu of payment, following the improvement in the Country's economic conditions and the stabilization of entries into default, and due to the conservative criteria in the granting of loans.

Income before taxes and non-controlling interests amounted to 579.1 million euros, a 9.7% increase over the 528.1 million euros obtained in 2016.

Taxes amounted to 157.9 million euros (148.1 million euros in 2016), of which 21.6 million euros are in respect of the special tax on the banking industry.

Net income amounted to 421.2 million euros, a 10.8% year on year increase.

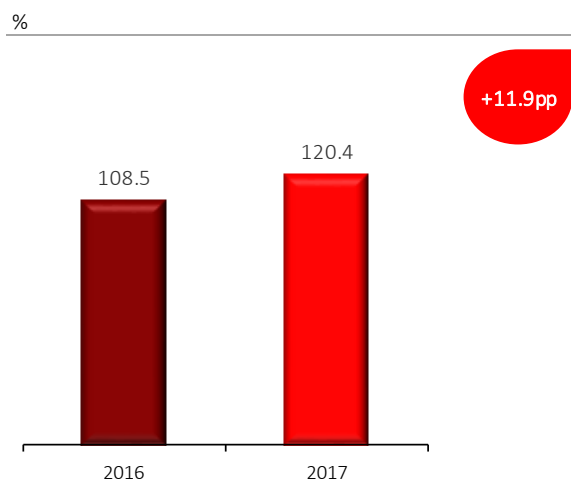
### Accounts and Business Activity

Business volume at end-December 2017 amounted to 78.8 thousand million euros (+19.7% as compared with the previous year). Loans granted to customers increased by 24.9% and Customers' Resources increased 14.3%.

BUSINESS VOLUME (million euro)	2017	2016	Var.
<b>Business Volume</b>	<b>78,752</b>	<b>65,806</b>	<b>+19.7%</b>
Loans and advances to customers	41,374	33,115	+24.9%
Customers' Resources	37,378	32,691	+14.3%

The credit/deposits ratio attained 120.4%, at end-2017, an 11.9 p.p. increase compared to the 108.5% shown one year earlier. This evolution derived from the increase in the portfolio of loans granted to customers to an amount in excess of customers' deposits.

## LOAN-TO-DEPOSIT RATIO



The credit portfolio grew to 41.4 thousand millions at end-2017, an homologous variation of 24,9% relative to 2016. This evolution derived not just from the incorporation of the portfolio of the former Banco Popular Portugal amounting to 6.1 thousand million euros, as well as from

the dynamics of commercial activity in the contracting of new loans to companies and private customers, which resulted in a continuous improvement in new production market shares.

LOANS (million euro)	2017	2016	Var.
<b>Loans and advances to customers (gross)</b>	<b>41,374</b>	<b>33,115</b>	<b>+24.9%</b>
<i>of which</i>			
Loans to individuals	21,437	19,021	+12.7%
<i>of which</i>			
Mortgage	19,091	17,032	+12.1%
Consumer	1,619	1,496	+8.2%
Loans to corporates	19,195	13,215	+45.3%

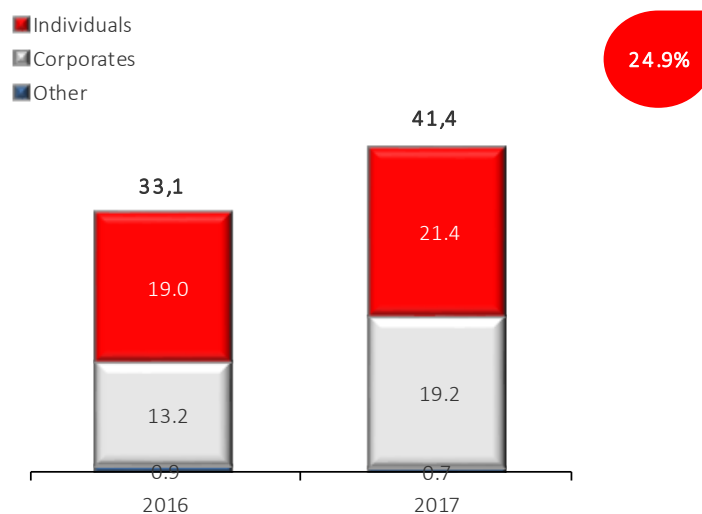
At end- 2017, mortgage loans grew by 12.1% and consumer credit by 8.2%, as compared to the values shown one year earlier. In turn loans to companies registered a 45.3% variation relative to the homologous period

The incorporation of the loan portfolio of the former Banco Popular Portugal led to a more balanced credit structure,

with an increase in the relative weight of the companies segment. Mortgage loans accounted for 46%, compared to 51% one year earlier, and loans to companies increased to 46% of total credit granted in 2017, as compared to 40%, in the homologous period.

## GROSS LOANS

million euro



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

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

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

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

At end-2017, customers' resources totalled 37.4 thousand million euros, showing a 14.3% year on year increase, boosted by the incorporation of the portfolio of former

Banco Popular Portugal, as well as by commercial business activity and by the trust shown by customers

<b>RESOURCES</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Customers' resources</b>	<b>37,378</b>	<b>32,691</b>	<b>+14.3%</b>
On-balance sheet resources	32,137	28,513	+12.7%
Deposits	32,137	28,513	+12.7%
Off-balance sheet resources	5,240	4,178	+25.4%
Investment funds	1,944	1,435	+35.4%
Insurance and other resources	3,296	2,742	+20.2%

Deposits, amounting to 32.1 Thousand million euros, showed a 12.7% increase, and off balance sheet resources, amounting to 5.2 thousand million euros, a significant increase of 25.4%, reflecting the diversification policy of customers' resources.

## Solvency Ratios

At end-2017, the Common Equity Tier 1 (CET 1) regulatory ratio stood at 14.3%, in excess of the minimum requisite required by the Central European Bank in line with SREP.

<b>CAPITAL</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Common Equity Tier I</b>	<b>3,115</b>	<b>3,111</b>	<b>+0.1%</b>
Tier I Capital	3,104	3,111	-0.2%
Total Capital	3,116	3,112	+0.1%
<b>Risk weighted assets (RWA)</b>	<b>21,858</b>	<b>17,972</b>	<b>+21.6%</b>
CET I ratio	14.3%	17.3%	-3.0 p.p.
Tier I ratio	14.2%	17.3%	-3.1 p.p.
Total Capital Ratio	14.3%	17.3%	-3.0 p.p.

## Individual Activity

Banco Santander Totta obtained net income in terms of individual accounts, amounting to 695.6 million euros at end-2017, compared to 336.5 million euros recorded in the homologous period of the previous year.

Operating income amounted to 1,398.5 million euros in 2017, showing a 28.2% year on year, transversal to the various components, namely 1.2% in net interest income, 6.7% in net commissions and 176.7% in results from financial operations.

Operational expenses amounted to 519.6 million at end-2017, showing a 2.2% relative to the 531.2 million euros recorded in the homologous period. The efficiency ratio decreased to 37.2% in 2017, compared to 48.7% shown in 2016.

Deriving from the evolution of revenue and expenses, net operating income amounted to 878.9 million euros, a 57.1%, year on year increase.

Impairments and net provisions amounted to 31.5 million euros, decreasing by 62.9% as compared with the allocation made in 2016.

Taxes amounted to 151.7 million euros (+10.1% annual growth), which included 21.6 million euros relative to the special tax on the banking industry.

## Accounts and Business Activity

At end-2017, business volume attained 79.8 thousand million euros, a 17.7% year on year increase. Gross loans granted to customers amounting to 42.2 thousand million euros

increased 22.7% in the last year, and customers' resources increased by 12.7% (11.6% in balance sheet resources and 19.8% in off balance sheet resources).

<b>BUSINESS VOLUME</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Business Volume</b>	<b>79,762</b>	<b>67,742</b>	<b>+17.7%</b>
Loans and advances to customers	42,200	34,401	+22.7%
Customers' Resources	37,562	33,341	+12.7%
On-balance sheet resources	32,477	29,095	+11.6%
Deposits	32,477	29,095	+11.6%
Off-balance sheet resources	5,086	4,247	+19.8%
Investment funds	2,408	1,906	+26.4%
Insurance and other resources	2,678	2,341	+14.4%

## Solvency ratios

At end-2017, the *Common Equity Tier 1* (CET 1) regulatory ratio stood at 12.2%, above the minimum requisite required by the European Central Bank in line with SREP, revealing

great soundness in terms of Banco Santander Totta equity, although lower than that shown in 2016, influenced by the incorporation of the former Banco Popular Portugal.

<b>CAPITAL</b> (million euro)	<b>2017</b>	<b>2016</b>	<b>Var.</b>
<b>Common Equity Tier I</b>	<b>2,643</b>	<b>2,677</b>	<b>-1.3%</b>
Tier I Capital	2,643	2,677	-1.3%
Total Capital	2,989	3,011	-0.7%
<b>Risk weighted assets (RWA)</b>	<b>21,755</b>	<b>18,224</b>	<b>+19.4%</b>
CET I ratio	12.2%	14.7%	-2.5 p.p.
Tier I ratio	12.2%	14.7%	-2.5 p.p.
Total Capital Ratio	13.7%	16.5%	-2.8 p.p.



### Introduction

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

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

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

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

### Credit Risk

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

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

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

## Risk model

### Introduction

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

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

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

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

### Metrics and tools for risk measurement

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

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

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

Attributed ratings are periodically reviewed, incorporating any new financial information that has meanwhile become

available as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This frequency increases in case of customers for which the internal alert systems and risk classification so demand.

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

### *Credit risk parameters*

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

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

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

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

LGD estimates are based on monitoring the recovery process of operations in default, taking into consideration not just

revenues and expenses associated to this process, but also the moment when the same are produced and the indirect expenses that derive from the recovery activity.

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

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

### **Credit risk cycle**

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

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

### *Planning and establishing limits*

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

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

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

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

### *Risk assessment, decision on transactions, follow up and control*

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

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

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

### *Recoveries*

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

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

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

## Counterparty Risk

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

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

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

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

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

## Balance Sheet Risk

### Control of Balance Sheet risk

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

### Methodologies

The interest rate risk in the consolidated accounts is measured through the modelling of the items in assets and liabilities sensitive to interest rate variations in line with their indexing and re-appreciation structure. This model allows the measuring and control of the risks originating directly from

the movement of the income curve, namely their impact on net interest income and on the Bank's equity.

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

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

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

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

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

## Management of structural balance sheet risk

### Framework

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

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

The resolution measure applied to Banco Popular and its acquisition by Banco Santander S.A., led to the acquisition of

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

### Liquidity reserve

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

### Funding

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

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

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

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

No relevant maturities of long term financing will occur in 2018, just the regular repayments of the securitizations

placed on the market. Santander Totta will continue its policy of reinforcing its liquidity cushion, and has already carried out a securitization issue to be kept in portfolio, at the beginning of 2018, which will guarantee the repositioning of the liquidity cushion to levels similar to those at the beginning of 2017, before the integration of the former Banco Popular Portugal and the granting of the 2.3 thousand million loan to the Portuguese State. Planned, for 2018, is the beginning of the preparation of the reimbursement of TLTROs in 2020 and 2021, simultaneously guaranteeing the future reduction of financing obtained with the ECB, of financing obtained with collateral and compliance with future MREL future requirements.

## Market risk

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

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

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

## Methodologies

### Negotiation activity

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

Stress testing is used as a complement, consisting of the definition of behavioural scenarios of differing financial variables and obtaining the respective impact on results when applying these to the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may

determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

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

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

### Backtesting

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

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

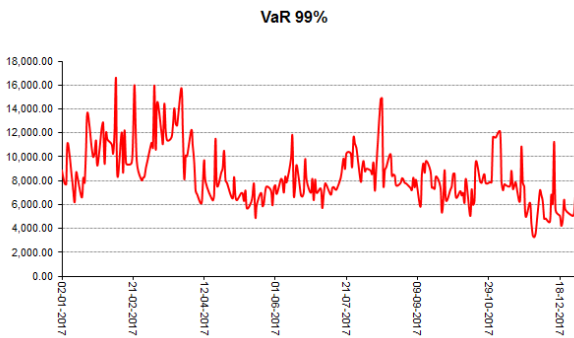
### Limits

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

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

## Quantitative analysis of VaR throughout the year

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



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

## Operational Risk

### Definition and objectives

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

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

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

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

towards establishing priorities in the management of operational risk.

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

### Management model

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

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

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

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

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

The different stages of the management model allow:

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

- To prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies

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

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

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

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

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

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

- Self-assessment of operational risk, with the main objective to identify and assess the operational risks with regard to existing controls, and to identify mitigating measures should the risk levels not be acceptable;
- Indicators, which are statistics or parameters providing information on risk exposure. The indicators and respective

limits are periodically reviewed, in order to be adjusted to reality;

- Recommendations arising from auditors or regulators provide relevant information concerning risk, thus allowing identification of weaknesses and controls.

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

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

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

## Compliance and Reputational Risk

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

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

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



has available the organization and means required for its prevention and, should it be the case, to overcome it.

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

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

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

## Proposal for the Application of Results

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Net Income for the Year, in individual terms and referring to 2017, amounted to 695,630,159 € (six hundred and ninety five million six hundred and thirty thousand one hundred and fifty nine euros) and the consolidated Net Income for the 2016, amounted to 421,157,479 € (four hundred and twenty one million one hundred and fifty seven thousand four hundred and seventy nine euro).

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

:

- Legal Reserve: 69,563,016€ (sixty nine million five hundred and sixty three thousand and sixteen Euro);
- Dividend Distribution: 626,067,143 € (six hundred and twenty six million sixty seven thousand one hundred and forty three Euro);

Lisbon, 24 April 2018

THE BOARD OF DIRECTORS

### Prevention of Money Laundering

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

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

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

The system is submitted to an annual audit.

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

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

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

### Shareholder Structure

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

On 31 December 2016, Banco Santander Totta held 305,330 own shares corresponding to 0.024% of its share capital. In 2017, Banco Santander Totta carried out a purchase of 93,885 own shares, corresponding to 0.007% of its share capital, thus holding a total of 399,215 own shares at year end.

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

#### TRANSACTION WITH OWN SHARES - 2017

Banco Santander Totta, S.A.	Number of shares	Average unit price (€)	Book value (€)	% of share capital
<b>31/12/2016</b>	305,330	5.69	1,737,807	0.024%
<b>Purchases</b>	93,885	3.95	370,438	0.007%
<b>Disposals</b>	0	-	0	-
<b>31/12/2017</b>	399,215	5.28	2,108,245	0.032%

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

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

	Entity	Number of shares at 31/Dec/2016	Transactions in 2017	Number of shares at 31/Dec/2017
<b>António Basagoiti Garcia-Tuñón</b>	Banco Santander, SA	<b>410,668</b>	8,657 shares received as dividends 15/02/2017: corporate allocation: 16,909 shares - 5.039€/share 16/02/2017: stock deposit: 32,481 shares	<b>419,325</b>
<b>António José Sacadura Vieira Monteiro</b>	Banco Santander, SA	<b>209,029</b>	31/07/2017: capital increase - preference rights: 25,842 shares - 4.85€/share 31/07/2017: purchase 1 right - 0.10 €, 25/10/2017: rights exercise in capital increase by incorporation of reserves: 2,002 shares - 0€ 25/10/2017: purchase 23 rights - 0.92 €,	<b>286,263</b>
<b>Enrique Garcia Candelas</b>	Banco Santander, SA	<b>3,582,446</b>	15/02/2017: corporate allocation: 47,115 shares - 5.22€/share 18/04/2017: corporate allocation: 2,853 shares - 5.54€/share 26/04/2017: sale: 500,000 shares - 5.98€/share 17/05/2017: corporate allocation: 5,524 shares - 6.10€/share 31/07/2017: capital increase: 301,008 shares - 4.85€/share 04/08/2017: sale: 732 shares - 5.73€/share	<b>3,438,214</b>
<b>António Manuel de Carvalho Ferreira Vitorino</b>	Banco Santander, SA	<b>0</b>	16/02/2017: corporate allocation: 3,133 shares - 5.039€/share	<b>0</b>
<b>Inês Oom Ferreira de Sousa</b>	Banco Santander, SA	<b>0</b>	27/07/2017: capital increase - preference rights: 313 shares - 4.85€/share 03/11/2017 - capital increase by incorporation of reserves: 24 shares	<b>3,470</b>
<b>Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota</b>	Banco Santander, SA	<b>0</b>	15/02/2017 - corporate allocation: 26,591 shares - 5.039€/share 31/07/2017 - capital increase - preference rights: 4,824 shares - 4.85€/share 25/08/2017 - sale in exchange: 12,000 shares - 5.53€/share 14/09/2017 - sale in exchange: 12,500 shares - 5.60€/share 21/09/2017 - sale in exchange: 1,979 shares - 5.70€/share 03/11/2017 - capital increase by incorporation of reserves: 187 shares	<b>0</b>
<b>João Baptista Leite</b>	Banco Santander, SA	<b>21,655</b>	15/02/2017 - corporate allocation: 35,813 shares - 5.039€/share 21/02/2017 - sale in exchange: 33,316 shares - 5.20€/share 03/11/2017 - capital increase by incorporation of reserves: 252 shares	<b>26,778</b>
<b>José Carlos Brito Sítima</b>	Banco Santander, SA	<b>33,396</b>	31/07/2017 - capital increase - preference rights: 1,626 shares - 4.85€/share 03/11/2017 - capital increase by incorporation of reserves: 125 shares	<b>36,145</b>
<b>José Urgel Moura Leite Maia</b>	Banco Santander, SA	<b>16,269</b>	15/02/2017 - corporate allocation: 9,697 shares - 5.039€/share 16/02/2017 - sale in exchange: 28,519 shares - 5.192€/share 16/02/2017 - corporate allocation: 20,050 shares - 5.039€/share 03/11/2017 - capital increase by incorporation of reserves: 209 shares	<b>18,020</b>
<b>Luis Filipe Ferreira Bento dos Santos</b>	Banco Santander, SA	<b>28,519</b>		<b>29,956</b>
<b>Luis Manuel Moreira de Campos e Cunha</b>	Banco Santander, SA	<b>0</b>	15/02/2017 - corporate allocation: 30,068 shares - 5.039€/share 27/07/2017 - capital increase - preference rights: 7,044 shares - 4.85€/share 28/07/2017 - capital increase - preference rights: 305 shares - 4.85€/share 03/11/2017 - capital increase by incorporation of reserves: 545 shares 14/11/2017 - capital increase by incorporation of reserves: 23 shares	<b>0</b>
<b>Manuel António Amaral Franco Preto</b>	Banco Santander, SA	<b>43,407</b>		<b>81,392</b>
<b>Manuel de Olazábal y Albuquerque</b>	Totta Ireland	<b>1</b>		<b>1</b>
<b>Manuel de Olazábal y Albuquerque</b>		<b>-</b>		<b>-</b>
<b>Pedro Aires Coruche Castro e Almeida</b>	Banco Santander, SA	<b>41,163</b>	15/02/2017 - corporate allocation: 36,049 shares - 5.039€/share 17/05/2017 - sale in exchange: 5,000 shares - 6.065€/share 03/11/2017 - capital increase by incorporation of reserves: 508 shares	<b>72,720</b>
<b>Remedios Ruiz Maciá</b>	Banco Santander, SA	<b>16,843</b>	15/02/2017 - corporate allocation: 14,046 shares - 5.039€/share	<b>30,889</b>

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

### Other Positions of Note

	Within the consolidation perimeter	Outside the consolidation perimeter
<b>António Basagoiti Garcia-Tuñón</b>	-	ATKearney (External Consultive Committee); Fujitsu (External Consultive Committee); Fund. Eugenio Rodríguez Pascual (Chairman); Real Club Nautico Calpe (Deputy Chairman); Fund. Princesa Asturias (Trustee); Fundación Santander (Trustee); Colegio Libre de Eméritos (Trustee); Fundación de estudios financieros (Trustee); Fundación Silos (Trustee)
<b>António José Sacadura Vieira Monteiro</b>	-	Universia (Non-Executive Chairman); Vieira Monteiro Lda (Manager); Câmara Comércio Luso Espanhola (Deputy Chairman)
<b>Enrique Garcia Candelas</b>	-	Inversiones Y Gestiones Patrimoniales Tharsis SL (Executive Board member); Las Fagaceas SL (Executive Board member); Bondre Capital (Executive Board member); Iberus Capital Investment (Executive Board member); Estepona Top Villages (Executive Board member); Agropecuaria Del Odiel (Executive Board member); Cítricos Tharsis (Executive Board member); Edevir Investments (Executive Board member); Bondre Costa del Sol (Executive Board member)
<b>António Manuel de Carvalho Ferreira Vitorino</b>	-	Áreas (Chairman); Siemens (Chairman Audit Board ); Tabaqueira (Membr Supervisory Board); EDP (Chairman General Meeting) Cuatrecasas (Partner)
<b>Inês Oom Ferreira de Sousa</b>	-	Universia (Non-Executive Board Member)
<b>Isabel Maria de Lucena Vasconcelos Cruz de Almeida</b>	-	Fundação Calouste Gulbenkian (Chairperson) Partex Oil and Gas (President Supervisory Board)
<b>João Baptista Leite</b>	-	SIBS SGPS (Non-Executive Board Member); Unicre (Non-Executive Board Member)
<b>José Carlos Brito Sítima</b>	-	Universia (Chairman General Meeting)
<b>José Urgel Moura Leite Maia</b>	-	-
<b>Luís Filipe Ferreira Bento dos Santos</b>	-	Universia (Non-Executive Board Member)
<b>Luís Manuel Moreira de Campos e Cunha</b>	-	UNL (professor)
<b>Manuel António Amaral Franco Preto</b>	Taxagest (Chairman) Totta Ireland (Board Member) Gamma (Chairman)	Banco Santander Consumer (Member Audit Board)
<b>Manuel de Olazábal y Albuquerque</b>	-	Brásmar (Board Member); Peris (member Advisory Board); MCH Private Equity (member Advisory Board); Fulham Consulting S.L. (Board Member)
<b>Pedro Aires Coruche Castro e Almeida</b>	-	ACEGE (NE Director) Centro Paroquial São Francisco de Paula (NE Director)
<b>Remédios Ruiz Maciá</b>	-	Banco Santander SA (Global Head EWRM)

### Schedule of non-financial indicators

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

### I - Introduction

This report is prepared in line with the provisions of article No. 70, § 2, item b) of the Companies Act and of article No. 245 of the Securities Act.

1. The Bank's share capital is 98.763% owned by Sociedade Santander Totta SGPS, SA, which is directly controlled by Santusa Holding, SL, a Company incorporated under Spanish Law which owns in it a 99.848% holding.

In its turn Santusa Holding SL is totally owned by Banco Santander SA which thus indirectly holds the dominant control in Banco Santander Totta, SA.

There is a remaining 1.161% holding in the Bank's share capital that is owned by a Company under full, direct or indirect control of Companies Santander Totta, SGPS, S.A., Santusa Holding SL and Banco Santander, SA.

The total share capital also includes 0.0439% dispersed among several shareholders, and 0.032% corresponding to Banco Santander Totta's own shares.

2. The shares representing the share capital are all of the same type and category, conferring similar rights to the respective holders, including voting rights and shares in profits.

Consequently there are no privileged shares of any type. Equally there are no restrictions whatsoever to the possibility of share transfers, which are entirely free.

There is no statutory system covering employee participation in the Company's share capital.

3. The Company is not aware of any agreement that may have been concluded among shareholders.

4. The Company's articles of association rule that one vote is attributed to each share.

In order that shareholders have the right to take part in the General Meetings they must prove the registration or deposit of their shares in financial intermediaries from the fifteenth day prior to the date the General Meeting has been called for.

5. The Company has not established any agreements whose entry into force is dependent upon the Bank's shareholder structure or that their alterations or termination derive from it.

Within the scope of the normal operation of banking activity, in its several components there are, however, contracts that confer on the counterparty the right to terminate them in the event of changes in the Bank's shareholder structure and control, in line with what is current and common in banking practice.

Otherwise there are no agreements that confer upon corporate officers or employees the right to compensation when the termination of their binding to the Institution derives from their own initiative, from destitution or dismissal with just cause and reason or that occurs following a public offering.

6. The Company is organically structured in line with the provisions of article No. 278, §1, item a) of the Companies Act.

The corporate bodies are: the General Meeting, the Board of Directors and an Audit Committee, as well as an official Auditor.

The mandates of the corporate officers are valid for a normal period of three years.

The Board of Directors meets, at least, nine times per year and whenever it is called by its Chairman or by two Directors.

The Board of Directors is not empowered to decide upon increases in the Company's share capital.

Equally no special rules exist with respect to the appointment or replacement of Directors, or as to alterations to the articles of association, such situations being governed by General Law.

7. The Board of Directors comprises an Executive Committee which is empowered as provided under article No. 407, §4 of the Companies Act.

The Executive Committee is the body responsible for the current management of the business and for the Bank's representation. It meets weekly or whenever called by its Chairman or by any two of its members, continuously following the development of the company business, specifically through the analysis of projects in progress or to be developed, as well as the results obtained.

The management body also comprises a Remuneration Committee, consisting of three non-executive members of the Board of Directors, and the Risks Committee consisting of five non-executive members of the Board of Directors.

#### **8. The global model of the company's governance is that described in item IV**

Singled out are many interdisciplinary Committees which follow up and control all the institution's business activity.

Following are the main such Committees and a précis of their corresponding duties.

##### **Management Committee**

The main objectives of the Management Committee are the analysis, decision and follow up of:

- Development of commercial activity, ensuring it is carried out within the established objectives and delays, and of the adequacy of the established commercial strategies, as well as the initiatives related to multi-channel commercial actions ensuring the linkage amongst the intervening areas;
- Credit policies, exposure to risk, decision models and strategic commercial plans;
- Policy, strategy, objectives and follow-up of Quality and Customer Experience actions.

##### **Risk Executive Committee**

Highest decision body in the risk structure, in line with the risk governance model approved by the Board of Directors, with powers delegated by the Executive Committee.

##### **Risk Control Committee**

Body responsible for risk supervision and control, ensuring that risks are managed in line with the degree of risk appetite approved by the Board of Directors and permanently guaranteeing a full view of the risks identified by the General Risk Guide.

##### **ALCO – Assets and Liabilities Committee**

Manages the market and liquidity structural risk, establishes contingency plans, promotes hedging strategies, and decides strategic positioning in order to optimize net interest income and the profitability of equity funds.

##### **Human Resources Committee**

Analysis and decisions concerning changes and exceptions to the current HR management policies.

##### **Analysis and Resolution Committee**

Prevents Money Laundering and Financing of Terrorism and carries out the communications established by Law.

##### **Marketing and Product Follow Up Committees**

Approval of product and services and their respective follow up, singling out incidences that may occur and the reputational risk that may be generated.

##### **Pensions Committee**

Carries out the corporate policy over pensions and fully controls the respective risks.

##### **Internal Control & Compliance Committee**

Follows up and supervises compliance policies and promotes an environment of internal control, specifically through the effective application of the risk management system.

##### **Operational Risk Committee**

Body responsible for the follow-up of operational risk exposure and profile, aiming to ensure its referral within the approved risk appetite.

### **Disposal of Real Estate Committee**

Analyses and decides as to the disposal of excess real estate resulting either from Network remodelling or from the optimization of the occupation of Central Services areas, transforming these non-strategic assets in resources and in the reduction of General Expenses.

### **Models Committee**

Body responsible for the follow up of the risk model exposure and profile, aiming to ensure its referral within the approved risk appetite and guarantee the alignment of the local areas involved in the development and follow up of risk models, as well as their inclusion in management procedures..

### **Committee for Commercial Appraisal of Credit Products and Resources**

Follows-up the activity of Private Customers and Business segments concerning credit products and resources, ensuring the adequacy of the strategies and respective commercial actions

### **Committee for Analysis and Follow Up of Provisions**

Ensures the correct operational management of the risks provisions set up and decide upon credit provisions that should be binding.

### **Public Policy Committee**

Follows up issues relative to public policies with relevance to the Bank or to other Group companies in Portugal, namely with respect to corporate participation in the preparation or public debate of legislative or regulatory procedures or rules of conduct, originated by supervisory or professional bodies, as well as the assessment of relevant impacts of the projected measures

### **Sustainability Committee**

Establishes the Social Responsibility Strategic Plan, jointly with the Santander Group corporate plan

### **Taxation Committee**

Assesses the legal changes and fiscal rulings with impact on the Group's institutions to determine the appropriate measures to comply with rules and requirements comprised in tax legislation.

### **Local Committee on Innovation in Means of Payment**

Establishes the plan for implementation of innovatory solutions in Means of Payment for customers, to be based on the corporate strategy established in the Santander Group.

### **Committee for Special Situations Management**

Guides and carries out the following up and control of the management of any type of events (financial, operational and/or reputational, namely the Entity Continuity Plan) which may entail a grievous deterioration in the Banks liquidity levels and/or solvency, or compromise the development of its business.

### **Market, Structural and Liquidity Risks Committee**

Propose to the Risks Executive Committee the approval of limits and metrics concerning market, structural and liquidity risks, the list of authorized products and underlying items and issue a prior opinion on underwriting transactions concerning fixed and variable rentals in primary markets.

### **Committee for the Following Up of the Physical Branch Network**

Analysis and decision concerning proposals for new branches, refurbishment, displacement, merger or shut down and assess the respective impacts.

### **Social Networks Committee**

Decides upon action proposals to be implemented in the social networks.

### **Expenditure and Investment Committee**

Assessment, decision, following up and control of expenditure and investment.



### Local Supplier Committee

Supervises approvals carried out with suppliers, monitors and follows up risk deterioration situations associated to critical services. Reviews and approves the matters adopted for their resolution.

### Risk and Data Quality Information Management Committee

Ensures the carrying out of measures established by the Executive Committee relative to the procedures on data pooling and risk reports.

### Capital Committee

Ensures the supervision, authorization and assessment of features related with ecapital and with the Bank's solvency.

### Technology and Information Committee

Body that assesses and/or approves proposals of IT strategy, monitors the IT strategic plan, monitors the Cybersecurity risk and assesses initiatives to mitigate risks.

## 9. The Bank's main business areas are:

- Retail Banking – refers essentially to loan granting operations and to the capture of resources related to private and business customers with a turnover lower than ten million euros, channelled by the branch network and services made available by supplementary channels (telephone, internet, etc.);
- Commercial Banking – This area comprises companies with turnovers in excess of ten million euros. This activity is supported by the branch network, by company centres and specialized services, including diversified products, such as loans, project finance, trading, exports and real estate;
- Global Corporate Banking – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and stock exchange brokerage orders received from customers;
- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but is not directly linked with the core business, also including liquidity management, accounts coverage and structural financing of the Bank.

## 10. The Bank fully complies with Bank of Portugal's Notice No. 5/2008, with respect to Internal Control.

Within this framework, the Bank practices a system of risk identification and management in line with articles Nos. 11 and 12 of the above referred Notice and has the required organization to bring about a proper and appropriate controlling environment and a sound risk management system.

Policies and procedures are specifically established with respect to all the risks referred to in article No. 11 of the above mentioned Notice No. 5/2008.

Such policies and procedures are available and easily accessed by all the institution's employees through their disclosure in the appropriate area of the Bank's intranet system.

The Bank, similarly to the Group in which it belongs, complies, since 2006, with the demands of the Sarbanes Oxley (SOX) American Law, a standard that the Securities Exchange Commission (SEC) made obligatory for all corporations quoted on the New York Stock Exchange and which is one of the more demanding in terms of requisites for an adequate and warrantable Model of Internal Control.

## 11. The duties of risk management, compliance and auditing missions are duly instituted in legal and regulatory terms.

Following are the general lines that rule the organization and operation of the above referred three missions.

### a) Risk Management Function

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

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

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

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

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

- Full access to all the institution's activities as well as to all information considered relevant in the audit reports;
- Independence relative to the assessed areas;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and in the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Board;
- Promotion of an adequate and efficient level of internal control extensive to the whole organization considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputational and Strategic Risks, notwithstanding any others that, in the view of the institution, may become material;
- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements with respect to the development of new tools and the estimate of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Committee the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board may consider opportune.

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

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

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

- Risks culture;
- Risk governance and regulation.

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

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

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

## b) Compliance Function

The Bank has given precedence, for some time, to the autonomy, follow up and control of risks that could be contingent to incurring in legal or regulatory sanctions, as well as in financial or reputational losses, as a result of non-compliance with any legal or regulatory provisions that could be considered as applicable, whether legal or regulatory, and also deriving from an infringement to the Codes of Conduct or procedures that do not conform to ethical standards or the required best practices.

The compliance function is incorporated in the Compliance and Conduct Division (DCCC), which includes, in its midst, a unit specifically attributed to the Prevention of Money Laundering and Financing of Terrorism with staff reserved for its exclusive use, with the following specific duties and attributions:

- DCCC is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;
- DCCC has its own staff, who are employees of the institution, exclusively allocated to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;
- DCCC, in exercising its mission, acts as second line of defence in the follow-up, control and management of the risk of non-compliance has free access to all information and data relative to the Bank’s activity that it may request or require, as well as to the Institution’s facilities and equipment;
- DCCC has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputational and compliance risks and, should it be the case, the correction of the incidences occurred;
- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set out the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by DCCC that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;
- As a complement to this General Code of Conduct, the Bank equally has available a Programme for the Prevention of Corruption, which reinforces the corporate compliance with the total rejection of any corruption practices, involving the whole of the corporate organization in this requirement.
- In this context, specific powers are conferred on DCCC for the following up and control of the execution of the programme and of its underlying policies
- A Denouncing Channel is available within the framework of the General Code of Conduct and of the Programme for the Prevention of Corruption. This channel is freely accessible to all employees and which, guaranteeing the confidentiality of the communication and possible subsequent procedures, provides them with the possibility, and urges them, to evince any irregular situations that may come to their knowledge

- Policies and procedures are approved and established for marketing products, as well as the process and offices for the respective approval and follow up that aim, on the one hand, to guarantee the prior checking of all the necessary requisites in order that marketing operates without legal, reputational and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, enter the justifiable surmounting measures, which may include the interruption or the termination of the marketing exercise when circumstances so determine or advise. In this context, special relevance is assumed by the assessment and follow up of the reputational risk inherent to the products or that may arise during the exercise of the marketing operation by the occurrence of one-off adverse circumstances that, in some way, may affect those, or that are relevantly incident on customer relationship;
- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its scope, to external branches and subsidiaries. Several of these already have officers responsible for compliance that locally exercise the corresponding duties. In remaining cases, where the type of operation of the activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in Portugal. DCCC, within the framework of its mission, controls the performance of such duties with the respective responsible officers.

On another level, and in order to ensure the most efficient and effective means to perform its mission, the Management promoted the institutionalization of specific compliance committees especially designed for the more sensitive areas, such as those closer related to the financial markets, that operate periodically - monthly as a rule - and that allow, considering the established practices, to assess their conformity with applicable legal and regulatory standards, keep the areas informed as to innovations occurred and guarantee that these are carried out, control compliance with information and other applicable requirements, identify possible incidences and, should it be the case, analyse and implement the appropriate mitigation and preventive measures. These committees are directed and coordinated by DCCC, with the officers responsible for the involved areas taking part in the respective meetings.

On another hand, within the scope of these Committees, or not, DCCC maintains a regular relationship with the remaining control areas (Audit and General Risk Function), in order to enhance the placing into perspective, the follow up and the global control of the risks.

Also singled out, in this framework, is the institutionalized connection with the Quality area - responsible for following up and processing customer's complaints - in order to follow up the development of the situation in this field and, mainly, to examine, from the typology of the complaints, possible omissions or inadequate practices that these may point out, so as to provide the appropriate adjustments or corrections.

The Compliance Management equally comprises the Internal Control and Compliance Committee that has general control and risk management duties.

Without prejudice to the permanent and systematic contacts with the Bank's Executive Committee, and mainly with the Director responsible, the activity developed within the scope of the compliance mission is the object of an annual report.

Additionally, devices have been established for the regular interaction of DCCC with the Audit Committee and the Risks Committee of the Board of Directors.

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2016) and the end of May 2017.

In line with the above, the opinion of the Compliance Manager is that the Bank should proceed in accordance with the regulatory framework of the compliance mission, contained in Instruction No. 5/2008.

### **c) Audit Function**

The authority of the Internal Audit depends directly from the Board of Directors. As an independent unit it reports periodically to the Board of Directors at least twice each year, and may additionally have access to the Board whenever required. It also reports to the Audit Committee and attends the latter's request for information in the exercise of its functions.

The officer responsible for the internal audit function is Dr. Ignacio García Márquez, Chief Audit Executive (CAE), appointed by the Board, which has conferred upon him all the necessary powers to exercise his functions independently with free and unrestricted access to all relevant information.

The Audit staff comprises 33 persons, distributed over the areas of Financial Risks, Credit Risks and Operational Risks, all of whom are university graduates.

The Internal Audit assumes as its own the definition of internal audit defined by the Institute of Internal Auditors.

Internal Auditing is a permanent function and is independent from any other function or unit, and its mission is to independently guarantee the Board of Directors and the Top Management provision of information concerning the quality and effectiveness of the processes and systems of internal control, management of risks (current and emergent) and governance, thus contributing towards protecting the value of the organization, its solvency and reputation. For this purpose the Audit appraises:

- The effectiveness and efficiency of the above mentioned processes and systems;
- Compliance with the applicable regulations and supervisor's requirements;
- The reliability and integrity of the financial and operational information;
- The integrity of the assets

Internal Audit is the third line of defence, independent from those remaining. To develop its mission and achieve the established objectives, the Internal Audit teams will have free and complete access without any restrictions to all the available information.

The area covered by Internal Audit comprises:

- All the bodies that are part of the Group which are under effective control;
- Separate assets (such as investment funds) managed by the above mentioned bodies;
- Any body (or separate asset) not included in the above items, for which there is agreement with the Group for the performance of internal audit functions.

The scope subjectively defined in the above items includes, in any case, activities, business and processes (directly or indirectly or via external means), the existing organization and, should it be the case, the commercial networks.

Additionally, and also within the performance of the established mission, Internal Audit may carry out audits in other entities in which the Group holds shares, not included in the above paragraphs, when the Group has reserved itself this right.

Internal Audit will base its work on the following principles:

- Independence, objectivity and impartiality;
- All the opinions of the Internal Audit shall be based on the objective analysis of facts, and not altered by influences, pressures or interests of any type;
- Integrity, ethical deportment and confidentiality of the generated information and conclusions obtained. The actions of the auditors will be in line with the established principles and standards of conduct, both in the Group's conduct codes and the Code of Ethics of the internal Audit, which must be made known and accepted, and accordingly signed by all its members;

Additionally, Internal Audit will establish the necessary procedures to prevent conflicts of interest that may compromise the performance of its functions and responsibilities;

- Competence and professional qualifications of the auditors. For this purpose the continuous updating of their knowhow will be endeavoured;
- Quality of work, based upon proven conclusions, documented and supported by audit proofs carried out with uniform criteria, through a methodology using common and adequate working tools, and with due professional care;
- Guidance and value creation, issuing relevant reports and aiding the management of the audited units with a collaborative spirit and contributing with measures of improvement;
- Adequate collaboration with the remaining Group controls;
- Adequate reciprocal collaboration with the external auditors and other providers acting in the organization, maintain periodical meetings and sharing with them the results of the Reviews carried out and the issued audit reports;

- Fluid relationship with supervisors;
- Observance of international standards for the performance of the function, especially the “International standards for the professional performance of Internal Audit” issued by the Institute of Internal Auditors and the principles established by the Basle Bank of International Settlements on this issue.

The main duties of the **Chief Audit Executive (CAE)** are:

- The design and implementation of an adequate methodology;
- The development of an Audit Plan based upon its appraisal of the risks existing in the Group. The Internal Audit prepares a 3 year covering plan for its audits through *Top Down* methodologies (considers the views and concerns of the Bank’s Governing Bodies, the determinations and concerns of Regulators and External Auditors, as well as the corporate focus of attention), and also carries out a *Bottom Up* analysis of a Risk Matrix that prioritizes the units included in the Audit system, in line with the degree of risk that reflects upon them.

Based upon the appraisal of all these factors, the units included in the Audit system are classified by levels of priority for their being audited. Additionally, consideration must be given to the audits required by regulatory requisites and checking compliance with the SOX regulation.

The Audit Plan is submitted to the Audit Committee and to the Board of Directors for analysis and approval.

- Carrying out the different tasks included in the Audit Plan, adequately preparing and distributing the reports foreseen in the plan;
- Communication to the audited units the conclusions of the different audits and the consequent recommendations and establishing a Schedule for their implementation and respective follow-up to check the implementation;
- The assessment, with the adequate frequency, of the sufficiency of resources to perform the function
- The periodical communication to the Audit Committee of the development of the approved Audit Plan;
- To advise the Board of Directors regarding the tasks carried out by the Internal Audit in line with its Plan;
- To advise the Governing Bodies as to the situations which, in its opinion, require special attention;
- To carry out all those audits, special tasks, reports and other duties required by the Board of Directors or by the Audit Committee;
- To confirm to the Audit Committee with a minimum annual frequency that the tasks are independently carried out and that these are not compromised by any impediment that may have affected the Internal Audit’s Independence or objectivity;
- The development and maintenance of a programme to ensure quality and continuous improvement that comprise all aspects of the Internal Audit’s activity;
- The development and implementation of a training plan for internal auditors.

## II – Remuneration Policy of the Members of the Corporate Bodies

### II.1. DECLARATION CONCERNING THE REMUNERATION POLICY OF THE MEMBERS OF THE CORPORATE BODIES OF BANCO SANTANDER TOTTA, S.A. (The «Declaration»)

The following declaration concerning the remuneration policy of the members of the Corporate Bodies of Banco Santander Totta, S.A. (the «Bank»), to come into force in 2017, will be proposed at the shareholders' General Meeting which will be called to approve the accounts for the year ended on 31 December 2016.

#### 1. Framework

The Santander Group approved a new remuneration policy on 24 January 2017 (the «Policy»), addressed to all its employees, and which establishes the fundamental principles regarding the payment of remunerations, fixed or variable (the non-official translation of the policy into Portuguese is Annex 1 of the Declaration, and which is part of the same for all due effects and purposes).

The Policy is applicable to all the subsidiaries of the Santander Group, amongst which the Bank is included, and the Board of Directors formally adhered to the Policy on 31 January 2017.

In the terms of the Policy the Santander Group adopts consistent remuneration practices that comply with the applicable regulations in the jurisdictions where it carries out its business.

The retribution is defined to promote a culture of high performance, in which people are rewarded and recognized by their performance, competence and by the impact they have in the success of the Group and/or its subsidiaries.

The remuneration practices of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers and society and, particularly, to promote good conduct. The Santander Group ensures, via the Policy, that retribution policies promote and are coherent with a sound and effective risk management and with the maintenance of a sound equity base.

This Declaration appraises the compliance by the Policy with the diverse requisites posed by Portuguese legislation, proposing its formal approval to the Bank's shareholders.

#### 2. Application of the Policy to the Bank

##### 2.1. Remuneration of the Bank's Corporate Bodies

The Bank's corporate bodies are the General Meeting, the Board of Directors and the Audit Committee

- a) **General Meeting.** Its members receive a fixed remuneration, paid in the following terms: annual value, paid 12 times per year.
- b) **Audit Committee.** Its members receive a fixed remuneration, paid in the following terms: annual value, paid 12 times per year.
- c) **Board of Directors / non-executive members.** The non-executive members of the Board of Directors, who do not comprise the Audit Committee, receive a fixed remuneration, paid in the following terms: annual value, paid 12 times per year.

The non-executive directors who, however, exercise Management or other functions in Banco Santander S.A. or in other entities of the Santander Group, may or may not receive a remuneration paid for the exercise of such an office in the Bank.

## 2.2. Remuneration of the Bank's executive directors

The members of the Executive Committee receive a fixed remuneration, paid 14 times per year, which is determined taking into account the criteria used in the Santander Group, the Bank's results, the performance appraisal and the market references, it not being expected that in 2017 it represents a portion lower than 39% of total remuneration.

A variable remuneration may accrue to the fixed remuneration, defined in the terms of the Policy and individually set by the Remuneration Committee.

### 2.2.1. Determination of the variable remuneration

The variable remuneration of the executive directors is determined from a standard reference corresponding to the 100% fulfilment of all the established objectives, a reference value being set for each member in each year.

The final value of the fulfilment award and inherent variable remuneration will be determined in the beginning of the year following that when the duties were performed, based on the reference value and as a function of the effective fulfilment of the established objectives.

The material variable remuneration is determined considering:

- a) A set of parameters in the short term measured in line with the annual objectives;
- b) A qualitative assessment supported by qualified evidences and that will not be able to modify the quantitative result by more than 25% upwards or downwards;
- c) An exceptional adjustment supported by qualified evidences which may contemplate modifications originating from deficiencies in control and/or risks, negative results of supervisor's appraisals or non-foreseen significant events.

The general objectives for 2017 are those comprised in Annex 2 which is part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a determined level of fulfilment, the value of the variable remuneration may not exceed 50% of the reference value for the corresponding year. Should the results of the metrics be negative, the value of the variable remuneration shall be 0%.

The maximum ratio between the value of all the components of the variable remuneration of the members of the Executive Committee and the total value of the fixed remuneration may not exceed 200%.

The competent bodies to carry out the appraisal of the individual annual performance are the Group's Managing Director relative to the chairman of the Bank's Executive Committee and the Chairman of the Executive Committee relatively to the remaining executive directors.

### 2.2.2. Composition and regulation of variable remuneration

The variable portion of remuneration is subject to partial deferment, aiming towards equilibrium between short and medium term.

- a) Variable remuneration is due 50% in cash and 50% in shares, part of it payable in 2017 and part of it deferred over three or five years, considering the long term parameters as shown below:
  - a. 60%, (or what will be defined in line with the applicable situation) of that remuneration will be paid in 2018, in cash and shares;
  - b. The remainder shall be paid annually, in three or five annual instalments (as applicable), in cash or shares, considering the foreseen conditions.
- b) The allotted shares do not benefit of any risk covering contract and will remain, until the termination of the mandates of the respective beneficiaries, subject to the condition of being held until their value reaches twice the amount of total remuneration (without prejudice to the need for the disposal of shares required to meet the payment of taxes deriving from the inherent benefit of such shares);
- c) Additionally, the Board of Directors of the Santander Group approved a corporate policy of share redemption, applicable to the executive directors of the Santander Group and to other Executive Staff of the Santander Group (including, in Portugal, the Country Head), which will compel, after the elapsing of a transitory period, that the employees in question should always hold a number of shares in Banco Santander equivalent to twice their annual fixed remuneration.
- d) The deferred portion of the variable remuneration, relative to the third year and also to the fourth and fifth year, should this be the case, will be subject, in addition to the *malus* and *claw-back* conditions, to the fulfilment of the Group's long term objective for the 2017-2019 period, in line with the general criteria applicable in the framework of the Santander Group, in



which terms the value of the variable remuneration may only diminish (through reduction in the payment in cash or in shares), such as established for the current year in the terms of Annex 3.

e) The payment of the variable remuneration will respect the deferment rules and the reduction (*malus*) or reversion (*claw-back*) devices in force in the Policy, in order to comply with the legal and regulatory requisites, as well as follow the recommendations and guidance issued by the competent supervising bodies. The ability to reduce (*malus*), totally or partially, the payment of the deferred remuneration which is not yet an acquired right, as well as totally or partially retaining the variable remuneration the payment of which is an acquired right (*claw-back*), will be limited to highly significant and duly identified events, in which the person in question had a direct participation in such duly identified events.

### 2.2.3. Identification of deferred and paid portions of variable remuneration

Pertaining to 2013, the ultimate third portion of the deferred variable remuneration was paid in 2017.

Pertaining to 2014, one third of the deferred portion of variable remuneration remains to be paid.

Pertaining to 2015, two thirds of the deferred portion of variable remuneration remains to be paid.

Pertaining to 2016, the non-deferrable portion was paid in 2017. Payment of the remainder is deferred for three or five years, as applicable.

### 2.2.4. Pensions

The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service.

The executive directors that have concluded a labour contract with the Bank, notwithstanding the suspension of the referred contract, are covered by a complementary pension plan established by the Santander Group for all its managerial staff the terms of which were approved by the respective Boards of Directors, no voting rights having been attributed to the directors who would benefit from that plan when such decisions were taken.

### 2.2.5. Other regulations

Executive directors equally benefit from health insurance and from the advantages resulting from collective regulations applicable to employees, including recourse to mortgage loans.

Executive directors benefit from life insurance with insured capital equivalent to twice the annual fixed remuneration of the officer in question;

No devices for the coverage of risk or likewise events may be used by an Executive Director or by the Bank on his behalf. This rule must be followed and be annually confirmed by the named party with the Group.

It is not foreseeable that, in 2017 any amounts shall be paid to executive directors by other companies controlled by the Group or by the Bank.

## 3. Complementary Features

### 3.1. Policy approval procedures

The Policy was approved by the Santander Group, adopting a set of national and international guidance on the matter, the Bank having later adhered to the Policy on 31 January 2017, after the carrying out of presentations to the Bank's Remuneration Committee and Board of Directors.

The Policy, in the terms of its approval, will be complemented by a set additional interpretive guidance features.

The Bank's Remuneration Committee is comprised, since September 2016, by the Chairman of the Board of Directors, D. Antonio Basagoiti, by the Deputy Chairman D. Enrique Garcia Candelas and by Dr. Isabel Mota, the majority of the members legally classified as independent (the Chairman and Dr. Isabel Mota).

In its turn, the Salary Committee foreseen in the Companies Act, which determines the effective remuneration amount to be paid to all the members of the Corporate Bodies, is comprised by Dr. Jaime Pérez-Renovales and Roberto di Bernardini, both responsible officers in the Santander Group.

Mercer Portugal aided the Bank, as external consultant, in the transposal of the Policy to the Bank.

### **3.2. Other aspects**

It is not foreseeable that, in 2017, any compensation will be paid for early termination of services by Corporate Officers.

The attribution of option plans is not foreseeable in 2017.

There are no non-pecuniary benefits, neither any other means of remuneration other than those referred in the Declaration.

## **4. Compliance with rules of remuneration policy defined by the Bank of Portugal**

The Bank's Policy is fully in line with the principles posted in the regulation applicable in Portugal, ruled by simplicity, transparency and adequacy to the medium and long term objectives

As such, the determination of the total remuneration, comprising fixed and variable components, as well as the connection between these components, such as outlined in this Declaration and in the attached Policy, allows for the in general, of the rules contained in Portuguese regulations.

The circumstance of the Bank being comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in turn, considering the global nature of the Group, respect the applicable international regulations.

The applicable regulation equally determines that a review be carried out, at least once a year, of the Bank's remuneration policy and its implementation, in order to guarantee that it is effectively applied, that the remunerations paid are adequate and that the risk profile and the long term objectives of the institution are being adequately considered, and that the policy is in line with the legislation and regulations in force as well as with the applicable national and international principles and recommendations.

This annual review must also include an appraisal of the remuneration policies applied in external subsidiaries and "off-shore", establishments, especially on their effect on risk management, equity and liquidity of the institution.

The referred appraisal was carried out in line with the applicable regulations, by the Bank's Remuneration Committee, jointly with the active participation of the units responsible for the exercise of control functions, with no insufficiencies having been detected.

## **5. Information concerning the exercise of functions of the Remunerations Committee**

The members of the Remunerations Committee were elected at the General Meeting held on 31 May 2016, and were not the object of any opposition by the regulator for the exercise of their functions in mid-September of that year, when the Committee was set up.

The functions performed by the Committee during 2016, and in the beginning of 2017, were precisely those foreseen in the respective internal regulation, consisting of the formulation of informed and independent opinions on remunerations policy and practices, as well as those concerning the incentives created for risk management, equity and liquidity, and were also responsible for the preparation of decisions relative to remuneration, and equally supervised the tasks of adapting the new remuneration policy of the Santander Group to Banco Santander Totta.

Added to these competences was the participation in the process of checking the adequacy of the members of the corporate bodies and holders of essential functions to the Bank's business, which has been regularly fulfilled

Lisbon, 28 April 2017

## Annex 1

### Santander Group Remunerations Policy

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## 1. Background

The growing complexity of financial services demands a sound risk culture that allows effective management, control and supervision of the range of risks which are faced by the Group, its shareholders, employees and customers, including those deriving from incentive systems that otherwise would not be coherent or promote a sound and effective risk management.

The Santander Group (hereinafter referred to indistinctly as “Santander Group” or “Group”) adopts remuneration practices which comply with the regulations in force in the jurisdictions where the Group develops its business. Retribution is defined to promote a commanding performance culture in which people are rewarded and recognized for their performance, competence and by the impact they have on the success of the Group or its subsidiaries. The remuneration policies of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers and society and particularly promote good conduct. The Group also ensures that retribution policies promote and are coherent with a sound and effective risk management and with the maintenance of a sound equity basis.

The Policies of the Santander Group are defined in a joint effort which involves the Group’s Control functions (Compliance, Audit and Risks), other functions at Group level (Finance and Finance Control) as well as the Legal Consultancy function. Commercial functions and Subsidiary management (boards of directors, equivalent control functions and other local areas) equally detain a relevant role in the referred development, providing guidance from its knowledge basis or as interested parties.

## 2. Introduction

The aim of this Policy is to establish how the Group’s Companies manage retributions for all employees, including employees that are responsible for “Key Positions”, in line with the “Modelo de Gobierno Matriz- Filial” (“Matrix-Subsidiary Governance Model”), employees designated as “Significant Risk Takers”, the officers of the “Promontório” and “Faro” segments, in line with the Group’s corporate segmentation or of any other group of regulated employees. This Policy establishes the key principles and defines the minimum standardization required by the Group and respective control functions to design, review, implement and supervise the retribution.

This Policy develops the Corporate Framework of Human Resources, is related and must be applied jointly with the provisions established in the “Modelo de Gobierno Matriz- Filial”, as applicable.

## 3. Governance and approval

The Board of Directors of the Santander Group approved this Policy as proposed by the Retribution Committee.

The Board of Directors of the Group is responsible for this policy and will approve any review and update that may be required in the case of significant changes or at least once a year, with the abeyance of the Human Resources Committee: New sections may be added to fulfil regulatory requisites, promote the Group’s strategy and support the plans of the business units.

The Global Compensation Function, comprised in the global function of Human Resources, is responsible for the preparation and development of the directives that must be approved at different levels, depending upon the seniority and/or category of the employees to which it is applicable and which are provided to support the implementation of this Policy within the Group. On another hand, the approval of this policy and of the respective documents that develop it may be necessary by the local governance bodies. The Risk Supervising, Regulation and Compliance Committee will supervise the Remuneration Policy (or development documents) and the programmes of greater impact to guarantee their risk alignment.

Should any doubts subsist on the global contents of this Policy or on any of its sections, please contact the Global Compensation Function.

## 4. Application range of the Policy

This policy was established by Banco Santander, S.A., as parent company of the Santander Group, and approved by its Board of Directors. This Policy is applicable to the whole Santander Group (meaning the Group, Banco Santander, S.A. and all other companies that at any time consolidate with Banco Santander S.A.), and will be made available to all the companies, establishing the principles applicable to the Group, which must be complied with by all the companies.

For this purpose, all the companies must adopt this Policy and are responsible, using this document as reference, to create and approve in their respective governance bodies the internal regulations which will allow the application of the provisions

contained in this document, with the necessary adaptations to comply with local regulatory requisites or to follow the recommendations of the supervising bodies.

The Group's global Human Resources function will validate the said approval, in order to ensure coherence with the standardized framework of the Santander Group and with the internal governance established by the Group.

Not all the sections of the Policy are applicable to all employees, but only to a relevant group of employees. As such, the specific range of each of the eight (8) sections included in this Policy are stated in its beginning.

## 5. Risks and Controls

The Human Resources function, jointly with the Risks and Compliance functions of each of the Group companies must confirm that this Policy and remuneration practices comply with the applicable regulations and will implement, where possible, the necessary control key-indicators to monitor the level of compliance.

Additionally, effective controls will be established to check if the remuneration policies and practices are being complied with, and to identify and approach incidents regarding non-compliance.

An enlarged information, including quality models and opinions of interested parties may be used to test the effectiveness of the remuneration policies.

## 6. Policy Sections

Each of the eight (8) sections described in this Policy approach a specific area of retribution:

1. **Santander Retribution Principles:** establishes, jointly with other sections of this Policy, the key principles governing retribution to all the employees of the Santander Group.
2. **Variable Compensation:** contains, jointly with other sections of this policy, instructions on the model and implementation of variable remuneration adjusted to risk, established in the Santander Group companies, including bonus systems, long term incentives and other performance related plans.
3. **Variable Compensation of the Sales Force:** contains instructions on the model and implementation of remuneration of employees and others that intervene in the rendering of banking services, insurance, investments or ancillary services to customers through all the distribution channels.
4. **Retribution of "Promontório" and "Faro" segments:** establishes, jointly with other sections of this Policy, the specific components and remuneration characteristics of the Group's top level officers.
5. **Identification of "Significant Risk Takers":** establishes principles, guiding lines and common interpretation criteria to determine the employees whose professional activities could have material impact in the Group's risk profile (the "identified Collective") and to ensure the respective report at any time.
6. **Retribution of "Significant Risk Takers":** establishes the specific components remuneration characteristics of all the Group's employees whose professional activities could have material impact in the Group's risk profile ("identified Group").
7. **Retribution of Control Functions:** includes the principles of retribution of control functions and ensures that these functions have the capability to attract qualified talent and, with bona fide experience, fulfil its functions without conflicting interests that may emerge through negative conducts and professional performance. Additionally, it also ensures that employees fulfilling these functions are motivated and rewarded to exceptionally develop their function and perform team and commercial tasks with the business lines they supervise.
8. **Application of Malus and Clawback Clauses:** defines the process of identification, appraisal and review of events that, after the events that gave rise to the payment of variable compensation of the identified collective or of the regulated collective, may demand the application of the *malus* and *clawback* clauses to the involved parties and the size of the adjustments.

The above referred eight (8) sections are developed ahead, structured in individual chapters.

## Section 1: Retribution Principles

### 1.1. Introduction

This section contains instructions relative to retribution principles established by the Santander Group. All countries must follow the instructions contained in this section. Should any country be unable to apply a specific clause it must contact the Global Compensation function in the Human Resources corporate area.

### 1.2. Scope of application

Principles included in this section are divided in two (2) subsections:

- Subsection "All Employees" is applicable to all employees in all countries and functions, including Senior Officers as well as Significant Risk Takers.
- Subsection "Senior Officers and Significant Risk Takers." is only applicable to Group Executive Directors, other senior officers such as *Country Head*, subsidiary *CEO's* and Officers Responsible for Divisions and Corporate áreas, the "Key Positions" such as defined in the "Modelo de Gobierno Matriz- Filial", other employees of the "Promontório" and "Faro" segments and other Significant Risk Takers.

In case of doubt, relative to functions to which the section Senior Officers and Significant Risk Takers is applicable, please see **Sections 4 ("Promontório" and "Faro" Retribution) and 5 (Identification of Significant Risk Takers)** of this Policy.

### 1.3. Principles

#### 1.3.1. Applicable to all Employees:

The principles of the Group's Remuneration Policy are:

- Retributions must be aligned with shareholders' interests, be focused on the creation of long term gains and compatible with a strict risk management and with the company's strategy, values and long term interests;
- Fixed retribution is a significant portion of total compensation;
- Variable remuneration rewards the performance to achieve the agreed objectives, based on the employee's position and responsibility within the scope of a prudent risk management;
- Variable compensation promotes good conduct and does not encourage the sale of a product when there are others that better suit the customer's requirements;
- Award adequate benefits to support employees and their families;
- The global package and the retribution structure must generally be competitive, furthering the attraction and retention of employees;
- Conflicts of interest must always be avoided when related with retribution decisions, in order that neither the Group or any of its employees are unduly influenced by a secondary interest (e.g. interested parties must not be responsible for decisions relative to their own retribution);
- No discrimination shall exist in decisions concerning retributions excepting that related with performance;
- The structure and amount of retributions in each Country will be compatible with local legislation and regulations.

### 1.4. Fixed Compensation

#### 1.4.1. Applicable to all Employees:

Fixed remuneration must represent a considerable portion of total compensation. Fixed remuneration is mainly comprised by:

- **Annual gross salary:** shall be an amount consistent with the employee's level of responsibility and that favours his retention and attracts the best talent. Gross annual salary may be reviewed annually, in the context of legal and regulatory requisites, market practices and results of the bank's business;
- **Compensation for international mobility:** complements may be paid to compensate employees who are deployed to other countries due to occupational reasons. Such complements will be part of the fixed compensation and may be attributed as a sole amount;
- **Complements:** other complements may be awarded based on market conditions, policies and local standards;
- **Pensions and other benefits:** All new commitments regarding pensions must be based on defined contribution plans, in order to mitigate associated risks associated to other types of commitments. Existing defined benefits plans must be replaced whenever possible with plans with defined contributions and a lower risk profile.

Adequate benefits must be awarded to support employees and their families taking into account local market practices and local public agreements.

All compensation components must comply with local legal and regulatory requisites.

#### 1.4.2. Applicable to Senior Staff and Significant Risk Takers:

Decisions regarding compensation for Senior Staff and Significant Risk Takers must be reviewed by the competent committee.

### 1.5. Variable Compensation

Variable compensation must reward performance in achieving local business objectives and when relevant to the Group.

#### 1.5.1. Applicable to all Employees:

Variable compensation must reward performance in achieving the objectives of the local entity and, when relevant, of the Group. All variable compensation plans must:

- Reward performance;
- Be aligned with risk;
- Encourage good conduct (e.g. "Simple, Personal and Fair" behaviours on how employees carry out business activities, take decisions and how they interact with customers, shareholders and society in general; management of credit, operational and reputational risk);
- Not promote the sale of a specific product when there are other products or services that may be offered and better suit the customer's requirements;
- Be reasonable to the function and responsibilities.

Variable compensation should only be awarded if not prejudicial to the maintenance of a sound equity basis of the Country in question and the Group. Additionally, it may be possible that the result of reckoning of the variable compensation will be zero both for all as well as for each of the individual participants.

#### 1.5.2. Applicable to Senior Staff and Significant Risk Takers:

The main aim of variable compensation is to provide incentives to achieve short, medium and long term objectives and to achieve and exceed the objectives set locally, by the function or by the Group, as well as the progressive improvement of individual performance.

This compensation is supplementary and variable and may in no way be consolidated as salary, there always being the possibility that no amount is received in the current or even subsequent years.

Variable compensation must comply with regulatory requisites relative to deferment and payment via financial instruments both at local and at Group level.

- **Annual Bonus**

Applicable to the Group's senior staff, to managing directors, Country Head's, senior staff of the "Promontório" and "Faro" segments identified as participants, and other senior staff mainly in global business areas and also identified as participants.

Generally, an annual reference value named "base bonus" or reference bonus is defined for each participant. This value is normally established in local currency and based on the employee's level of responsibility, his salary evolution within the Group as well as market references.

The total bonus amount designated as "bonus pool", of each Division, Country or organizational unit is reckoned by the sum total of the base bonus of all participants, multiplied by the degree of achievement of the corresponding metrics and other qualitative factors and/or qualitative adjustments.

Metrics for the reckoning of the "bonus pool" must include ex-ante risk adjustments, in order to ensure that variable compensation is in total agreement with the assumed risks.

- **Long term incentive plan (LTIP) and deferment subject to long term performance**

Applicable to senior staff and other employees appointed by the Group, including country's senior staff indicated as participants.

In order to determine the LTIP that may be applicable, either as a separate LTIP or as part of a deferment subject to long term performance, a set of ratios based on the Group's performance in the respective year shall be applied to the established LTIP.

The payment of the established LTIP and its amount shall be subject to fulfilment of a series of multiannual objectives, including measures relative to risks and equity. The long term incentive, if applicable, will be totally received on a deferred basis, with a minimum of 50% in shares and will be subject to the application of *malus* clauses.

For more detailed information regarding variable compensation for Senior Staff and Significant Risk Takers, see **Sections 2 (Variable Compensation), 4 ("Promontório" and "Faro" Retribution), 5 (Retribution of Significant Risk Takers), 7 (Retribution of Control Functions) and 8 (Application of Malus and Clawback Clauses)** in this Policy.

## 1.6. Other Payments

### 1.6.1. Applicable to all Employees:

- **Variable guaranteed compensation:** as a general rule, amounts received as bonus cannot be guaranteed. Occasionally, however, and only the first year of effective employment in the Group, it is possible to guarantee that a minimum amount of variable compensation is paid under the following conditions:

- Capital base must be sufficient to allow the payment;
- The HR local team must be advised of the corresponding amounts in order that these are registered and duly reported;
- Any guaranteed variable compensation will be subject to applicable deferment policies.

- **Buyouts:** employees that are recruited externally may only be compensated by the loss of deferred and non-attributed retribution when reasonable proof exists of effective attribution.

In case of buyouts, the compensation to be awarded to these employees must be based on reasonable levels, considering the amount of the attributed incentives, the performance conditions and the period of effective attribution of rights. Whenever possible, compensation must be carried out through a similar plan based on shares of Banco Santander or of the corresponding unit.

Directives concerning buyouts will be established to support the implementation of this specific component.

Any buyouts shall be subject to the necessary deferment policies.



### 1.6.2. Applicable to Senior Staff and Significant Risk Takers:

- **Variable guaranteed compensation and buyouts:** for Significant Risk Takers the Global Compensation function in the Human Resources area must be advised of the corresponding amounts in order that these are registered and duly reported;

## 1.7. Employment contracts

### 1.7.1. Applicable to all Employees:

- **Code of Conduct and other Codes:** the strict compliance with the provisions of the Group's General Code and with the Code of Conduct of the Securities Market Regulator is obligatory.

Any additional provision may be included in a local code of conduct which must equally be strictly complied with.

- **Termination of employment contract:** the attribution of payments due to termination of employment must be authorized at the correct level. In the case of Group Executive Directors, subsidiary CEO's and Officers Responsible for Divisions and Corporate areas, authorization will be given by the Group's Board of Directors.

Payments to be effected must be reasonable, fair and adapted to local practices and regulatory requisites. This may be adapted depending upon the material situation in order that consideration be given to features such as strategic relevance of the function, confidentiality, replacement issues, etc.

When payments effected within the scope of termination of employment are carried out extra to policies and normal practices, adequate documentation must be prepared and maintained, including the grounds for the exception.

- **Non-competition clauses:** depending upon the context and the generalized practices in the market, each company must analyse to which employees non-competition clauses should be applied. When applicable, contracts may be suggested to employees that inhibit the conclusion of service rendering contracts with other companies or entities, except when expressly authorized for the purpose. In the case of Group Executive Directors, Country Heads, subsidiary CEO's and Officers Responsible for Divisions and Corporate areas, authorization will be given by the Board of Directors. Additionally, the non-competition clause may be established relative to companies and activities similar to those of the Group.

On another hand, contracts proposed to certain employees may contain non-competition material interdictions, as well as diversion of customers, employees and suppliers, which may be applicable for a time lapse after the termination of the employment contract for reasons different to retirement, early retirement or unilateral termination by the Group

## 1.8. Governance

The Group's Board of Directors approved the initial version of this section in January 2016, following the proposal of the Remunerations Committee. The changes now introduced are subject to the same governance procedure for approval.

## Section 2: Variable Compensation

### 2.1. Introduction

This section contains instructions on the concept and implementation of variable remuneration established by the Santander Group.

The Group's global Human Resources function will issue the "Guiding Lines of Variable Compensation" for information purposes, including examples and additional clarification for this Policy's implementation.

### 2.2. Scope of Application

This section is applicable to variable compensation plans, including bonus, long term incentives, and other plans related to performance, for all employees in all countries, companies and functions, including employees holders of "Key Positions" as defined in the "Modelo de Gobierno Matriz - Filial", other employees of the "Promontório" and "Faro" segments and other

Significant Risk Takers. In case of doubt as to the application of this section, the Global Compensation Fund in the Group's Human Resources area must be contacted.

Variable Compensation applied to employees in sales teams is developed in Section 3 (Variable Compensation for Sales Teams) of this Policy.

This section must be considered jointly with:

- The Portion of Variable Compensation referred in **Section 1 (Retribution Principles)** of this Policy, which is applicable to all the Group's employees.
- **Sections 4 ("Promontório" and "Faro" Retribution)** and **6 (Retribution of "Significant Risk Takers")** of this Policy apply to all employees included in these groups and contain additional information which must be considered jointly with this section.
- When **Section 7 (Retribution of Control Functions)** is applied to specific employees, that section's requisites should prevail over those of this section.
- If a variable compensation plan includes employees deployed to sales teams and other employees that intervene in the rendering of banking, insurance, investments and ancillary services to customers, then the directives established in **Section 3 Sales Force Variable Compensation)** of this Policy must be taken into consideration.
- Deferred variable compensation shall also be subject to the conditions established in **Section 8 (Application of Malus and Clawback Clauses)** of this Policy.

### 2.3. Principles

See the point Principles which refer to Variable Compensation contained in **Section 1 (Retribution Principles)**.

### 2.4. Attribution of a Bonus pool per Country

The Group implemented a specific regulation for the variable compensation of the "Promontório" and "Faro" segments, which is described in Section 4 ("Promontório" and "Faro" Retribution) of this Policy.

When countries apply a bonus pool or another type of variable compensation for functions different to those of "Promontório" and "Faro" segments, these should be based on:

- An adequate set of measures which are appropriate to the short and long term performance of local business;
- Metrics that include, amongst others, risk components;
- Metrics that must generally be based on the strategic objectives currently split in four categories: employees, customers, shareholders and society. The weight of each category must be established in line with each Country's objectives. Any of the objectives may be casuistically removed from the local plans of variable compensation;
- Metrics assessed in line with objectives and, where applicable adequately relevant, with limits of compliance;
- Whenever viable, the performance objectives should include a balanced number of quantitative and qualitative objectives;
- The compliance review of the performance objectives shall include, whenever possible, the assessment of the impact of the supervisor's review and other internal metrics (audit, compliance, risks);
- The setting of the bonus pool will be reviewed in line with the local internal governance and should always take into consideration the assessment of the risk function and of other relevant control functions.

Each country will determine the characteristics of the metrics used for employee groups other than the "Promontório" and "Faro" segments, and will be locally authorized complying with the principles and provisions established in this Policy.

Metrics used by countries for Significant Risk Takers which are not included in the "Promontório" and "Faro" segments will be reviewed by the Global Compensation Function to ensure that they are in line with the regulation applicable to the Group.

## 2.5. Individual attribution of variable compensation

The individual bonus or any other variable compensation shall be determined in line with the following principles:

1. A clear connection must exist between compensation and performance.
2. Variable compensation shall be aligned with the risk profile and provide incentive for good conduct, for the promotion of Group culture, for compliance with standards and to avoid conflicts of interest.

The performance management process shall be planned and executed in line with the following principles:

- Encourage alignment with the Group's and countries' strategy and culture;
- Be clearly and transparently made known to employees;
- Watch over adequate confidentiality;
- Consider the feedback obtained from all the sources related to the function.

The reckoning of the individual variable compensation based on performance must depend upon a formula or upon a reasonably discrete criterion, with adjustments to the formula only admissible under exceptional circumstances. The reasonably discrete criterion must be documented and justified. Instances of exceptional circumstances are incidences on risk and conduct issues or applicable regulation (maximum ratio of variable compensation).

When a decision is taken on variable compensation or bonus of an employee who does not fulfil these principles the grounds must be documented and discussed with local HR.

### 2.5.1. Definition of variable remuneration for "Key Positions":

Individual variable compensation for "Key Positions" according to "Modelo de Gobierno Matriz - Filial", will be defined in line with the process described in that Model, with the intervention of both local and corporate functions.

## 2.6. Long term incentives and deferred retributions subject to long term objectives

The following principles apply to long term incentives and to deferred retributions subject to long term incentives - see **Section 1 (Retribution Principles)** of this Policy:

- A clear connection must exist with the creation of long terms gains for the shareholder;
- Must be assessed on a basis of shareholder related metrics that include, but are not limited to, risks and equity;
- Must be delivered in adequate instruments, as permitted by applicable regulation;
- Must be assessed during an adequate lapse of time as foreseen in the plan's regulations and locally applicable regulations;
- Must be subject to a retention period as foreseen in the plan's regulations and local legal requisites;
- Must be subject to provisions concerning the application of *Malus* and *clawback* clauses, as foreseen in the regulation for Significant Risk Takers and other employees.

**Section 8 (Application of *Malus* and *Clawback* Clauses)** of this Policy contains additional information on this issue

The Global Compensation Function must be consulted regarding new long term incentives or deferment plans, should these be applicable to Significant Risk Takers, and be submitted to the approval of the Group's Board of Directors if applicable to "Promontório" and "Faro" segments.

The Global Compensation Function will provide guiding lines on the accounting of long term incentives in order to reckon the percentage of the variable compensation as compared to fixed compensation.

## 2.7. Attribution of variable compensation

In general, as a condition of eligibility for bonus attribution, the beneficiaries must be employed by the Santander Group and should not have informed their intention of leaving the Group by the payment date.

However, each corporate or local plan may contain its own provisions to approach situations related with mutual agreement or unilateral terminations. Local labour legislation must also be taken into consideration.

## 2.8. Documentation, notification and accessibility

The remuneration policies and practices must be documented and recorded for audit purposes during a minimum five (5) year period as from the last date when applied, and if so required placed at the disposal of the competent authorities.

The referred documentation shall include, but not be limited to, the objectives and employees to which this policy is applicable and the details of their approval and implementation.

The approval of local retribution policies must be ensured at the defined governance level, and such policies as well as the plans with greater impact shall be reviewed by the local Remunerations Committee. All relevant policies and plans must be approved by the local Human Resources function, as may be adequate.

In any case, the Risks, Regulation and Compliance Supervisory Committee must check and validate any remuneration policy (or document that develops it) in order to ensure its alignment with the risk profile.

## 2.9. Governance

This section is subject to the approval of the Group's Board of Directors following a proposal of the Remunerations Committee.

## Section 3: Variable Compensation of Sales Teams

### 3.1. Introduction

This section contains information concerning retribution of employees and other persons (hereinafter only referred to as "relevant persons") involved in the rendering of banking, insurance, investment and ancillary services to Santander Group customers.

The Group's Global Human Resources Function will issue "Guiding Lines on Variable Compensation of Sales Teams" for information purposes, including examples and additional clarifications on the implementation of this section of the Policy.

### 3.2. Scope of Application

This section is applicable to remuneration policies and practices (including benefits in kind as premiums and compensations such as travelling, invitations to events, discounts on acquisitions or gifts/material goods) of employees comprised in Sales Teams and relevant persons involved in the sale of banking products and rendering of services through all distribution channels, including branches, digital and telephonic channels.

In particular these are applied in the following situations:

- Employees that participate directly in the rendering of banking, insurance, investment or ancillary services;
- Employees responsible for supervising those employees or over which they have hierarchical superiority;
- Financial analysts whose reports may be used by sales teams to aid customers in investment decisions;
- Employees involved in the concept and development of products and services;
- Employees involved in the management and processing of complaints and customer retention;
- Commercial agents;
- Other external commercial agents or brokers;
- Employees that work in recovery teams.

The Santander Group companies must identify, in any case, the employees and the areas to which this section is applicable. In case of doubt as to the applicability of this section, please see the Global Compensation Function of Corporate Human Resources.

### 3.3. Principles

The retribution policies of the employees included in the scope of this section must understand:

- The need to take into consideration customers' rights and interests;
- The need to avoid conflicts of interest generated by remuneration practices that may prejudice customers' interests or, when adequate, suitably and effectively manage such conflicts in line with business strategy and Group values;
- Not to promote the sale of a specific product when there are other products or services that may be offered and better suit the customer's requirements;
- The need to be easily accessible to all employees and to be clear and transparent;
- The need to allow the attraction and retention of the best professional staff.

### 3.4. Concept

Remuneration policy must be conceived such that:

#### 3.4.1. Fixed and variable retribution ratio:

All retribution components are classified as fixed or variable and the ratio between these two components must be suitably balanced (unless local regulations on positions require the application of specific commercial values), to promote conducts and behaviours aligned with the Group's policies.

A variable and flexible compensation policy must be established, which determines a minimum and a maximum ratio relative to the fixed retribution. In this respect, a good practice could be that variable compensation should not exceed 100% of the fixed component. Such a policy should include the possibility that no variable compensation would be paid.

Barring authorized and approved exceptions, the ratio between fixed and variable components should be consistent for employees in the same category and business.

#### 3.4.2. Metrics:

The retribution will consider both quantitative and qualitative criteria that reflect customer treatment, customer service, risk management and compliance with regulations.

Metrics must be gauged simply and transparently in order that the specific requisites of each department are complied with for each level of responsibility.

With the purpose of appraising the performance of an employee, the company must define, in the remuneration policies and practices, the adequate criteria to be used to assess performance, considering the rights and interests of consumers. Whenever possible, variable compensation shall be reckoned and conceived on a linear base instead of an "all or nothing" criterion.

Considering the risk authorization models and when functions have impact on risk decisions, such functions must have a metric or a risk assessment.

Following are examples of acceptable performance metrics.

- Compliance with Group internal policies and procedures at global or local level, especially those related with standards of conduct (fulfilment of investment tests, customer classification, delivery of pre-contractual information and notifications, completeness of contractual documentation, prevention of misuse of privileged information, etc.) and risk management (credit, operational and any other types of risk);
- Results of performance assessment, including aspects such as personnel management, leadership, risk management and other parameters required in line with the position or category of the employee;
- Results of customer satisfaction surveys and/or mystery customer processes;
- Level of customer complaints;
- Contribution towards development of the Group, department or area;
- Fulfilment of objectives regarding customer retention or loyalty;
- Obtaining positive return on investments or portfolios and in customers' products;

- Results and level of attendance in training courses;
- Other quality indicators.

### 3.4.3. Communication:

Employees must be clearly advised on the criteria used on performance assessment and the conditions of the referred assessment prior to its application.

Variable compensation must be paid in the adequate period in line with the rules of each plan.

### 3.5. Documentation, notification and accessibility

The remuneration policies and practices must be documented and recorded for audit purposes during a minimum five (5) year period as from the last date when applied, and if so required placed at the disposal of the competent authorities.

The referred documentation shall include, but not be limited to, the objectives and employees to which this policy is applicable and the details of their approval and implementation.

The approval of local retribution policies of the sales teams must be ensured at the suitable governance level, and such policies as well as the plans with greater impact shall be reviewed by the local Remunerations Committee. In particular, the Compliance function will be responsible for the approval of any plans for the variable compensation of the local sales teams before the respective implementation.

All relevant policies and plans must have the agreement of the local Human Resources area, as suitable.

### 3.6. Governance

This section is subject to the approval of the Group's Board of Directors following a proposal of the Remunerations Committee.

## Section 4: "Promontório" and "Faro" Retribution

### 4.1. Introduction

This section contains instructions on retribution of the "Promontório" and "Faro" segments established by the Santander Group.

### 4.2. Scope of Application

This section is applicable to retribution policies and practices for the "Promontório" and "Faro" segments in all countries, companies and/or functions. For this purpose the employees of the "Promontório" and "Faro" segments are defined as those employees that fulfil the more relevant functions in the Group, and who were appointed as "Promontório" or "Faro" by the Group's Human Resources Committee and whose appointment was duly and individually advised.

In effect, for purposes of clarification and as a generalized but not exhaustive description of functions, the "Promontório" segment includes the "Country Head" of the main countries, Division Heads and Heads of Corporate Areas and other functions with relevant strategic impact, whilst the "Faro" segment generally includes the Management Bodies in the Group's main countries and businesses and the employees with the most relevant functions who report directly to the Division Managers, and those of the Corporate Areas.

This section must be jointly considered with:

- **Section 1 (Retribution Principles)** of this Policy, which is applicable to all the Group's employees.
- When **Section 7 (Retribution of Control Functions)** of this Policy is applied to employees included in the "Promontório" and "Faro", segments, the requisites of that section prevail over those of this section.
- **Section 6 (Retribution of Significant Risk Takers)** of this Policy must also be applicable when employees in the "Promontório" and "Faro" segments are equally considered as Significant Risk Takers.

### 4.3. Principles

See **Section 1 (Retribution Principles)** of this Policy.

### 4.4. Fixed Retribution

With regard to fixed salary, complements and mobility payments to employees in the “Promontório” and “Faro” segments, see Section 1 (Retribution Principled) of this Policy.

With regard to contributions towards pension plans carried out on behalf of the employees, these should be attributed in line with local practices. New provisions will be subject to a maximum of 50% of annual basic salary for employees in the “Promontório” segment and to 25% of annual basic salary for “Faro” employees. Pension plans shall have a defined contribution.

If required by local regulations or when justified by other motives, variable pension plans may be established. In this case, specific usage criteria shall be locally approved. These plans shall be considered as being variable compensation, with the associated requisites as established in the variable compensation section which follows. In specific terms, the defined contribution must be included for the assessment of the limit of variable compensation and will be subject to adequate deferment and to the application of the “*Malus* and *clawback*” clauses.

Health, life and accident insurance must be established in competitive terms, compared with the local market.

Additional benefits may be offered to employees in the “Promontório” and “Faro” segments, in line with local markets but may not exceed 20% of annual basic salary.

### 4.5. Variable compensation

The section that deals with Variable Compensation in this Policy contains instructions on the concept and implementation of variable compensation and should always be complied with, with the additional requisites which follow for employees in the “Promontório” and “Faro” segments.

An annual value named “basic bonus/basic incentive” or “bonus/reference incentive” is generally defined for each participant. This value is normally established in local currency and is based on the level of local responsibility, the employee’s salary evolution, as well as in the market’s points of reference.

Considering an adequate balance between fixed and variable compensation, the annual value defined for employees in the “Promontório” and “Faro” segments shall be constituted by a significant proportion of the respective annual basic salary. A reasonable proportion of this should be based on long term objectives which should constitute a higher percentage of the variable compensation for employees in the “Promontório” segment.

The final defined variable compensation takes into account the “bonus or basic incentive”, the available bonus pool and the employee’s individual performance.

The total variable compensation cannot exceed a maximum limit of 100% of the fixed retribution, even when an exceptional performance may have occurred. However, this limit may be exceptionally increased up to a maximum of 200% of the fixed retribution should such be approved by the Group’s shareholders.

#### 4.5.1. Variable compensation pool:

Individual variable compensation to be defined will depend upon the bonus pool available for each Country. Each Country’s pool will be determined considering:

1. Country appraisal;
2. Group’s performance multiplier;
3. Exceptional adjustment.

The bonus pool will be annually reviewed by the Group in line with the internally approved governance standards.

##### 4.5.1.1. Country Appraisal:

As defined in Section 2 (Variable Compensation) of this Policy, the Country appraisal shall be based on quantitative and qualitative metrics which include a set of categories. These categories currently are:

- Customers;
- People;
- Community/society;
- Shareholders (comprising risk, equity and profitability).

The weighting of each category will be based on the Group's priorities. Any of the categories may not be taken into account in a variable compensation plan after consideration of the supporting grounds for the decision, which will be approved by the Human Resources Committee which will submit it to the Group's Remuneration Committee. The details of the metrics used by the countries shall be determined within each Country and authorized by the Human Resources Corporate Function in line with the terms of the general plan approved by the Group's Remuneration Committee.

Assessment of performance will be based on quantitative and qualitative metrics:

- Quantitative metrics are appraised in line with pre-defined objectives. When performances lower than the 75% limit of the objective, the quantitative result will be zero for that metric. Some metrics may be subject to specific limits or to a binary assessment and have an impact on how other related metrics are measured. However, the qualitative appraisal may yet provide an upward or downward adjustment to the result.
- Qualitative appraisal is finalized for each category using pre-defined questions, which must be answered with clear evidence supported reasoning. For each category, the global extension of a potential qualitative adjustment corresponds to a 25% upward or downward adjustment.

When more than one metric exists in a category, these will equally be weighted. In exceptional circumstances flexibility exists to personalize specific weighting of the metric to mirror local strategy guidance if supported by a business case.

The appraisal will be reviewed in line with the locally adopted internal governance model and by the Group's Human Resources Committee, and should always rely upon an opportune contribution from the risk function and from other relevant control functions.

The weighted average of the category's results will determine the Country's final appraisal.

#### **4.5.1.2. Group Performance:**

A multiplier shall be applied on the Country's performance based on the Group's results.

The purpose of the Group multiplier is to partially reflect the Group's performance on the Country's bonus pool.

The multiplier's result in the Country's appraisal will vary as a function of how far the Country's performance differs from that of the Group. The multiplier is set at the discretion of the Group's Human Resources Committee and will be transparently advised to all the countries at the beginning of each year.

#### **4.5.1.3. Exceptional adjustments:**

In exceptional circumstances the need may arise to apply a discrete adjustment to the Country's bonus pool to take into consideration factors which had not been accounted for in other components of the bonus system and to guarantee that Country's pool is competitive. Such factors may be internal or external (these may include, for instance, deficient results from assessments carried out by supervisors or by control functions, exceptional contributions for the Country and for the Group, even in terms of financial objectives).

When an exceptional adjustment is requested, the Country must provide a sound reasoning. The Country's "Country Head" and the Group's Human Resources Committee must approve the reasoning before it is proposed for approval to the Group's Remunerations Committee.

When an exceptional adjustment is requested at Group level, whether applicable to one, several or all the countries, it will have to be approved by the Group's Human Resources Committee before being submitted to the Group's Remuneration Committee. The reasoning for the exceptional adjustment must also include relevant comments from the control functions, including those from the risk function.

The grounds for the exceptional adjustment must be accompanied by evidence and the reasoning communicated to the interested parties.



This adjustment will be applied through a direct increase or decrease of the bonus pool, either by a percentage of it or by a defined amount, and shall only be applied in the year of reference.

#### **4.5.2. Payment:**

When the employees in the “Promontório” and “Faro” segments are Significant Risk Takers in line with the criteria described in Section 5 (Identification of Significant Risk Takers) of this Policy, variable compensation shall be paid in shares or other instruments and in cash with equal distribution, as described in Section 6 (Retribution of Significant Risk Takers) of this Policy.

#### **4.5.3. Deferred amounts subject to long term objectives:**

Either the last three (3) payments, or the last payment, as applicable, of the variable compensation of the employees in the “Promontório” and “Faro” segments, respectively, shall be subject to additional long term objectives. These will generally be based on:

- 1) Total shareholder’s return (TSR) in relative terms compared with a suitable reference group;
- 2) Growth in Earnings per Share (EPS);
- 3) Return on risk weighted assets (RORWA);
- 4) Compliance with Level 1 Capital Ratio (CET 1).

In order to determine the final amount to be paid to employees, the result of each of these objectives will be weighted in equal terms.

Each country may have long term complementary plans should this be required by local regulations or as a consequence of local practices or yet by other justified motives. These plans must comply with the requisites of the variable compensation section of this Policy and require the approval of the Group’s Human Resources Committee for reviewing purposes. If approved by the Remunerations Committee, the plans will be submitted to the approval of the Group’s Board of Directors. Such complementary plans shall comply with the rules established in Section 2 (Variable Compensation) of this Policy.

#### **4.5.4. Governance model of variable compensation**

The bonus pool, categories, metrics and qualitative appraisal components will be annually proposed by the Group’s Human Relations Committee and submitted to the Group’s Remuneration Committee for review. If approved by the Remunerations Committee, the plans will be submitted to the approval of the Group’s Board of Directors. In the case of Group Executive Directors, the Board of Directors will request the approval of the Group’s shareholders.

The Global Compensation Fund shall share with all countries and global business the bonus pool, the categories, the metrics and the qualitative appraisal components. The objectives of each metric shall be established by each Country in line with the Group’s objectives and internally reviewed with the corresponding functions (i.e. Financial Control Function).

The achievement of each objective and the qualitative component shall be assessed at year end by each Country (or Global Business) and reviewed by the Human Resources Committee, which will equally propose the Group’s performance and the exceptional adjustment.

The Human Resources Committee will submit the bonus pools for review by the Group’s Remunerations Committee and, if so agreed, the Committee will submit the proposals to the Group’s Board of Directors.

As set in Section 2 (Variable Compensation), the individual allocation for each employee in the “Promontório” and “Faro” segments from the Country’s bonus pool shall be based on the fulfilment of the individual objectives of the employees of the referred segments. A clear connection should exist between compensation and performance and the allocation of variable compensation must be aligned with risk and with the promotion of good conduct.

#### **4.6. Compensation related to contracting and retention**

See Section 1 (Retribution Principles) of this Policy.

#### **4.7. Employment contracts**

- **Termination:** the payment of compensation for early termination of employment must be authorized at the adequate level and paid in line with local regulations. Respective payments must reflect performance and fulfilment.

Notices of termination must be sent with reasonable advance and be fair and adjusted to local practices and regulations. The referred advance notice may be adapted to each case considering the strategic relevance of the function, confidentiality, replacement, etc., but must never be less than six (6) months for employees in the “Promontório” segment

or three (3) months for employees in the “Faro” segment, unless local regulations or market practices require different periods.

- **Non-Competition Clauses:** the duty of non-competition must be established relative to companies and activities similar to the Group’s. The non-competition rule should be reasonable, fair and adapted to local practices and regulations. It should never be lower than two (2) years for employees in the “Promontório” segment and six (6) months for employees in the “Faro” segment, and paid at 100% of the annual basic salary, unless local regulations and practices prescribe otherwise.

#### 4.8. Governance

This section is subject to the approval of the Group’s Board of Directors following a proposal from the Remunerations Committee.

### Section 5: Identification of Significant Risk Takers

#### 5.1. Introduction

This section’s objective is the fulfilment of applicable legislation in this area, by establishing rules, principles, guiding lines and communal interpretation criteria to identify this group and report on it at any time. This section is developed with additional implementation guidelines.

The Group’s Corporate Human Relations function will issue the “Guiding lines for the Identification of Significant Risk Takers” to facilitate their implementation with details, examples and additional clarification to put in practice this section of this Policy.

#### 5.2. Scope of application

This section’s objective is to establish principles guiding lines and communal interpretation criteria to assess the identification of these groups, in line with legislation in force.

All subsidiaries/branches must be actively involved in the implementation and fulfilment of this section, based upon established procedures in the implementation regulation and considering, when adequate, local regulatory requisites.

Should doubts arise as to this section’s applicability, contact the Global Compensation Function within the sphere of the Corporate Human Resources function.

#### 5.3. Principles

##### 5.3.1. Basic principles:

The following basic principles were followed for the development of this section and implementation of the respective regulation:

- Approach the geographic heterogeneity and diversification of the Group, identifying countries, divisions and, in general “units”<sup>1</sup>, as required by the regulation, which should be applied to the section both individually and as part of the Santander Group.
- Provide the referred units with criteria to apply the regulation on a standardized base.
- Monitor, as Group, the identification of this identified group and maintain a duly updated record, making it available to the European Central Bank or to any other local regulatory body, when requested.
- Carry out the identification process at least once every year.

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<sup>1</sup> The term unit is generally used to comprise any organizational that may be considered on its own at a given time with the aim to apply the regulation.

### 5.3.2. Basic identification principles:

The section covering the group's identification is based on the regulation in force at any time, which establishes the criteria in line with the following points:

- Qualitative: refers to the set of criteria used to regard an individual as belonging in this group due to his position in the sphere of the organization or due to responsibilities held in it.
- Quantitative: refers to the set of criteria used to regard an individual as belonging in this group due to the retribution received for his services.
- Internal: refers to the criteria not expressly covered by the applicable regulation, but which can be inferred from the respective comprehension and finality, as being logical in the specific context of the Group.

Criteria will equally be defined to identify and classify units where the above criteria will be applied. Such criteria shall be based on simple and known components, such as gross profit and equity, and should reflect the relative importance of each of the identified units that may affect the Santander Group's risk profile.

The Global Compensation Function shall define the proportionality criteria both regarding the units and regarding the several levels of responsibility of the positions held by the individuals being analysed in order to facilitate the respective implementation. In this context, a simple but objective and auditable process shall be defined, which will also allow the identification of individuals that may not be considered as part of the identified group due to the principle of proportionality.

Lastly, in order to develop and implement this section, the Corporate Human Relations Function will take into account the best market practices and trends.

### 5.4. Functions and responsibilities

The duty of the Corporate Human Relations function comprises watching over the fulfilment of this section and to define the adequate implementation regulation, as well as any other supplementary precept required to comply with this responsibility.

The Corporate Human Relations function shall determine, as foreseen in the regulation, the units to which this section will be applied. The function shall equally be responsible to watch over and control such implementation within the units.

The referred function must also have the capability to supply information, at the request of any regulator or supervisor, on the members of the identified group, jointly with the basic criteria that qualify them for such a condition, its physical, organizational and functional location and any other element that may have been taken into consideration for the function to satisfactorily comply with this task. In any case, the Board of Directors of the Santander Group, following a proposal from the Remuneration Committee, shall review the identified group and the main features of the identification process, at least once every year.

Each unit's Human Resources function is responsible for the identification of the employees that should belong in the identified group and to support the Corporate Human Relations function in this policy's implementation. Should any unit not have its own Human Relations function, the management function upon which that function was delegated will assume this responsibility on behalf of the unit and, this lacking, the task will revert to the Corporate Human Relations function. Subsequently, this section may refer indistinctly to the global and local Human Resources functions.

The Corporate Human Relations function shall determine the following fundamental elements for the identification process of the group through the implemented regulation:

- Parts of process;
- Required instruments and materials;
- Schedule.

The Human Resources function of each unit is responsible for the identification of local regulations (or other) that may have a similar objective to that of this section. The Human Resources functions of the subsidiaries/branches shall determine the need to adopt additional procedures and documents to fulfil such local requisites which are not included in this section or in the implementation regulation.

The Human Resources function of each unit is responsible for proposing and promoting improvements to this section and/or to its basic elements. The Corporate Human Relations function will establish any procedure that may be required to facilitate the fulfilment of this responsibility.

Lastly, the Corporate Human Relations function is also responsible to settle controversies that arise from the application of regulations which may affect the Group (included in this section and the documentation that it develops and enables its application). When adequate, the Corporate Human Relations function will submit such controversies to the Remunerations Committee for decision.

### 5.5. Appraisal, monitoring and control

The Corporate Human Relations function will submit to the Remunerations Committee, at least once every year, any change in the identified group and to the basic elements relative to the identification procedure carried out.

The responsibility for the monitoring and appraisal of the fulfilment of this section by the units pertains to the Corporate Human Relations function, which will duly report the risks that arise from insufficient fulfilment, obtaining the support, if necessary, from the compliance and legal consultancy corporate areas.

The Corporate Human Relations function shall be subject to supervision and control regarding the implementing of this section, in line with the established regulatory requisites and with the Group's governance model. Specifically, the Internal Audit function will carry out a periodical review of the main features of this section's implementation, a task that shall be included in its plan of activities.

### 5.6. Governance

The Group's Board of Directors approved the initial version of this section in October 2015, following a proposal from the remunerations Committee. The changes now introduced are subject to the same governance model for their approval.

## Section 6: Retribution of Significant Risk Takers

### 6.1. Introduction

This section contains instructions as to the retribution of Significant Risk Takers established by the Santander Group in line with **Section 5 (Identification of Significant Risk Takers)** of this Policy.

The Group's Human Relations function shall issue the "Guiding lines for the retribution of Significant Risk Takers" for information purpose, including examples and additional clarifications for the implementation of this section of the Policy.

### 6.2. Scope of Application

This section is applicable to the remuneration policies and practices of Significant Risk Takers in all the countries and/or functions identified at Group level. Each country must have available, if required, additional policies to include locally identified Significant Risk Takers. To obtain detailed information as to identification of Significant Risk Takers, please see **Section 5 (Identification of Significant Risk Takers)** of this Policy.

Should any doubts arise as to this section's applicability, see Global Compensation Function in the sphere of the Corporate Human Relations function.

### 6.3. Principles

See Section 1 (Retribution Principles) of this Policy.

### 6.4. Fixed Retribution

With regard to fixed salary, complements and mobility payments for Significant Risk Takers, See Section 1 (Retribution Principles) of this Policy.

## 6.5. Variable Compensation

The section that deals with Variable Compensation in this Policy contains instructions on the concept and implementation of variable compensation and must always be complied with, with the additional requisites indicated ahead for Significant Risk Takers.

The total variable compensation cannot exceed a maximum limit of 100% of the fixed retribution, even when an exceptional performance may have occurred. However, this limit may be exceptionally increased up to a maximum of 200% of the fixed retribution should such be approved by the Group's shareholders

The Global Compensation Function will provide guiding lines to countries and business áreas with the criteria to take into account the several retribution components as variable or fixed compensation.

### 6.5.1. Deferment:

A portion of the variable compensation will be deferred and subject to additional performance criteria. The proportion and periods of deferment will depend upon the following categories in which the employee is included:

1. Group Executive Directors and Significant Risk Takers with total variable compensation in excess of a set limit, annually notified by the Group's HR Compensation Function: 60% deferred, made available in equal portions during a 5 year period, the last 3 years subject to long term objectives.
2. Divisional Heads and Heads of Corporate Areas, Country Heads of the Countries that individually represent at least 1% of the Group's equity, and other Significant Risk Takers with total variable compensation in excess of a set limit, annually notified by the Group's HR Compensation Function: 50% deferred, made available in equal portions during a 5 year period, the last 3 years subject to long term objectives.
3. Other Significant Risk Takers (including employees of the "Promontório" and "Faro" segments not included in items 1 and 2 above): 40% deferred, made available in equal portions during a 3 year period, the last year subject to long term objectives.

In applying the principle of proportionality, Significant Risk Takers to whom an annual variable compensation not exceeding a total of 50,000 Euros is awarded, shall be excluded from the above described deferment plan.

To obtain details of the objectives applicable to the deferred variable or long term compensation, see Section 2 (Variable Compensation) of this Policy.

Both the period and the deferment percentages may be increased should it be required by local regulations. All deferred payments must be effected in cash or instruments, in the same proportion. Variable compensation must be conceived and implemented in the terms of the regulations applicable in the specific plans.

Deferred variable compensation shall be subject to the provisions of the *malus* clauses established in Section 8 (Application of *malus* and *clawback* Clauses) of this Policy.

### 6.5.2. Instruments:

At least 50% of the deferred amounts and 50% of the immediate payments of variable compensation of Significant Risk Takers shall be effected in instruments, with preference to shares in Banco Santander or related instruments such as *American Depositary Receipts (ADRs)*. Subject to the approval of the Group's Human Relations function and when the country is quoted on the Stock Exchange and there is sufficient "free float" in the local Market, the entity may use local instruments, with preference to local shares.

Each country must use other instruments if required by the local regulator or legislation. Such situations will be reviewed by the Group's Human Resources function, in order the Group's regulations are equally complied.

To obtain additional information on instruments to be used, see the Global Compensation Function in the sphere of the Group's Human Relations function.

### 6.5.3. Retention period:

Any instrument granted to Significant Risk takers, be it a part of immediate payment or as payment of the deferred portion, shall be subject to a one year retention period, in order that during the twelve (12) months following the award of the instruments, the participant may not sell it or use coverage strategies.

### 6.5.4. Dividend equivalent payments and dividends:

For amounts awarded after 2016, dividend equivalent payments may not be effected on any variable compensation during the deferment period or in the attribution relative to the deferred period.

Notwithstanding the above referred condition, and such as what has occurred to date, dividends paid relative to any shares or similar instruments that have been attributed are permitted even during the one (1) year retention period after attribution.

### 6.5.5. Interest on cash deferred payments:

For payments made after 2016, interest on cash deferred payments must not be paid on any deferred compensation during the retention period.

### 6.5.6. Personal coverage:

Employees are not authorized to use coverage strategies to transfer to a third party, the risk exposure of variable compensation, either deferred or retained. The following agreements are not permissible:

- A contract that requires that a third party makes direct or indirect payments to an employee that are either related or match the amounts corresponding to the employee's variable compensation.
- The acquisition or holding of derivative financial products intended to ensure coverage of losses connected with instruments received as a portion of variable compensation.

## 6.6. Contracting and retention

See [Section 1 \(Retribution Principles\)](#) of this Policy.

## 6.7. Employment contracts

See Section 1 (Retribution Principles) of this Policy.

## 6.8. Communication

Santander Group will implement a communication process to ensure that Significant Risk Takers understand what their statute implies, especially as to the rules applicable to the *malus* and *clawback* clauses established in [Section 8 \(Application of Malus and Clawback Clauses\)](#) of this Policy.

## 6.9. Governance

This section is subject to the approval of the Group's Board of Directors following a proposal from the Remunerations Committee.

## Section 7: Retribution of Control Functions

### 7.1. Introduction

This section contains instructions as to the retribution of control functions established by the Santander Group.

The Group's Human Relations function shall issue "Guiding lines on the issue of retributions of Control Functions" for information purposes, including examples and additional clarification for the implementation of this section of the Policy.

## 7.2. Scope of Application

This section applies to all employees with control functions in all countries, divisions and units of the Santander Group.

Control functions are defined as being offices exercised in risk, compliance, internal audit, financial, accounting and management areas.

If required, the scope of this section may be enlarged in the future to include other employees comprised in the control functions definition.

## 7.3. Amount of retribution

The total retribution package of control functions must be competitive in the Market, in order to attract sufficiently qualified and experienced employees to exercise such functions.

A market competitive salary level must be determined through a formal and documented procedure that must include comparison of salary levels for similar functions in the local market.

## 7.4. Structure of retribution

All retribution components (including deferment and payment of long term incentives) must be in line with local policies for other employees. No differences may exist in the policies applied within this scope for control functions (although a differing policy may be introduced at local level, if necessary).

## 7.5. Variable compensation

The level of variable compensation must be taken into consideration and an adequate level established for control functions.

Typically, it could be expected that such would mean that the average ratio between fixed and variable compensation within the range of control functions would be lower than that of any other business function. This percentage must be harmonized with the maximum 100% fixed – variable ratio, applicable from 1 January 2017.

For control functions, a clear connection must exist with the performance of the control function to determine the level of fulfilment of any long term incentive plans where performance is assessed only at Group level. This approach may be reviewed if necessary following any changes to the applicable regulation.

## 7.6. Bonus metrics and individual objectives

Bonuses of control functions may have in their origin the same bonus pool than that of the other employees, as may be decided by local management, if the global bonus pool is adjusted to risk and the individual objectives are based on the performance of the control function. Bonus of employees in the “Promontório” and “Faro” segments occupying control function will be included in the bonus pool of the Country in question as described in Section 4 (Retribution of “Promontório” and “Faro” segments).

The adequate governance body (local Remunerations Committee or local Board of Directors) may decide to attribute a specific bonus pool for control functions, even in a loss situation and when adequate, if the control functions contributed towards the long term success of the business. In this situation and when applicable to employees in the “Promontório” and “Faro” segments, the Group Board of Directors, following a proposal by the Remunerations Committee will review and approve a specific bonus pool or the individual amount.

Individual objectives must be 100% based on the performance of control function, instead of the results of the business, but must be aligned with the long term success of the business objectives.

## 7.7. Process for bonus determination

Performance of the control function must be assessed by staff independently from the business areas they supervise.

For the majority of employees this assessment shall be based on business taken locally by members with greater responsibility in the same control function (i.e. the CRO – local Chief Risk Officer for employees in the risk function, Chief Compliance Officer for employees in the same Compliance function, etc.). However, for a restricted number of employees, identified in the “Modelo de Gobierno Matriz- Filial” (e.g. each country’s CROs), such shall be 30% based on a Group decision and 70% based on a locally taken decision or as reflected at any time in the “Modelo”.

For positions of greater responsibility the local decision making process must be undertaken by an independent committee or governance body.

## 7.8. Recruiting

Officers in control functions must be recruited in line with the conditions defined in this section. Decisions for contracting control functions must be taken in line with the “Modelo de Gobierno Matriz- Filial”.

All remaining contracting processes and policies for officers in control functions must be in line with the recruiting policy. These must specifically comply with the definition of objective and assessment of performance of control functions, in the terms of the “Modelo de Gobierno Matriz- Filial”.

## 7.9. Governance

The Group’s Board of Directors approved the initial version of this section in January 2016, following a proposal from the remunerations Committee. The changes now introduced are subject to the same governance model for their approval

## Section 8: Application of *Malus* and *Clawback* Clauses

### 8.1. Introduction

This section contains instructions for the application of the *malus* and *clawback* clauses established by the Santander Group. After prior consultation with the Global Compensation Function in the sphere of the Human Resources function, these provisions may be adapted, whenever necessary, to fulfil local regulations or to follow recommendations of the local supervisory authorities.

The Group’s Human Resources function shall issue the “Guiding Lines and Procedures for the Application of the *Malus* and *Clawback* Clauses”, which will include examples and additional clarification for the implementation of this section of the Policy, which will be submitted to the approval of the Human Resources Committee.

### 8.2. Scope of Application

This section regulates *malus*, defined as being the capability to totally or partially reduce the amount of deferred compensation, and *clawback*, defined as being the capability to recover a part or the whole of the amount of variable compensation paid in the past or the right to which had already been attributed.

*Malus* and *Clawback* may be applied to total variable compensation attributed and/or paid to Significant Risk Takers, such as identified in **Section 5 (Identification of Significant Risk Takers)** of this Policy, and to those attributed and/or paid to any other employee to whom it is determined should become subject to *malus* and/or *clawback* in line with the regulation of a specific plan of variable remuneration.

Variable remuneration includes bonus and long term incentives which comprise a pre-determined period, the Sales Teams’ incentives, the retention bonuses, the guaranteed variable compensation, the discrete pension benefits, and other provisions that may be eventually considered as variable compensation (including employment termination contractual payments).



### 8.3. Included persons

All persons that may potentially take part in an identified event (such as described below) must be assessed, including individuals with supervisory, management or control function, in order to determine if *malus* and *clawback* need being applied.

Notwithstanding what is referred above, the application of *clawback* clauses must be restricted to functions which have a more direct participation in the identified event.

### 8.4. Event identification

The application of *malus* and/or *clawback* commences with the occurrence of an identified event, as specified in this section.

The application of *clawback* will be supplementary to the application of *malus*, and will thus take place when the latter is insufficient for the impact the event should have in variable compensation, such as described below. Without prejudice to its supplementary condition, *clawback* will be applicable beyond *malus* in the case of very significant events, such as shown below.

In the case of an identified event, priority will be given to the application of *malus*, and only when the application of the said *malus* is depleted and insufficient will *clawback* become applicable.

Identified events may be classified as minor, significant or very significant. Definitions of these three categories will be established further on.

The application of *malus* and/or *clawback* commences when at least the following circumstances are found to have taken place:

- a) Should the institution and/or business unit have been subsequently affected by a significant deceleration in its respective financial performance (e.g. specific business indicators);
- b) Should the institution and/or business unit where the identified employee works be affected by a significant failure in risk management;
- c) Significant increases in the basic economic or regulatory equity of the institution or business unit;
- d) Any regulatory sanctions towards which the identified employee contributed;
- e) Proof of bad conduct of, or grievous error committed by a staff member (e.g. infringement of the code of conduct or other internal regulations, especially those that are risk related).

Additionally, the individual policies of each Country must include any other criteria required by regulations and/or the local regulators themselves.

### 8.5. Period of application

For any variable compensation to which a deferment scheme is applied, the period of application shall extend until the date when the last payment is made or the last award of the financial instrument foreseen for the referred variable compensation.

When a scheme of deferment is not applied, the period of application will become due on the date defined in the variable compensation plan and, should this not have been foreseen, it will never exceed the date of the fifth anniversary counting from the date of its attribution. Local regulations may oblige a longer period being set.

### 8.6. Control functions positions

Control functions and management control functions are duty bound to supply information and recommendations to the local of the Group's decision making bodies as to potential events that may cause the application of *malus* and/or *clawback*.

## 8.7. Size of adjustment

The decision as to the size of the adjustment and as to the use of *malus* and/or *clawback* shall be based on the circumstances of the identified event. The local competent body shall take a decision based on the counselling received from the local control functions and from the Human Resources function.

In order to determine the size of the adjustment and the application of *malus* and/or *clawback*, events may be classified in three wide categories:

- **Minor event:** an event which is related with one only person and with limited effect in the case of risks, financial or regulatory, with impact on the business unit or entity, and which will only trigger *malus* application;
- **Significant event:** an event that involves a reduced number of employees and with significant effect in issues of risks, financial or reputational, in the activities of the business units or of the entity in question, and which will trigger the application of *malus* and, when applicable, of *clawback* only in cases when the *malus* application is considered insufficient; and,
- **Very significant event:** an event that has a very significant and unfavourable effect in the risk profiles, financial and reputational, of the entity. Considering the above described priorities between *malus* and *clawback*, very significant events may trigger both *malus* and *clawback* actions.

## 8.8. Identification of the event and respective record

Business units, control and other functions shall identify the events that may cause the application of *malus* and *clawback*, in the terms of the procedures established for this purpose.

## 8.9. Communication

Participants in incentive plans subject to the provisions of *malus* and *clawback* clauses should be advised of these circumstances when the plan is posted and the incentive attributed

When a *malus* and/or *clawback* event is triggered, participants should be advised as to the adjustments that may be carried out in deferred compensation and/or attributed variable compensation and the reasons for such adjustments (*malus*) or disciplinary action (*clawback*).

## 8.10. Governance Process

The competence for the decision to apply the *malus* and/or *clawback* clauses lies with the local governance bodies of each entity and with the Group's Human Resources Committee in the case of corporate centre employees, with exception of executive directors or Senior Officers. The Group Human Resources Committee will submit the proposal of the application regarding the latter officials to the Remunerations Committee and to the Group's Board of Directors for approval purposes.

The local Human Resources function will report to the Group's Human Resources Committee any proposal for the application of *malus* and *clawback* derived from locally identified events. The Group's Human Resources Committee may review all the cases coordinating with the above referred corporate and management control functions. Equally, the Group's Human Resources Committee may identify any triggered event not proposed by the local decision taking bodies to which *malus* and/or *clawback* clauses could be applicable. The Group's Human Resources Committee will advise the local Human Resources function regarding any such situation for the purpose of its being carried out.

The Group's Human Resources Committee will provide the Remunerations Committee with an annual report regarding the application of *malus* and *clawback* clauses within the Group in order that assessment takes place in line with the rules and regulations of the parent company's Board of Directors.

The corresponding governance body of each subsidiary/branch will ensure that compliance with remuneration policies regarding variable compensation is compatible with the soundness of the equity.

### **8.11. Specific variations for countries and employee groups**

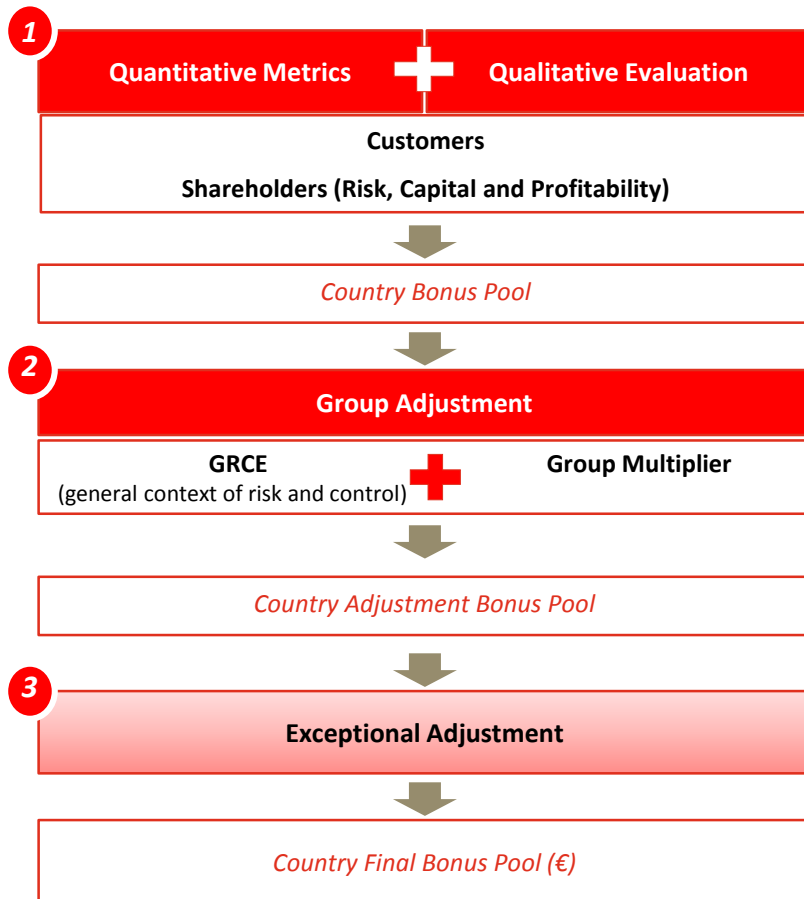
All processes within a country's scope must be included in the remit of the local adequate body, including in the latter the Global Corporate Banking Division.

### **8.12. Governance**

The Group's Board of Directors approved the initial version of this section in January 2016, following a proposal from the Remunerations Committee, as well as the respective change entered in January 2017.

Annex 2  
Annual Objectives

**2018**



### Annex 3

#### Criteria for determination of deferred variable remuneration subject to performance

- a) Fulfilment of the objective of consolidated net earnings per share (EPS) of Banco Santander in 2019 by comparison with 2016. The corresponding coefficient for this objective (EPS ratio) will be obtained from the following table:

EPS growth in 2019 (% over 2016)	EPS ratio
≥ 25%	1
> 0% plus < 25%	0 – 1 <sup>(*)</sup>
<0%	0

(\*) Linear increase of EPS ratio as a function of the material EPS growth in 2019 as compared with EPS in 2016 within the same scale.

- b) Relative behaviour of the Bank's total shareholder return (TSR) in the 2017-2019 period as compared with weighted TSRs of a group of 17 credit institutions (the "Reference Group"), attributing the TSR ratio that proceeds as a function of the Bank's TSR within the Reference Group.

Position of the Santander TSR	TSR ratio
Higher than 66%	1
Between 33% and 66%	0-1 <sup>(*)</sup>
Lower than 33%	0

(\*) Proportional increase of the TSR ratio as a function of the number of positions which it climbs within the ranking in the same scale.

TSR measures the return on investment to the shareholder as the sum of the variation in the share price plus dividends and other similar concepts (including the Santander Dividendo Elección programme) which the shareholder may receive during the period under analysis.

The Reference Group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa SanPaolo, Deutsche Bank, and Unicredit.

- c) Fulfilment of the objective of level 1 of the consolidated ordinary equity index (common equity tier 1 or CET1) of the Santander Group fully loaded set for 2019. The ratio that corresponds to this objective (CET1 ratio) can be obtained from the following table:

CET1 in 2019	CET1 ratio
≥ [11,30]%	1
≥ 11% but < 11,30%	0 – 1 <sup>(*)</sup>
< 11%	0

(\*) Linear increase of CET1 Coefficient as a function of 2019 CET1 ratio within this scale.

To check the fulfilment of this objective in possible CET1 no increases derived from share capital shall be considered (except those that coordinate the Santander Dividendo Elección programme). Further to this, CET1 on 31 December 2019 may be adjusted to eliminate the effect of regulatory changes that may occur in its respect and of its reckoning until that date.

In order to determine the annual value of the Deferred Portion Subject to Objectives corresponding to each beneficiary in 2021 and, if applicable, 2022 and 2023 (to each of these payments, a “Final Annuity”), and without prejudice to the adjustments that may result from the application of the previously referred *malus* Policy, the following formula is applied:

$$\text{Final Annuity} = \text{Imp.} \times (1/3 \times A + 1/3 \times B + 1/3 \times C)$$

Where:

- “Imp.” Corresponds to one third, as a function of the beneficiary’s profile, of the deferred value of Incentive A.
- “A” is the EPS ratio that results from the previous scale of point (a) as a function of the EPS growth in 2019 over that of 2016.
- “B” is the TSR ratio that results from the previous scale of point (b) as a function of the behaviour of the Bank’s TSR in the 2017-2019 period as compared with the Reference Group.
- “C” is CET1 ratio that results from complying with the CET1 objectives for 2019 described in the above point (c).

## II.2. – REMUNERATION AND OTHER BENEFITS ATTRIBUTED TO CORPORATE OFFICERS

This information is provided in order to comply with the provisions of article No. 3 of Law 28/2009, dated 19 June, and in article No. 17 of the Bank of Portugal's Instruction No. 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), in that part that refers to the disclosure of the annual amount paid in remunerations to Corporate Officers.

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2017 were, respectively mEuros 4,382 in fixed remunerations and mEuros 4,849 in variable remunerations.

On 31 December 2016 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 481,000 euros, with the following details:

	Mortgages Collective Labour Agreement	Mortgages General Regime	Consumption	Total
Inês Oom Ferreira de Sousa	130	135		265
Isabel Maria Lucena V. Cruz Almeida Mota			19	19
João Baptista Leite	48			48
Luis Filipe Ferreira Bento dos Santos	139	10		149
Total	317	145	19	481

Individual remuneration paid and deferred in 2017 is detailed in the following charts.

### Annual Remuneration

#### Board of Directors

Name	Position	Fixed remuneration
António Basagoiti Garcia -Tuñón	Chairman	838
António José Sacadura Vieira Monteiro	Deputy Chairman	568
Enrique Garcia Candelas	Deputy Chairman	200
Angel Rivera Congosto *	Member	-
António Manuel de Carvalho Ferreira Vitorino	Member	150
Inês Oom Ferreira de Sousa	Member	200
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Member	150
João Baptista Leite	Member	250
José Carlos Brito Sítima	Member	350
José Urgel Moura Leite Maia	Member	294
Luís Filipe Ferreira Bento dos Santos	Member	296
Luís Manuel Moreira de Campos e Cunha	Member	150
Manuel António Amaral Franco Preto	Member	498
Manuel Maria Olazabal Albuquerque **	Member	88
Pedro Aires Coruche Castro e Almeida	Member	350
Remedios Ruiz Macia	Member	-
		4,382

\* Resigned on February 20, 2017

\*\* Appointed on May 31, 2017

## Variable Annual Remuneration

Pecuniary component:

### Board of Directors

Name	Position	Bonuses 2017 (cash)
António José Sacadura Vieira Monteiro	Deputy Chairman	302
Inês Oom Ferreira de Sousa	Member	122
João Baptista Leite	Member	126
José Carlos Brito Sítima	Member	224
José Urgel Moura Leite Maia	Member	157
Luís Filipe Ferreira Bento dos Santos	Member	157
Manuel António Amaral Franco Preto	Member	140
Pedro Aires Coruche Castro e Almeida	Member	213
		<u>1,441</u>

Share component:

Name	Position	Bonuses - 2017 retained by one year
António José Sacadura Vieira Monteiro	Deputy Chairman	283
Inês Oom Ferreira de Sousa	Member	115
João Baptista Leite	Member	118
José Carlos Brito Sítima	Member	210
José Urgel Moura Leite Maia	Member	147
Luís Filipe Ferreira Bento dos Santos	Member	148
Manuel António Amaral Franco Preto	Member	132
Pedro Aires Coruche Castro e Almeida	Member	200
		<u>1,353</u>

This amount corresponds to 241.683 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.



## Deferred Remuneration

Following are the details of the pecuniary component relative to 2017:

### Board of Directors

Name	Position	Bonuses - 2017				
		2019 Cash	2020 Cash	2021 Cash	2022 Cash	2023 Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	60	60	60	60	60
Inês Oom Ferreira de Sousa	Member	27	27	27	-	-
João Baptista Leite	Member	28	28	28	-	-
José Carlos Brito Sítima	Member	50	50	50	-	-
José Urgel Moura Leite Maia	Member	35	35	35	-	-
Luís Filipe Ferreira Bento dos Santos	Member	35	35	35	-	-
Manuel António Amaral Franco Preto	Member	31	31	31	-	-
Pedro Aires Coruche Castro e Almeida	Member	47	47	47	-	-
		<u>313</u>	<u>313</u>	<u>313</u>	<u>60</u>	<u>60</u>

Following are the details of the share component relative to 2017:

### Board of Directors

Name	Position	Bonuses - 2017				
		2019 shares	2020 shares	2021 shares	2022 shares	2023 shares
António José Sacadura Vieira Monteiro	Deputy Chairman	10,104	10,104	10,104	10,104	10,104
Inês Oom Ferreira de Sousa	Member	4,551	4,551	4,551	-	-
João Baptista Leite	Member	4,678	4,678	4,678	-	-
José Carlos Brito Sítima	Member	8,359	8,359	8,359	-	-
José Urgel Moura Leite Maia	Member	5,834	5,834	5,834	-	-
Luís Filipe Ferreira Bento dos Santos	Member	5,870	5,870	5,870	-	-
Manuel António Amaral Franco Preto	Member	5,235	5,235	5,235	-	-
Pedro Aires Coruche Castro e Almeida	Member	7,954	7,954	7,954	-	-
		<u>52,585</u>	<u>52,585</u>	<u>52,585</u>	<u>10,104</u>	<u>10,104</u>

On this date, two thirds of the variable remuneration relative to 2016 continues deferred (with exception of the deputy chairman's variable remuneration of which four fifths continue deferred) and one third of this remuneration has been paid.

### Board of Directors

Name	Position	Bonuses - 2016 paid in February 2018			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	3	60	67
Inês Oom Ferreira de Sousa	Member	-	-	6	7
João Baptista Leite	Member	-	1	34	38
José Carlos Brito Sítima	Member	-	2	50	55
José Urgel Moura Leite Maia	Member	-	2	40	45
Luís Filipe Ferreira Bento dos Santos	Member	-	2	40	45
Manuel António Amaral Franco Preto	Member	-	2	39	43
Pedro Aires Coruche Castro e Almeida	Member	-	2	47	53
		<u>-</u>	<u>14</u>	<u>316</u>	<u>353</u>

The value of the allotted shares corresponds to 63,056 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

#### Board of Directors

Name	Position	Bonuses - 2016							
		2019		2020		2021		2022	
		Shares	Cash	Shares	Cash	Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	11,876	60	9,190	60	9,190	60	9,190	60
Inês Oom Ferreira de Sousa	Member	1,157	6	1,157	6	-	-	-	-
João Baptista Leite	Member	6,732	34	6,732	34	-	-	-	-
José Carlos Brito Sítima	Member	9,718	50	9,719	50	-	-	-	-
José Urgel Moura Leite Maia	Member	7,876	40	7,877	40	-	-	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,858	40	7,858	40	-	-	-	-
Manuel António Amaral Franco Preto	Member	7,607	39	7,607	39	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Member	9,307	47	9,308	47	-	-	-	-
		62,131	316	59,448	316	9,190	60	9,190	60

On this date, one third of the variable remuneration relative to 2015 continues deferred, and one third of this remuneration has been paid.

#### Board of Directors

Name	Position	Bonuses - 2015 paid in February 2018			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	5	45	64
João Baptista Leite	Member	-	2	23	33
José Carlos Brito Sítima	Member	-	4	37	54
José Urgel Moura Leite Maia	Member	-	3	31	44
Luís Filipe Ferreira Bento dos Santos	Member	-	4	32	45
Manuel António Amaral Franco Preto	Member	-	3	29	41
Pedro Aires Coruche Castro e Almeida	Member	-	4	39	56
		-	25	236	337

The value of the allotted shares corresponds to 60,257 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

#### Board of Directors

Name	Position	Bonuses - 2015	
		2019	
		Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	11,332	45
João Baptista Leite	Member	5,778	23
José Carlos Brito Sítima	Member	9,466	37
José Urgel Moura Leite Maia	Member	7,805	31
Luís Filipe Ferreira Bento dos Santos	Member	7,976	32
Manuel António Amaral Franco Preto	Member	7,247	29
Pedro Aires Coruche Castro e Almeida	Member	9,774	39
		59,378	236

Variable remuneration paid, relative to 2014, was as follows:

#### Board of Directors

Name	Position	Bonuses - 2014 paid in February 2018			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	9	75	69
João Baptista Leite	Member	-	3	24	22
José Carlos Brito Sítima	Member	-	4	38	35
José Urgel Moura Leite Maia	Member	-	4	31	29
Luís Filipe Ferreira Bento dos Santos	Member	-	4	30	27
Manuel António Amaral Franco Preto	Member	-	3	30	28
Pedro Aires Coruche Castro e Almeida	Member	-	5	39	35
		-	32	267	245

The value of the allotted shares corresponds to 43,734 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

#### Other benefits

With respect to post-employment benefits, the members of the Board of Directors who are contractually bound to Banco Santander Totta and that are not inserted in the plan referred to below are comprised in the pension plan of the Collective Labour Agreement for the banking industry subscribed by the Bank.

In 2010, the group set up a plan with an established contribution for its entire managerial staff. This plan also includes the members of the Board of Directors that are not comprised in the plan referred to below.

The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service.

On 31 December 2017, liabilities with this plan amounted to 24.120 million euros and are duly covered by a provision recorded in the Bank's accounts.

#### Contractual Terminations

There were no payments, in 2017, of any compensation for early termination of employment of corporate officers.

#### II.3. – REMUNERATIONS POLICY FOR 2018

Remunerations Policy of the Corporate Officers of Banco Santander Totta for 2018, shall be considered at the Annual General Meeting, thus complying with the applicable regulations.

## III – Remunerations Policy of Managerial Staff

### III.1. DECLARATION CONCERNING THE REMUNERATION OF THE MANAGERIAL STAFF OF BANCO SANTANDER TOTTA, S.A. (the «Bank»)

#### (The «Declaration»)

For the purposes of this Declaration the Bank's Managerial Staff is designated as the "Identified Group" or "Officers" and comprises those employees that are part of some of the following specified groups which are not, simultaneously, members of the corporate bodies:

- a) The officers that comprise the Group known as «Faro», in the terms approved on 24 January 2017 in the new remunerations policy of the Santander Group (the «Policy»);
- b) The senior officers and those that hold responsible positions in terms of assuming risks on the Bank's behalf or of its customers, with material impact on the Bank's risk profile and;
- c) The officers who exercise their professional activity with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Banks risk profile, as is the case with the officers responsible for the Audit, General Control of Bank Risks, Compliance Departments, as well as those officers responsible for the Financial, Accounting and Management Control areas (the «Heads of Control Functions»).

The updated identification of the functions comprised in the Identified Group which is Annex 1 of this Declaration, and which is an integral part of it for all legal effects and purposes.

This Declaration appraises the compliance by the Policy with the diverse requisites posed by Portuguese legislation, proposing its formal approval to the Bank's shareholders.

#### 1. Framework

The Policy is addressed to all employees of the Santander Group, and establishes the fundamental principles regarding the payment of fixed and variable remunerations (the non-official translation of the policy into Portuguese is Annex 1 of the Declaration, and which is part of the same for all due effects and purposes).

The Policy is applicable to all the subsidiaries of the Santander Group, amongst which the Bank is included, and the Board of Directors formally adhered to the Policy on 31 January 2017.

In the terms of the Policy the Santander Group adopts consistent remuneration practices that comply with the applicable regulations in the jurisdictions where it carries out its business.

The retribution is defined to promote a culture of high performance, in which people are rewarded and recognized by their performance, competence and by the impact they have in the success of the Group and/or its subsidiaries.

The remuneration practices of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers and society and, particularly, to promote good conduct. The Santander Group ensures, via the Policy, that retribution policies promote and are coherent with a sound and effective risk management and with the maintenance of a sound equity base.

This Declaration provides information concerning the Policy's adequacy to the diverse requisites posed by Portuguese legislation.

#### 2. Application of the Bank's Policy

##### Fixed Retribution

- a) Fixed remuneration is paid 14 times per year;
- b) Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- c) Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;

- d) The Fixed retribution of the Managerial Staff has the limits annually set by the Executive Committee, and it is not estimated that, in 2017, it will represent a lower proportion than 55% of Total Remuneration.

### 2.2.1. Determination of variable remuneration

Variable remuneration is determined from a standard reference corresponding to the 100% fulfilment of the established objectives, with a reference value set for each member in each year.

The final value of the fulfilment award and inherent variable remuneration shall be determined at the beginning of the year following that when the duties were performed, based on the reference value and as a function of the effective fulfilment of the established objectives.

The material variable remuneration is determined considering:

- a) A set of parameters in the short term measured in line with the annual objectives;
- b) A qualitative assessment supported by qualified evidence and which will not be able to modify the quantitative result by more than 25% upwards or downwards;
- c) An exceptional adjustment supported by qualified evidences which may contemplate modifications originating from deficiencies in control and/or risks, negative results of supervisor's appraisals or non-foreseen significant events.

The general objectives for 2017 are those comprised in Annex 3 which is part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a determined level of fulfilment, the value of the variable remuneration may not exceed 50% of the reference value for the corresponding year. Should the results of the metrics be negative, the value of the variable remuneration shall be 0%.

The maximum ratio between the value of all the components of variable remuneration and the total value of fixed remuneration may not exceed 200%.

With regard to the Heads of the Control Functions, the determination of the variable remuneration conforms to the following criteria: (i) individual assessment of the employee, taking exclusively into account the specific objectives related to functions exercised; (ii) the Bank's global performance and that of the economic group in which it is comprised.

The maximum ratio between the value of all the components of variable remuneration and the total value of the fixed remuneration of the Heads of the Control Functions may not exceed 100%.

The annual assessment of the Heads' performance is carried out by their respective superior officers or directly by the Executive Directors responsible for their specific areas when a direct reporting relation exists. Whenever such Heads are subject to double reporting, assessment is also carried out by the officer responsible for the area in question.

Without prejudice to what is internally provided as to the setting of objectives and the annual assessment of the Heads of Control Functions, their remuneration shall be supervised by the Bank's Remunerations Committee.

### 2.2.2. Composition and regulation of variable remuneration

The variable portion of the remuneration is subject to a partial deferment of the respective payment, aiming to find a balance between the short and medium term.

- a) Variable remuneration is due 50% in cash and 50% in shares, a portion being paid in 2018 and the remainder deferred over three or five years, as shown in the following parameters:
  - 60% or what will be defined in line with the applicable situation) of this remuneration shall be paid in 2018, in cash and shares;
  - The remainder will be paid annually, in three or five equal instalments (as applicable), in cash and in shares, in line with the foreseen conditions. The Bank, however, reserves the right (through its competent bodies and maintaining consentaneity within the Group) not to apply such a deferment when the value of the total variable remuneration does not exceed 50,000 euros, should this not be inhibited by legal or regulatory applicable resolutions.
- b) The attributed shares do not benefit from any risk coverage contract and will be subject to a one year's permanence condition.
- c) The deferred portion of the variable remuneration, relative to the third year, and also of the fourth and fifth years, should this be the case, is subject, in addition to the *malus* and *claw-back* conditions, with the fulfilment of the Group's long term objectives for the 2017-2019 period, in line with the applicable general criteria within the framework of the Santander

Group, under which terms the value of the variable remuneration may only diminish (by reduction of payment in cash or shares), in the terms defined for the current year in Annex 4.

- d) The payment of the variable remuneration shall respect the deferment rules and the reduction mechanisms (*malus*) or reversion (*claw-back*) in force in the Policy, in order to comply with the legal and regulatory requisites, as well as to follow the recommendations and guiding lines issued by the competent supervisory bodies. The power to reduce (*malus*), totally or partially, the payment of the deferred remuneration that is not yet an acquired right, as well as to totally or partially retain variable remuneration which is already an acquired right (*claw-back*), remains limited to extremely significant duly identified events, in which the persons comprised will have directly taken part.

### 2.2.3. Identification of the deferred and paid portions of variable remuneration

Relative to 2013, the last third of the deferred variable remuneration was paid in 2017.

Relative to 2014, one third of the deferred variable remuneration remains to be paid.

Relative to 2015, two thirds of the deferred variable remuneration remain to be paid

Relative to 2016, the portion of the variable remuneration not subject to deferment was paid in 2017. The payment of the remainder is deferred for three years.

### 2.2.4. Benefits

Attribution of benefits is carried out in order to ensure compatibility with company strategy, and with the Bank's objectives, values and long term objectives.

Without prejudice to causal or residual attributions, resulting from measures taken in the past by previous employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

- a) Health Insurance complementary to the Medical & Social Assistance Services (SAMS) included in the collective labour regulations for the banking industry;
- b) Personal Accident Insurance, in line with the provisions included in the collective labour regulations for the banking industry.

Several employees benefit from life insurance, resulting from the contractual connection to the extinct Banco Santander Portugal or to Banco Santander, S.A.

Several employees benefit from a complementary pension plan, in the terms of the decision taken by the Bank's Board of Directors on 25 February 2010.

There are no pension benefits attributed on a discretionary basis.

No risk coverage or related mechanisms may be used by any Officer or the Bank on his behalf. This measure is taken into consideration and should be confirmed on an annual basis and confirmed by the interested party with the Group.

## 3. Complementary features

### 3.1. Procedures for approval of Policy

The Policy was approved by the Santander Group, adopting a set of national and international guiding lines on the matter, the Bank having later adhered to the Policy on 31 January 2017, after presentations on the subject being submitted to the Bank's Remunerations Committee and to the Board of Directors.

The Policy, in its approved terms, will be complemented with a set of additional essentially interpretative guidelines.

### 3.2. Other features

No award of optional plans is expected in 2017.

There are no non-pecuniary benefits, or other types of remuneration than those referred in the Declaration.

#### **4. Compliance with the rules on remuneration policy defined by the Bank of Portugal**

The Bank's Policy is generally in line with the principles inherent to the regulations applicable in Portugal, ruled by simplicity, transparency and adequacy to medium and long term objectives.

As such, the determination of total remuneration, comprising fixed and variable portions, as well as the connection between these two components, such as detailed in this Declaration and in the attached Policy, allow concluding by the adoption, in general, of the material rules which are included in Portuguese regulations.

The fact that the Bank is part of the Santander Group, which owns more than 99% of its share capital, implies the necessary consentaneity of the respective corporate policies which, in their turn, respect the respective international regulations.

The applicable regulations also establish that at least an annual review is carried out of the Bank's remuneration policy and of its implementation, in order to guarantee that it is effectively applied, that the remuneration payments are adequate and that the institution's risk profile and long term objectives are being adequately reflected, and that the policy is in line with the legislation and regulations in force, as well as with the national and international applicable principles.

This annual review shall also include an appraisal of remuneration practices applied in external subsidiaries and in "off-shore", establishments, especially as to the respective effect on the institution's risk management, equity and liquidity.

The referred appraisal was carried out, following applicable regulations, by the Bank's Remuneration Committee, with the active participation of the units responsible for the exercise of control functions, with no insufficiencies being found.

Lisbon, 27 June 2017

### III.2. REMUNERATIONS AND OTHER BENEFITS ATTRIBUTED TO MANAGERIAL STAFF

This information is provided in compliance with the provisions of article No. 17 of the Bank of Portugal's Instruction Nº 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), where the disclosure is referred, in aggregate terms of annual amount earned by employees who, not being Corporate Officers of Banco Santander Totta, S.A., exercise their professional activity in the range of control functions foreseen in Bank of Portugal's Instruction No. 5/2008, dated 1 July, or perform functions with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Banks risk profile (hereinafter the "Officers").

#### Annual Remuneration

Amount of fixed earnings:	
Control Functions	mEuros 1,149
Other Functions	mEuros 3,744
Amount of variable earnings:	
Control Functions	mEuros 731
Other Functions	mEuros 4,707
Number of beneficiaries:	
Control Functions	6
Other Functions	30

Performance awards for 2017 retained for one year amounting to mEuros 1,542 corresponds to 275,674 shares in Banco Santander, S.A., at a price per share of 5,597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

The following amounts are deferred on the current date:

	Bonuses - 2017					
	2019		2020		2021	
	Shares	Cash	Shares	Cash	Shares	Cash
Control functions	8,707	52	8,707	52	8,707	52
Other functions	52,554	313	52,554	313	52,551	313

On the current date two thirds of the variable remuneration relative to 2016 are deferred, one third of such remuneration having been paid.

	Bonuses - 2016							
	Paid in 2018			2019		2020		
	Interests	Dividends	Cash	Shares	Shares	Cash	Shares	Cash
Control functions	-	2	42	53	9,335	48	9,335	48
Other functions	-	10	228	254	44,769	228	44,770	228

The value of the shares earned corresponds to 54,909 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

On the current date one third of the variable remuneration relative to 2015 is deferred, one third of such remuneration having been paid.



<b>Bonuses - 2015</b>						
	Paid in 2018				2019	
	Interests	Dividends	Cash	Shares	Shares	Cash
Control functions	-	4	37	59	10,322	41
Other functions	-	21	193	276	45,172	179

The value of the shares earned corresponds to 59,793 shares do Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Variable remuneration paid, relative to 2014, was as follows:

<b>Bonuses - 2014</b>				
	Interests	Dividends	Cash	Shares
Control functions	0.09	4	36	36
Other functions	0.4	18	156	144

The value of the shares earned corresponds to 32,167 shares in Banco Santander, S.A., at a price per share of 5.597 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

### Other Benefits

Officers enjoy the benefits of health insurance supplementary to Medical & Social Assistance Services (SAMS) comprised in the collective labour regulations for the banking industry and of personal accident insurance, in line with the provisions of the collective labour regulations for the banking industry.

Several Officers benefit from life insurance, as a result of a contractual link with the extinct Banco Santander Portugal or with Banco Santander, S.A.

Several Officers benefit from a supplementary pension plan, in the terms of the decision of the Bank's Board of Directors dated 25 February 2010.

### III.3. Remuneration Policy for 2018

Remuneration policy currently in force for the Managerial Staff of Banco Santander Totta was approved by the Board of Directors at its meeting held on 27 June 2017, applicable in 2017 and 2018. Until a new decision is taken the existing policy is that shown above. A reappraisal of the matter is planned for June 2018.

## **Annex 1 Identified Group**

DEPUTY DIRECTOR AZORES AND MADEIRA  
DEPUTY DIRECTOR GLOBAL CORPORATE BANKING AREA  
DEPUTY DIRECTOR RETAIL & COMMERCIAL AREA  
DEPUTY DIRECTOR COMPANIES AREA  
DEPUTY DIRECTOR FINANCIAL AREA  
DEPUTY DIRECTOR RISKS AREA  
DEPUTY DIRECTOR INTERIM. PROTECTION AND INVESTMENT  
DEPUTY DIRECTOR RECOVERIES & DIVESTMENT  
CONTROLLER  
OFFICER RESPONSIBLE BUSINESS INTELLIGENCE AREA  
OFFICER RESPONSIBLE OPTIMIZATION, COSTS & ORGANIZATION  
COORDINATION OFFICER RISK CONTROL AND CONSOLIDATION  
COORDINATION OFFICER CONTROL AND FOLLOW-UP OF IRREGULARITIES  
COORDINATION OFFICER COMPLIANCE AND CONDUCT  
COORDINATION OFFICER LEGAL AND SECRETARIAT  
COORDINATION OFFICER INTERNAL AUDIT  
COORDINATION OFFICER INTERNATIONAL – RESIDENTS ABROAD  
COORDINATION OFFICER OPERATIONS  
COORDINATION OFFICER PRIVATE BANKING  
COORDINATION OFFICER RECOVERIES  
COORDINATION OFFICER HUMAN RESOURCES  
COORDINATION OFFICER RETAIL AND BUSINESSES NETWORK - NORTH  
COORDINATION OFFICER RETAIL AND BUSINESSES NETWORK - SOUTH  
COORDINATION OFFICER CREDIT RISKS  
COORDINATION OFFICER IT  
COORDINATION OFFICER DIGITAL TECHNOLOGY  
OFFICER MEANS OF PAYMENT  
OFFICER INTERNATIONAL BUSINESS  
DEPARTMENTAL HEAD GOVERNMENT, PRODUCTS AND CUSTOMER PROTECTION  
OFFICER RESPONSIBLE CONSTRUCTION DEVELOPMENT AREA

## **Annex 2**

See Annex 1 of Declaration on remuneration policy of corporate officers of Banco Santander SA – “Santander Remuneration Policy”.

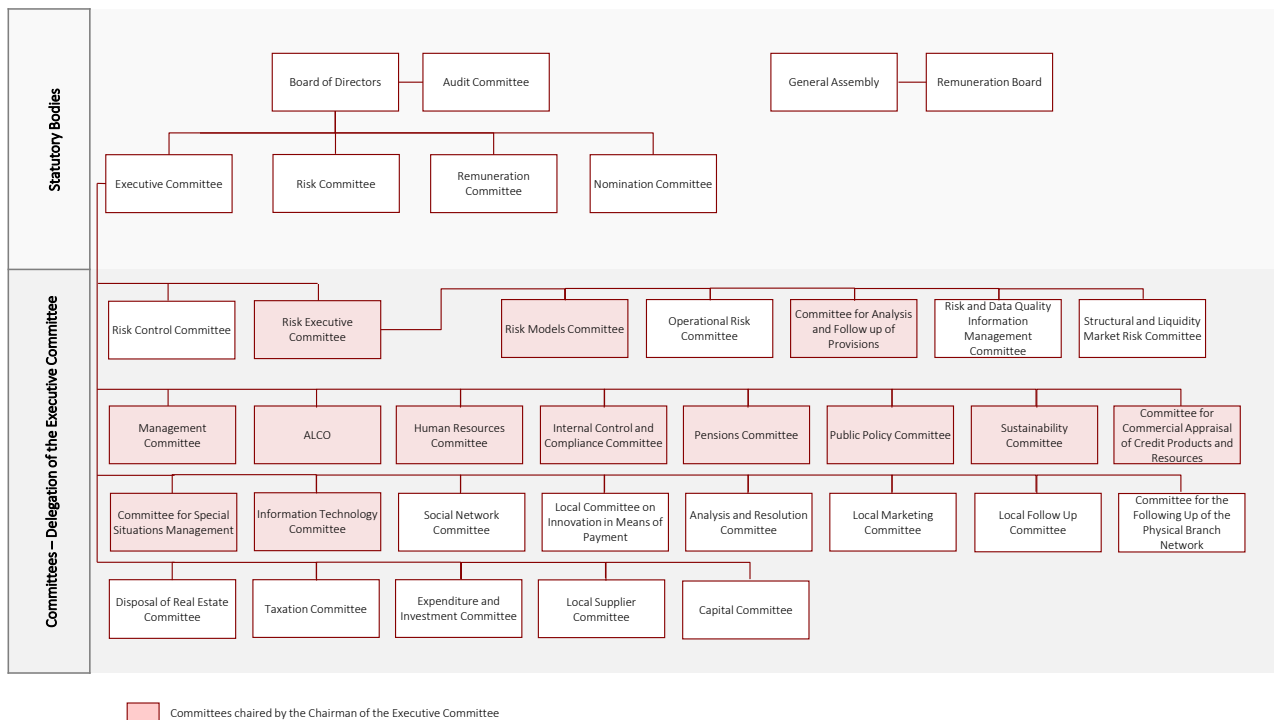
## **Annex 3**

See Annex 2 of Declaration on remuneration policy of corporate officers of Banco Santander SA – “Annual objectives”.

## **Annex 4**

See Annex 3 of Declaration on remuneration policy of corporate officers of Banco Santander SA – “Criteria for determination of deferred variable remuneration subject to performance”.

## IV. Model of Internal Governance



### Statutory Bodies

### Committees

		Executive	Non-Executive	Executive Committee	Audit Committee	Risk Committee	Remuneration Committee	Appointments Committee
Chairman	António Basagoiti García-Tuñón		■			■	■	■
Deputy-Chairman	António José Sacadura Vieira Monteiro	■		■				
Members	Enrique García Candelas		■			■		■
	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	■		■				
	Luis Manuel Moreira de Campos e Cunha		■		■			
	Manuel António Amaral Franco Preto	■		■				
	Manuel de Olazábal y Albuquerque		■		■	■		
	Pedro Aires Coruche Castro e Almeida	■		■				
	Remedios Ruiz Maciá		■			■	■	

■ President

**Net interest income**

“Interest and similar income” less “interest and similar charges”

**Net fees**

“Income from services and commissions” less “expenses with services and commissions”

**Commercial revenue**

“Net interest income”, added to “income from capital instruments”, to “net fees” and to “other operating results”

**Gain/Loss on Financial Transactions**

“Results from assets and liabilities at fair value through profit or loss” added to “result of available for sale financial assets”, to “results of foreign exchange revaluation” and to “results from the sale of other assets”

**Net income from banking activities**

Commercial revenue added to Gain/Loss on financial transactions

**Operating costs**

“Staff costs” added to “general administrative costs” and to “depreciation in the year”

**Operating costs (recurrent)**

Operating expenses, adjusted by the impact of the 2016 ACTV review

**Net operating income**

Net income from banking activities less operating costs

**Impairments, net provisions and other results**

“Provisions net of reversals”, added to “loan impairment net of reversions and recoveries”, to “impairment of other financial assets net of reversions and recoveries”, to “impairment of other assets net of reversals and recoveries”

**Results from associates and other**

“Result from associates” added to “negative consolidation differences”

**Income before taxes and non-controlling interests**

Net operating income less impairments, net provisions and other results added to “Results from associates and other”

**Taxes**

“Current” added to “deferred”

**Consolidated net income attributable to BST shareholders**

Income after taxes and before non-controlling interests less “non-controlling interests”

**Efficiency Ratio**

Ratio between operating costs and net income from banking activities

**Loan-to-Deposit ratio**

Measured in line with definitions deriving from the “Memorandum of Understanding”

**Business volume**

Loans and advances to customers (gross) added to customers’ resources

**Loans to individuals (mortgage and consumer) and corporates**

Defined in line with management information segmentation (MIS)

**Non performing loans ratio (+90 days)**

Ratio between overdue loans and interest (more than 90 days)" and loans and advances to customers (gross)

**Non performing loans ratio and doubtful loans ratio<sup>1</sup>**

Ratio between non performing and doubtful loans and loans and advances to customers (gross)

**Credit at risk ratio<sup>2</sup>**

Ratio between credit at risk (gross) and total loans and advances to customers (gross)

**Restructured credit / Total credit<sup>3</sup>**

Ratio between restructured loans to customers and total loans and advances to customers

**Non-performing exposure ratio**

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

**Restructured loans not included in credit at risk / Total credit<sup>2</sup>**

Ratio between restructured loans to customers not including loans to customers at risk and total loans to customers

**Cost of credit**

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

**Non-performing loans coverage ratio (+90 days)**

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

**Credit at risk coverage ratio**

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

**Non-performing exposure coverage ratio**

Impairments of non-productive exposures relative to total non-productive exposures (NPE)

**Deposits**

Corresponds to balance sheet heading "resources of customer and other debts"

**Off balance sheet resources**

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

**Liquidity Coverage Ratio (LCR)**

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

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<sup>1</sup> In line with Bank of Portugal Instruction No. 23/2012

<sup>2</sup> In line with Bank of Portugal Instruction No. 23/2012

<sup>3</sup> In line with Bank of Portugal Instruction No. 32/2013

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

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

The members of the Board of Directors of 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. 245 of the Securities Code that, as far as I am aware, the Management Report, the annual Accounts, the Statutory Auditor’s Report and remaining financial statements of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2017, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of that Company and of the companies included in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced”.

### The Board of Directors

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

## Declaration of the Audit Committee on the Conformity of the Financial Information Presented

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

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

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

### Audit Committee

**Chairman:** Luís Manuel Moreira de Campos e Cunha

**Members:** Manuel Maria de Olazabal y Albuquerque

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota





BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

ASSETS	Notes	31-12-2017			31-12-2016		LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2017	31-12-2016
		Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets					
Cash and deposits at central banks	5	1,039,554	-	1,039,554	877,917	<b>Liabilities</b>				
Balances due from other banks	6	658,155	-	658,155	658,892	Resources of central banks	19	3,080,538	2,450,694	
Financial assets held for trading	7	1,515,236	-	1,515,236	1,758,934	Financial liabilities held for trading	7	1,533,760	1,766,765	
Available-for-sale financial assets	8	4,600,317	63,174	4,537,143	5,422,956	Resources of other credit institutions	20	4,351,086	2,023,379	
Loans and advances to credit institutions	9	826,367	-	826,367	563,924	Resources of customers and other debts	21	32,137,468	28,513,478	
Loans and advances to customers	10	41,374,077	1,740,865	39,633,212	31,452,336	Debt securities	22	4,569,205	3,925,402	
Held to maturity investments	11	108,809	-	108,809	243,954	Hedging derivatives	12	39,275	81,655	
Hedging derivatives	12	15,349	-	15,349	32,700	Provisions	23	167,550	220,850	
Non-current assets held for sale	13	130,125	42,856	87,269	90,426	Current tax liabilities	17	75,364	9,850	
Investment properties	14	353,957	-	353,957	378,374	Deferred tax liabilities	17	157,117	76,967	
Other tangible assets	15	862,417	509,112	353,305	307,065	Equity representative instruments	24	69,026	69,220	
Intangible assets	15	444,497	410,198	34,299	33,854	Subordinated liabilities	25	12,032	12,033	
Investments in associated companies	16	82,134	5,532	76,602	54,599	Other liabilities	26	788,067	561,474	
Current tax assets	17	19,053	-	19,053	12,720	Total liabilities		<u>46,980,488</u>	<u>39,711,767</u>	
Deferred tax assets	17	448,353	-	448,353	366,992					
Other assets	18	1,135,583	200,212	935,371	721,780	<b>Shareholders' equity</b>				
						Share capital	27	1,256,723	1,256,723	
						Share premium account	27	193,390	193,390	
						Other equity instruments	27	135,000	135,000	
						Revaluation reserves	27	(277,225)	(609,150)	
						Other reserves and retained earnings	27	1,975,354	1,952,612	
						(Own shares)		(43,991)	(43,621)	
						Consolidated net income attributable to the shareholders' of BST	28	<u>421,157</u>	<u>380,032</u>	
						Shareholders' equity attributable to the shareholders' of BST		3,660,408	3,264,986	
						Non-controlling interests	29	1,138	670	
						Total shareholders' equity		<u>3,661,546</u>	<u>3,265,656</u>	
Total assets		<u>53,613,983</u>	<u>2,971,949</u>	<u>50,642,034</u>	<u>42,977,423</u>	Total liabilities and shareholders' equity		<u>50,642,034</u>	<u>42,977,423</u>	

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

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

	Notes	2017	2016
Interest and similar income	31	1,061,488	1,136,435
Interest and similar charges	32	(362,108)	(402,248)
<b>Net interest income</b>		<u>699,380</u>	<u>734,187</u>
Income from equity instruments	33	2,911	4,198
Income from services and commissions	34	391,600	372,789
Charges with services and commissions	35	(65,298)	(69,485)
Result of assets and liabilities at fair value through profit or loss	36	(11,814)	(38,477)
Result of available-for-sale financial assets	37	81,915	112,601
Result of foreign exchange revaluation	38	8,377	10,148
Result from the sale of other assets	39	40,429	47,665
Other operating results	40	(14,240)	553
<b>Net income from banking activities</b>		<u>1,133,260</u>	<u>1,174,179</u>
Staff costs	41	(308,675)	(284,691)
General administrative costs	42	(176,495)	(216,184)
Depreciation in the year	15	(37,092)	(36,176)
Provisions, net of reversals	23	(32,317)	(32,127)
Loan impairment net of reversals and recoveries	23	(38,760)	(44,284)
Impairment of other financial assets net of reversals and recoveries	23	(168)	(34,978)
Impairment of other assets net of reversals and recoveries	23	33,036	(11,479)
Negative consolidation differences		-	599
Result from associates	43	6,277	13,226
<b>Income before taxes and non-controlling interests</b>		<u>579,066</u>	<u>528,085</u>
Taxes			
Current	17	(142,945)	(51,321)
Deferred	17	(14,964)	(96,732)
<b>Income after taxes and before non-controlling interests</b>		<u>421,157</u>	<u>380,032</u>
Non-controlling interests	29	-	-
<b>Consolidated net income attributable to the shareholders of BST</b>	28	<u>421,157</u>	<u>380,032</u>
Average number of ordinary shares outstanding	28	1,241,800,284	1,174,626,256
Earnings per share (in Euros)	28	0.34	0.32

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

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

	2017		2016	
	Attributable to the shareholders' of BST	Attributable to non- controlling interests	Attributable to the shareholders' of BST	Attributable to non- controlling interests
Consolidated net income for the year	421,157	-	380,032	-
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Fair value	37,477	-	(69,045)	-
Tax effect	(11,796)	-	14,433	-
Items that may be reclassified subsequently to the income statement:				
Exchange differences on foreign subsidiaries	-	-	(2,566)	(6,405)
Revaluation reserves of associated companies valued by the equity method				
Fair value	767	-	(9,773)	-
Tax effect	(196)	-	2,783	-
Changes in fair value of financial assets available for sale				
Fair value	516,078	-	(184,660)	-
Tax effect	(155,968)	-	53,708	-
Transfers to the income of the year from fair value of financial assets available for sale				
Fair value	(81,915)	-	(112,601)	-
Tax effect	23,755	-	32,654	-
Changes in fair value of financial assets held to maturity				
Fair value	841	-	-	-
Tax effect	(244)	-	-	-
Changes in fair value of cash flows hedging derivatives				
Fair value	3,781	-	(17,226)	-
Tax effect	(818)	-	4,995	-
<b>Consolidated comprehensive income for the year</b>	<b>752,919</b>	<b>-</b>	<b>92,734</b>	<b>(6,405)</b>

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

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

	Share capital	Share premium account	Other equity instruments	Revaluation reserves			Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the year	Non-controlling interests	Shareholders' equity
				Legal revaluation	Fair-value	Foreign exchange revaluation								
<b>Balances as at December 31, 2015</b>	<b>956,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(462,423)</b>	<b>2,566</b>	<b>114,566</b>	<b>259,554</b>	<b>915,432</b>	<b>428,624</b>	<b>(43,561)</b>	<b>568,377</b>	<b>321,315</b>	<b>3,412,808</b>
Capital increase	300,000	-	-	-	-	-	-	-	-	-	-	-	-	300,000
Appropriation of net income	-	-	-	-	-	-	194	51,544	40,637	297,715	-	(390,090)	-	-
.Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	(178,287)	-	(178,287)
.Distribution of dividends	-	-	-	-	-	-	-	-	(40,712)	-	-	-	10,026	(30,686)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(324,266)	(324,266)
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	(60)	-	-	(60)
Purchase of own shares	-	-	-	-	-	-	-	-	(182)	-	-	-	-	(182)
Long-term incentives - shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive consolidated income for the year 2016	-	-	-	-	(393,305)	(2,566)	108,573	-	-	-	-	380,032	(6,405)	86,329
<b>Balances as at December 31, 2016</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(855,728)</b>	<b>-</b>	<b>223,333</b>	<b>311,098</b>	<b>915,175</b>	<b>726,339</b>	<b>(43,621)</b>	<b>380,032</b>	<b>670</b>	<b>3,265,656</b>
Appropriation of net income	-	-	-	-	-	-	163	33,650	159,967	(116,598)	-	(77,182)	-	-
.Transfer to reserves	-	-	-	-	-	-	-	-	(45,817)	-	-	(302,850)	-	(348,667)
.Distribution of dividends	-	-	-	-	-	-	-	-	-	-	(370)	-	-	(370)
Purchase of own shares	-	-	-	-	-	-	-	-	(8,411)	-	-	-	-	(8,411)
Acquisition and merger of Banco Popular Portugal	-	-	-	-	-	-	-	-	(24)	-	-	-	-	(24)
Long-term incentives - shares	-	-	-	-	-	-	-	-	(30)	5	-	-	468	443
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive consolidated income for the year 2017	-	-	-	-	477,029	-	(145,267)	-	-	-	-	421,157	-	752,919
<b>Balances as at December 31, 2017</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(378,699)</b>	<b>-</b>	<b>78,229</b>	<b>344,748</b>	<b>1,020,860</b>	<b>609,746</b>	<b>(43,991)</b>	<b>421,157</b>	<b>1,138</b>	<b>3,661,546</b>

O anexo faz parte integrante da demonstração das alterações no capital próprio consolidado para o exercício findo em 31 de dezembro de 2017.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

	<u>31-12-2017</u>	<u>30-12-2016</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commissions received	1,324,661	1,388,282
Payment of interest and commissions	(411,980)	(508,168)
Payments to staff and suppliers	(507,160)	(581,437)
Contributions to the pension funds	(59,329)	(37,707)
Foreign exchange and other operating results	(4,817)	21,278
Recovery of uncollectable loans	12,890	2,446
Operating results before changes in operating assets and liabilities	<u>354,265</u>	<u>284,694</u>
 (Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(200,867)	949,003
Financial assets held for trading	265,298	(8,102)
Loans and advances to customers	(2,728,445)	333,821
Assets and liabilities at fair value through profit or loss	(56,975)	(41,962)
Non-current assets held for sale	(23,843)	54,340
Investment properties	17,503	16,919
Other assets	142,883	(456,763)
	<u>(2,584,446)</u>	<u>847,256</u>
 Increase / (decrease) in operating liabilities:		
Resources of financial institutions	414,202	(4,020,051)
Resources of customers and other debts	(306,594)	1,455,243
Financial liabilities held for trading	(253,763)	45,073
Other liabilities	101,780	168,104
	<u>(44,375)</u>	<u>(2,351,631)</u>
 Net cash flow from operating activities before income tax		
	(2,274,556)	(1,219,681)
Income tax paid	(38,046)	(62,396)
<b>Net cash flow from operating activities</b>	<u>(2,312,602)</u>	<u>(1,282,077)</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	2,911	4,198
Purchase of available-for-sale financial assets	(470,931)	(2,296,133)
Sale of available-for-sale financial assets	2,715,002	2,771,271
Sale of held to maturity investments	135,093	27,069
Income from available-for-sale financial assets	150,699	156,840
Purchase of tangible and intangible assets	(39,866)	(49,816)
Sale of tangible assets	(3,239)	1,541
Acquisition of BAPOP	(554,000)	-
<b>Net cash flow from investment activities</b>	<u>1,935,669</u>	<u>614,970</u>
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Issuance/(redemption) of debt securities	645,292	(1,114,468)
Interest paid on bonds issued and other	-	(80,411)
Redemption of preference shares	(41,221)	(320,642)
Dividends paid	(348,667)	(178,287)
Capital Increase	-	300,000
Interest paid on subordinated liabilities	(634)	(206)
<b>Net cash flow from financing activities</b>	<u>254,770</u>	<u>(1,394,014)</u>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>	<u>(122,163)</u>	<u>(2,061,121)</u>
 Cash and cash equivalents at the beginning of the year		
	1,536,809	3,597,930
Acquisition of Banif's activity	283,063	-
Cash and cash equivalents at the end of the year	1,697,709	1,536,809

The accompanying notes form an integral part of the consolidated statement of cash flows  
for the year ended December 31, 2017.



## 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 2017 and 2016 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, SA (BSN). The transaction was recorded for accounting purposes with reference to January 1, 2010.

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

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

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

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

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 635 branches, of which 118 were transferred from BAPOP (608 branches as at December 31, 2016) and has a branch in London as well as an International Financial Branch in the Madeira Autonomous Region. It also has several subsidiaries and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank’s consolidated financial statements and the Management report for the year ended December 31, 2017, were approved at the Board of Directors meeting on April 24, 2018.

## 1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

### 1.1. Basis of presentation of the accounts

The Group's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as adopted by the European Union, in accordance with Regulation (EC) n° 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice n° 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

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

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

The consolidated financial statements are presented in thousands of euros, rounded to the nearest thousand. They have been prepared in accordance with the historical cost principle, with the exception of assets and liabilities carried at fair value, namely derivative financial instruments, financial assets at fair value through profit and loss, available-for-sale financial assets, investment properties and hedged assets and liabilities in their hedged component.

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

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

- IAS 7 (amendment), "Review of disclosures". This amendment introduces an additional disclosure about the variations of the financing liabilities, broken down between transactions that gave rise to cash movements and those that do not, and how this information reconciles with the cash flow from financing activities of the Cash Flow Statement.
- IAS 12 (Amendment), "Income tax – Recognition of deferred tax assets on potential losses." This amendment clarifies the manner of accounting deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible temporary differences and how to assess the recoverability of the deferred income tax assets when there are restrictions in the tax law.

The adoption of the standards and interpretations referred to above had an impact mainly in terms of the disclosures and the presentation of the financial statements.

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

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

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



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- IAS 40 (Amendment) – “Transfers of investment property”. This amendment clarifies that the assets may only be transferred from and to the investment property category where there is evidence of the change of use. Just the change of the management’s intent of is not enough to effect the transfer.
- IFRS 2 (Amendment) – “Classification and measurement of share-based payment transactions”. This amendment clarifies the basis of measurement for cash-settled share-based payment transactions and the accounting of modifications at the level of share-based payments that alter their classification from cash-settled to equity-settled. Additionally, it introduces an exception to the principles of IFRS 2, which comes to require that a share-base payments plan be treated as if it were fully equity settled, when the employer is required to withhold an amount of tax from the employee and pay that amount to the tax authority.
- IFRIC 22 – “Foreign currencies transactions and advance consideration”. It is an interpretation of IAS 21 “The effects of changes in foreign exchange rates”, and refers to the determination of the "transaction date" when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert foreign-currency transactions.

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

- IFRS 9 (Amendment), “Prepayment features with negative compensation”. This amendment introduces the possibility to classify financial assets with pre-payment conditions with negative compensation, at amortised cost, provided specific conditions are complied with, rather than being classified at fair value through profit or loss.
- IAS 28 (Amendment) – “Long-term investments in associates and joint ventures”. This amendment clarifies that long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9, being subject to the impairment model of estimated losses, prior to any impairment test on the investment as a whole.
- Improvements to the 2015 – 2017 standards. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.
- IFRIC 23 (new) – “Uncertainty over Income Tax Treatments”. It is an interpretation of IAS 12 – “Income taxes”, referring to the recognition and measurement requirements to be applied when there are uncertainties as to the acceptance of a particular tax treatment by the tax authority in respect of income tax. In case of uncertainty regarding the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities in light of IAS 12, and not of IAS 37 – “Provisions, contingent liabilities and contingent assets”, based on the expected amount or the most likely amount. Application of IFRIC 23 can be retrospective or modified retrospective.

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

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

- IFRS 15 (new) – “Revenue from contracts with customers”. This new standard applies only to contracts for the delivery of goods or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as provided for in the “5-step method”.
- Amendments to IFRS 15 – “Revenue from contracts with customers”. These amendments relate to the additional indications to be followed to determine the obligations of performance of a contract, at the moment of recognition of the revenue of an intellectual property licence,

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to the review of the indicators for the classification of the principal versus agent relationship, and to the new regimes intended to simplify the transition.

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

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

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

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 – Financial instruments: Recognition and Measurement, which was endorsed by the European Union on November 3, 2017. IFRS 9 introduces new requirements as regards (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of credit impairment on financial assets through an expected-loss model and (iii) hedge accounting.

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

The impacts on the separate financial statements of the Bank arising from the adoption of this new standard were estimated with reference to January 1, 2018, based on the information available at the time and on a set of assumptions. Based on these estimates, it is expected that the adoption of IFRS 9 will result in a reduction of the Bank's equity as at January 2, 2018 of approximately tEuros 11,558. This impact results primarily from the recognition of expected loan losses, the revaluation of equity instruments at fair value and the changes in classifications of financial assets by way of the Bank's business model, as per the summary presented in the following table:

	Balances 31-12-2017	Qualification and measurement	Impairment loans	Balances 01-01-2018
Share capital	1,256,723	-	-	1,256,723
Share premium account	193,390	-	-	193,390
Other equity instruments	135,000	-	-	135,000
Revaluation reserves	(277,225)	4,875	-	(272,350)
Other reserves and retained earnings	1,975,354	60	(16,493)	1,958,921
(Own shares)	(43,991)	-	-	(43,991)
Net income	421,157	-	-	421,157
<b>Total Equity</b>	<b>3,660,408</b>	<b>4,935</b>	<b>(16,493)</b>	<b>3,648,850</b>

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

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

**Classification and measurement – Financial assets**

IFRS 9 provides for the classification of financial assets in keeping with three criteria:

- The business model under which financial assets are managed;

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

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

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

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

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

***Classification and measurement – Financial liabilities***

With regard to the measurement of financial liabilities IFRS 9 does not introduce significant changes compared to the requirements set out in IAS 39, except for the requirement of recognition of the fair-value variations of financial liabilities resulting from changes in the entity's own credit risk, to be recognised in equity, rather than in profit or loss as required by IAS 39, unless such accounting treatment generates accounting mismatch. Subsequent reclassifications of these variations to profit or loss are not allowed, not even at the time of the repurchase of these liabilities.

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

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

### **Loan impairment**

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

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

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

- Stage 1: financial assets are classified in stage 1 when there has been no significant increase of the credit risk since the date of their initial recognition. For these assets the expected credit impairment loss resulting from default events occurring during the 12 months after the reporting date shall be recognised in income statement for the financial year;
- Stage 2: includes financial assets for which there has been a significant increase of the credit risk since the date of their initial recognition. For these financial assets the expected credit impairment losses are recognised over the life of the assets ("lifetime"). However, interest will continue to be calculated on the gross amount of the asset;
- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

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

#### Key assumptions considered in the calculation of expected losses

The measurement of expected losses is the result of the product between (i) the probability of default (PD) of the financial instrument, (ii) the loss given default (LGD) and (iii) the exposure on the date of default (EAD), discounted at the effective interest rate of the contract up to the reporting date.

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

#### Significant increase of the credit risk and definition of default

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

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

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

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

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

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

#### Forward-looking information

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

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

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

### **Governance**

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

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

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

### **Regulatory Capital**

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

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

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

- PDs calculated in accordance with the prudential rules are based on long-term averages over complete business cycle. However, PDs calculated in accordance with the requirements of IFRS 9 are based on the current conditions and are adjusted with forward-looking information;
- PDs determined in accordance with the prudential requirements consider the probability of default over the next 12 months multiplied by the residual maturity of the contract. However PDs calculated under IFRS 9 consider the PDs over the next 12 months or for the life of the financial asset, depending on whether they are classified in stages 1 or 2, respectively;
- Calculation of prudential LGDs is based on a negative (but plausible) economic cycle. Consequently, LGDs calculated within the scope of IFRS 9 are based on the current conditions adjusted with forward-looking information;

On December 12, 2017, by Regulation (EU) n° 2017/2395 of the European Parliament amending Regulation (EU) n° 575/2013, the European Union established transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. The regulation allows financial institutions to derogate this transitional arrangement, and the Bank elected to apply the transitional arrangements only within the "Static" component, that is, the provisioning differential recorded in the first application of IFRS 9.

### **Hedge accounting**

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

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

### **Disclosures**

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

#### **1.2. Consolidation principles and registration of associate companies**

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

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

The financial statements of subsidiary companies are consolidated using the full consolidation method from the moment the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under “Non-controlling interests” (Note 29).

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

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

The accumulated losses of a subsidiary are allocated to the non-controlling interests in the

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proportion held, which might imply recognition of non-controlling interests of a negative amount.

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

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

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

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

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

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

On the date of the first adoption of the IFRS, the Group decided not to apply IFRS 3 – "Business combinations", retrospectively. In this sense, the goodwill resulting from acquisitions that occurred until January 1, 2004, is deducted from equity in keeping with the previous accounting policy. Previously recognized negative goodwill was recorded as an increase in shareholders' equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associate companies after January 1, 2004, were recorded using the acquisition method. The Group recognised the fair value of the assets acquired and liabilities assumed or valued them in accordance with the International Financial Reporting Standards



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applicable to certain assets and liabilities in which the former is not the measurement principle laid down in IFRS 3 – “Business combinations”. The acquisition cost was set equal to the amount determined on the date of purchase of the assets acquired and liabilities incurred or assumed and of the contingencies, under the terms of IFRS 3. In this way, the Group applied IAS 19 to the assets acquired and liabilities assumed related with employee benefits and IAS 12 to the assets acquired and liabilities assumed in connection with income taxes.

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

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

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

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

Exchange differences arising on translation to euros are recorded in the shareholders’ equity under “Revaluation reserves – Exchange rate fluctuation”.

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

### 1.3. Summary of the main accounting policies

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

#### a) Accrual basis

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

#### b) Foreign currency transactions

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

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

#### c) Loans and accounts receivable

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

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

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

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

On the other hand, the 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 under 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 with a view to identifying signs of impairment. A financial asset is considered to be impaired if, and only if, there is evidence that the occurrence of an event (or events) will have a measurable impact on the expected future cash flows of that asset or group of assets.

For the purposes of determination of the impairment of the loan granted, the Bank

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segmented its portfolio as follows:

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

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

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

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

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

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

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

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

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

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

in the respective contract. Impairment losses are recognised through the income statement.

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

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

#### Write-off of principal and interest

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

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

#### Loan sales

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

#### Non derecognised securitised assets

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

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

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

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

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

#### Derecognition

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

the assets.

#### Factoring

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

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

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

#### Financial leasing transactions

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

i) As lessee

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

ii) As lessor

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

#### Guarantees provided and irrevocable commitments

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

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

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

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

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

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

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

e) Held-to-maturity investments

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

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

f) Financial instruments

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

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

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

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

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

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

The interest associated with financial derivative instruments held for trading is recorded under "Results of assets and liabilities measured at fair value through profit or loss".

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

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

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

ii) Available-for-sale financial assets

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

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

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

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

iii) Reclassification of financial assets

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

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

to profit or loss throughout the maturity of the instrument at the effective interest rate of the instrument. If, subsequently, impairment is recognised in the reclassified asset, the amount recognised in equity, at the time, is recycled to the income statement of the period.

iv) Income Recognition

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

v) Sale operations with repurchase agreements

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

vi) Impairment of financial instruments

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

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

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

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

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

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



adequately reflects the risk associated with holding them.

vii) Other financial liabilities

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

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

On their issue date bonds are recorded at their at fair value (issue value), and are subsequently carried at amortised cost on the basis of the effective interest-rate method.

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

Secondary market transactions

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

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

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

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

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

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

Under the terms of IAS 39, application of hedge accounting is only possible when the following requirements are cumulatively met:

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

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

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

#### Fair-value hedges

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

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

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

#### Cash flow hedge

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

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

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

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

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

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

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

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

h) Other tangible assets

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

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

	<u>Years of useful life</u>
Property for own use	50
Equipment	4 to 10

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

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

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

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

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

i) Intangible assets

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

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

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

j) Investment properties

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

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

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

k) Non-current assets held for sale

The Bank essentially recognises under Non-current assets held for sale real estate, equipment and other assets received in settlement of non-performing loans when they are available for immediate sale in their present condition and there is likelihood of their sale within a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 13).

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

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

l) Provisions and contingent liabilities

A provision is set up where there is present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date. If no future outflow of funds is probable, it is a contingent liability. Contingent liabilities are disclosed (unless their possibility is remote), except in respect of contingent liabilities associated with the acquisition of businesses, which are recognised in accordance with the provisions of IFRS 3.

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

business, as well as other situations associated with the acquisition of a significant part of the business of the former Banif.

m) Employees' post-employment benefits

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

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

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

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

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

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

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

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

Following that agreement, Decree-Law 127/2011 of December 31, was also published in 2011, which determined that Social Security was liable, as from January 1, 2012, for the

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pensions transferred under that decree-law, in the amount corresponding to the pension established under the terms and conditions laid down in the applicable collective labour regulation instruments of the banking sector, as at December 31, 2011, including the amounts relating to the Christmas bonus and the 14th month.

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

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

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

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

BST's liabilities for retirement with pensions are calculated by external experts (Mercer (Portugal), Limitada, in 2017, and Towers Watson (Portugal) Unipessoal Limitada, in 2016), on the basis of the "Projected Unit Credit" method. The discount rate used in actuarial studies is determined based on the market rates of the bonds of companies of high quality in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity to the plan's liabilities. The post-employment benefits of employees also include medical care (SAMS), and the death benefit and the bonus on retirement.

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

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

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

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Banif.

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

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

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

Application of IAS 19

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

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

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

- Current service cost;
- Net interest with the pension plan;
- Early retirement cost, corresponding to the increase of liabilities due to early retirement; and
- Gains and losses resulting from the alteration of the conditions of the plan.

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

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

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

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reimbursement of contributions made.

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

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

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

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

n) Income tax

BST and Group companies located in Portugal are subject to the tax regime established in the Corporate Income Tax Code (CIRC). The accounts of the branch are included in the Bank's accounts for tax purposes. In addition to being subject to IRC, the results of the branch are also subject to local taxes in the country where it is established. The local taxes are deductible from the IRC taxable income in Portugal under article 91 of the respective Code and of 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.

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

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

- Up to €1,500 thousand	0%
- between €1,500 thousand and €7,500 thousand	3%
- between €7,500 thousand and €35,000 thousand	5%
- over €35,000 thousand	7%

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

The 2018 State Budget increase the last tier previously set for the State surcharge, increasing it from 7% to 9%. In this way, the tax rate used by the Bank in determining and recording deferred taxes in 2017 came to be 31%.

Tax losses generated as from 2014, inclusive, may be used during the twelve subsequent taxation periods. On the other hand, the reporting period for tax losses is six years for losses generated in 2008 and 2009, four years for losses generated in 2010 and 2011 and five years for losses generated in 2012 and 2013. However, the deduction of losses to be carried out each year may not exceed 70% of the respective taxable income, and the remainder (30%) may be used by the end of the tax utilization period.

Following the publication of Bank of Portugal Notice nº 5/2015, entities that presented their financial statements in keeping with the Adjusted Accounting Standards, issued by the Bank



of Portugal (NCA) came to apply the International Financial Reporting Standards as adopted in the European Union in preparation of their separate financial statements. In this connection, in the Bank's separate financial statements, the customer loan portfolio and the guarantees provided came to be subject to recording impairment losses calculated in accordance with the requirements IAS 39 – Financial instruments: Recognition and measurement, instead of recording provisions for specific risk, for general credit risks and for country risk, under the terms previously laid down in Bank of Portugal Notice nº 3/95.

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

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

Regulatory Decree nº 11/2017 of December 28 extended the 2016 tax regime to 2017.

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

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

Deferred tax assets in the amount of €272,955 thousand, generated by the former Banif and included in the perimeter defined by the Bank of Portugal, within the scope of the resolution measure, include €250,000 thousand relating to tax losses.

The Bank has submitted a request to the Minister of Finance for the deferred tax assets transferred within the scope of the acquisition of the former Banif relating to tax losses carried forward to be used to offset BST's future taxable profits, under the terms of article 145-AU(4) of the General Credit Institutions and Financial Companies Regime. In the meantime, the Bank was notified of the acceptance of its intention, use of which is subject to the application of the limit provided for in article 75(4) of the IRC code; clarification is in progress of the criteria for application and confirmation of the adequacy of the assumptions underlying its recognition. Given the degree of uncertainty, the Bank decided that that conditions required at the time to record the corresponding deferred tax assets in the financial statements as at December 31, 2017, had not been assured in full.

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

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

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

Deferred tax assets and liabilities have been calculated on the basis of the tax rates enacted for the period when it is expected that the asset will be realised or the liability incurred.

Current taxes and deferred tax are reflected in the income statement, with the exception of taxes relating to transactions directly recorded in equity, in particular, potential gains and losses on available-for-sale financial assets and cash-flow hedging derivatives, as well as those associated with actuarial deviations relating to pension liabilities, which are also recorded in equity.

#### Banking sector contribution

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

- a) Liabilities determined and approved by taxpayers less the Tier 1 and Tier 2 capital and deposits covered by the Deposit Guarantee Fund. From the liabilities so determined the following are deducted:
  - Balances that in accordance with the applicable accounting standards are recognised under shareholders' equity;
  - Liabilities associated with the recognition of liabilities with defined-benefit plans;
  - Provisions;
  - Liabilities arising from revaluation of derivative financial instruments;
  - Deferred income revenues, excluding those arising from liability operations;
  - Liabilities for assets not derecognised in securitisation operations.
- b) The notional value of off-balance sheet derivative financial instruments determined by the taxpayers, with the exception of hedging derivative financial instruments or derivatives with mutually offsetting exposures.

The rates applicable to the incidence bases defined in subparagraphs a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment introduced by Ordinance 176-A/2015, of June 12, to article 5 of Ordinance 121/2011 of March 30.

- o) Long-term incentive plans

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

The recording these plans consists of recognising the rights of the Bank's employees to these instruments under "Other reserves", against an entry under "Staff costs", to the extent that they correspond to remuneration for services rendered.

The description of the long-term incentive plans on options on shares in Banco Santander SA, that are in force is included in Note 48.

- p) Own shares

Own shares are recorded in equity at acquisition cost and are not subject to revaluation. Gains and losses realised on sale of own shares, as well as the respective taxes are recorded directly in equity and do not affect the year's net income.

q) 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.

r) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the headings “Cash and deposits at central banks” and “Balances due from other banks”, given that the items accounted for under this heading have a maturity of under 3 months, and their risk of change in value is immaterial.

1.4. Acquisition and Merger of Banco Popular Portugal

*Background*

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

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

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

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

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

BST acquired from BAPOP the 513,000,000 shares representing the whole of the share capital for a consideration of €554,000 thousand.

*Impact of the Acquisition and Merger*

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

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

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

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

- With regard to “Cash and deposits at central banks” and “Balances due from other banks”, taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.
- With regard “Loans and advances to credit institutions” and “Resources of other credit institutions”, taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.
- For “Loans and advances to customers” the fair value was determined based on the gross amount less the estimated impairment, as a fair approximation to the fair value, given that in the determination of the impairment the current value of the estimated cash flows is calculated.
- Regarding “Resources of customers and other debts” it was considered for the customers’ demand deposits that the fair value was equal to the carrying amount. For the remaining customer deposits, the average rates of deposits contracted by BST customers were used.
- With regard to public debt securities carried under “Available-for-sale financial assets” the prices available in active markets were considered.
- With regard to public debt securities carried under “Held to maturity Investments” they were reclassified to the “Available-for-sale financial assets portfolio” and valued at the prices available in active markets.
- With regard to properties received as payment in kind, the available valuations were reviewed and BST’s criteria for hard to sell properties were applied.

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

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

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

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

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

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

Employee post-employment benefits

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

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

Valuation of financial instruments not traded on active markets

In the valuation of financial instruments not traded on active markets valuation models or techniques are used as described in Note 1.3(f). Accordingly, the valuations obtained correspond to the best estimate of the fair value of those instruments as of the balance sheet date. As mentioned in note 1.3(f), to ensure an appropriate segregation of duties, the value of those financial instruments is determined by a body independent of the trading function.

Fair value

Financial assets and liabilities carried under "Financial assets held for trading", "Financial liabilities held for trading", "Other financial assets at fair value through profit or loss" and "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 body of the Bank independent of the trading function, taking the following aspects into account:

- For financial instruments transacted on active markets, closing price on the balance sheet date;
- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:
  - i) Bid prices obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;
  - ii) Indicative bid prices obtained from financial institutions operating as market makers; and
  - iii) Valuation models that take into account market data 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.

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Amortised cost:

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

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

Determination of loan impairment losses

Impairment losses on loans are calculated as indicated in Note 1(3)(c). In this way, determination of the impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers and to its estimate of the value of the collaterals associated with the respective loans, with the consequent impact on expected future cash flows. The determination of impairment through collective analysis is performed on the basis of historical parameters for comparable types of operations, taking default and recovery estimates into consideration.

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

As described in note 1.3(f), the unrealized capital losses arising from the depreciation of these assets are recognised under “Revaluation reserves”. However, whenever there is objective evidence of impairment, the potential losses accumulated 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. The amount of the impairment of available-for-sale financial assets based on the above criteria is indicated in Note 23.

Taxes

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

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system (Sistema de Normalização Contabilística (“SNC”)), approved by Decree-Law No. 158/2009, of July 13, Decree-Law No. 159/2009, of July 13, was approved.

The above referred Decree-Law amended some articles of the Corporate Income Tax Code and also revoked 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 financial years 2017 and 2016, in accordance with the Bank’s interpretation of same.

Determination of the outcome of legal proceedings in progress

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

3. SEGMENT REPORTINGS

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

**Global Corporate Banking:**

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

**Retail Banking:**

This area essentially corresponds to credit granting operations and attracting of funds from private customers and businesses with a turnover under €10 million, through the branch network and telephone and internet banking.

**Commercial Banking:**

This area comprises businesses with turnover of more than €10 million and less than €125 million. This business is supported by the branch network, business centres and specialised services, and includes a variety of products, including loan and project, trade, exports and real estate financing.

**Corporate Activities:**

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

(Translation of notes originally issued in Portuguese – Note 54)

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

The breakdown of the income statement by operating segment as at December 31, 2017, is as follows:

	2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	85,134	419,453	94,598	100,195	699,380
Income from equity instruments	-	-	-	2,911	2,911
<b>Financial margin</b>	<b>85,134</b>	<b>419,453</b>	<b>94,598</b>	<b>103,106</b>	<b>702,291</b>
Net commissions	39,744	285,753	18,329	(17,524)	326,302
Other results from banking activity	-	5,923	-	(20,163)	(14,240)
<b>Commercial margin</b>	<b>124,878</b>	<b>711,129</b>	<b>112,927</b>	<b>65,419</b>	<b>1,014,353</b>
Results from financial operations	12,166	3,961	1,860	100,920	118,907
<b>Net income from banking activities</b>	<b>137,044</b>	<b>715,090</b>	<b>114,787</b>	<b>166,339</b>	<b>1,133,260</b>
Operating costs	(22,936)	(426,803)	(32,882)	(2,549)	(485,170)
Depreciation and amortization	(2,853)	(33,164)	(1,075)	-	(37,092)
<b>Net operating income</b>	<b>111,255</b>	<b>255,123</b>	<b>80,830</b>	<b>163,790</b>	<b>610,998</b>
Impairment and provisions, net of reversals	1,103	5,641	26,387	(71,340)	(38,209)
Result from associates	-	-	-	6,277	6,277
<b>Income before taxes</b>	<b>112,358</b>	<b>260,764</b>	<b>107,217</b>	<b>98,727</b>	<b>579,066</b>
Taxes	(33,708)	(77,598)	(32,165)	(14,438)	(157,909)
<b>Net income for the period</b>	<b>78,650</b>	<b>183,166</b>	<b>75,052</b>	<b>84,289</b>	<b>421,157</b>

As at December 31, 2017, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	31-12-2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities <sup>(1)</sup>	Consolidated Total
<b>Assets</b>					
Loans and advances to customers					
Mortgage loans	-	17,214,078	-	1,877,051	19,091,129
Consumer loans	-	1,573,175	-	45,829	1,619,004
Other loans	3,531,951	4,285,335	7,582,698	3,523,095	18,923,079
Total allocated assets	<b>3,531,951</b>	<b>23,072,588</b>	<b>7,582,698</b>	<b>5,445,975</b>	<b>39,633,212</b>
Total non-allocated assets					11,008,822
<b>Total Assets</b>					<b>50,642,034</b>
<b>Liabilities</b>					
Resources in the balance sheet					
Resources of customers and other debts	1,105,358	22,802,008	3,739,715	4,490,387	32,137,468
Debt securities	-	33,652	-	4,535,553	4,569,205
Total allocated resources	<b>1,105,358</b>	<b>22,835,660</b>	<b>3,739,715</b>	<b>9,025,940</b>	<b>36,706,673</b>
Total non-allocated Liabilities					10,273,815
<b>Total Liabilities</b>					<b>46,980,488</b>
<b>Guarantees and sureties given</b>	<b>205,505</b>	<b>425,552</b>	<b>718,156</b>	<b>368,389</b>	<b>1,717,603</b>

<sup>(1)</sup> includes BAPOP assets and liabilities

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(Translation of notes originally issued in Portuguese – Note 54)

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

The breakdown of the income statement by operating segment as at December 31, 2016, is as follows:

	2016				Consolidated Total
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	
Financial margin (narrow sense)	102,653	472,314	136,371	22,849	734,187
Income from equity instruments	-	-	-	4,198	4,198
<b>Financial margin</b>	<b>102,653</b>	<b>472,314</b>	<b>136,371</b>	<b>27,047</b>	<b>738,385</b>
Net commissions	41,764	267,478	21,488	(27,426)	303,304
Other results from banking activity	(14)	5,873	(1)	(5,305)	553
<b>Commercial margin</b>	<b>144,403</b>	<b>745,665</b>	<b>157,858</b>	<b>(5,684)</b>	<b>1,042,242</b>
Results from financial operations	12,236	2,804	714	116,184	131,938
<b>Net income from banking activities</b>	<b>156,639</b>	<b>748,469</b>	<b>158,572</b>	<b>110,501</b>	<b>1,174,179</b>
Operating costs	(19,160)	(430,487)	(48,599)	(2,629)	(500,875)
Depreciation and amortization	(3,128)	(31,412)	(1,637)	-	(36,176)
<b>Net operating income</b>	<b>134,351</b>	<b>286,570</b>	<b>108,336</b>	<b>107,872</b>	<b>637,128</b>
Impairment and provisions, net of reversals	(11,967)	(75,221)	(43,585)	7,905	(122,868)
Result from associates	-	-	-	13,226	13,226
<b>Income before taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>599</b>	<b>599</b>
Taxes	(36,715)	(63,847)	(19,426)	(28,066)	(148,053)
<b>Net income for the period</b>	<b>85,669</b>	<b>147,502</b>	<b>45,325</b>	<b>101,536</b>	<b>380,032</b>

As at December 31, 2016, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	31-12-2016				Consolidated Total
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	
<b>Assets</b>					
Loans and advances to customers					
Mortgage loans	-	17,029,555	-	-	17,029,555
Consumer loans	-	1,495,029	-	-	1,495,029
Other loans	3,545,806	4,206,713	5,175,233	-	12,927,752
Total allocated assets	<b>3,545,806</b>	<b>22,731,297</b>	<b>5,175,233</b>	<b>-</b>	<b>31,452,336</b>
Total non-allocated assets					11,525,087
<b>Total Assets</b>					<b>42,977,423</b>
<b>Liabilities</b>					
Resources in the balance sheet					
Resources of customers and other debts	637,444	23,703,035	3,491,289	681,710	28,513,478
Debt securities	-	52,968	-	3,872,434	3,925,402
Total allocated resources	<b>637,444</b>	<b>23,756,003</b>	<b>3,491,289</b>	<b>4,554,143</b>	<b>32,438,880</b>
Total non-allocated Liabilities					7,272,887
<b>Total Liabilities</b>					<b>39,711,767</b>
<b>Guarantees and sureties given</b>	<b>189,111</b>	<b>412,616</b>	<b>785,269</b>	<b>-</b>	<b>1,386,997</b>

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

Information on the consolidated business by geographical area, namely the balance sheet and the income statement, is presented hereunder. As at December 31, 2017 and 2016, the balance by geographical segments was as follows:

	31-12-2017		
	Domestic Activity	International Activity	Total consolidated
<b>Assets</b>			
Cash and deposits at central banks	1,039,554	-	1,039,554
Balances due from other banks	658,153	2	658,155
Financial assets held for trading	1,515,236	-	1,515,236
Available-for-sale financial assets	4,537,143	-	4,537,143
Loans and advances to credit institutions	826,367	-	826,367
Loans and advances to customers	39,633,212	-	39,633,212
Held to maturity investments	108,809	-	108,809
Hedging derivatives	15,349	-	15,349
Non-current assets held for sale	87,269	-	87,269
Investment properties	353,957	-	353,957
Other tangible assets	353,305	-	353,305
Intangible assets	34,299	-	34,299
Investments in associated companies	76,602	-	76,602
Current tax assets	19,053	-	19,053
Deferred tax assets	448,353	-	448,353
Other assets	935,366	5	935,371
<b>Total assets</b>	<b>50,642,027</b>	<b>7</b>	<b>50,642,034</b>
<b>Liabilities</b>			
Resources of central banks	3,080,538	-	3,080,538
Financial liabilities held for trading	1,533,760	-	1,533,760
Resources of other credit institutions	4,351,086	-	4,351,086
Resources of customers and other debts	32,137,041	427	32,137,468
Debt securities	4,569,205	-	4,569,205
Hedging derivatives	39,275	-	39,275
Provisions	167,383	167	167,550
Current tax liabilities	75,364	-	75,364
Deferred tax liabilities	157,117	-	157,117
Equity representative instruments	69,026	-	69,026
Subordinated liabilities	12,032	-	12,032
Other liabilities	788,065	2	788,067
<b>Total liabilities</b>	<b>46,979,892</b>	<b>596</b>	<b>46,980,488</b>
<b>Shareholders' equity</b>			
Shareholders' equity attributable to shareholders of BST	3,696,318	(35,910)	3,660,408
Non-controlling interests	1,138	-	1,138
<b>Total shareholders' equity</b>	<b>3,697,456</b>	<b>(35,910)</b>	<b>3,661,546</b>
<b>Total liabilities and shareholders' equity</b>	<b>50,677,348</b>	<b>(35,314)</b>	<b>50,642,034</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

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

	31-12-2016		Total consolidated
	Domestic Activity	International Activity	
<b>Assets</b>			
Cash and deposits at central banks	877,917	-	877,917
Balances due from other banks	658,873	19	658,892
Financial assets held for trading	1,758,934	-	1,758,934
Available-for-sale financial assets	5,422,956	-	5,422,956
Loans and advances to credit institutions	563,924	-	563,924
Loans and advances to customers	31,448,518	3,818	31,452,336
Held to maturity investments	243,954	-	243,954
Hedging derivatives	32,700	-	32,700
Non-current assets held for sale	89,437	989	90,426
Investment properties	378,374	-	378,374
Other tangible assets	306,213	852	307,065
Intangible assets	33,854	-	33,854
Investments in associated companies	54,599	-	54,599
Current tax assets	12,720	-	12,720
Deferred tax assets	366,992	-	366,992
Other assets	720,063	1,717	721,780
<b>Total assets</b>	<b>42,970,028</b>	<b>7,395</b>	<b>42,977,423</b>
<b>Liabilities</b>			
Resources of central banks	2,450,694	-	2,450,694
Financial liabilities held for trading	1,766,765	-	1,766,765
Resources of other credit institutions	2,023,379	-	2,023,379
Resources of customers and other debts	28,510,045	3,433	28,513,478
Debt securities	3,925,402	-	3,925,402
Hedging derivatives	81,655	-	81,655
Provisions	220,850	-	220,850
Current tax liabilities	9,850	-	9,850
Deferred tax liabilities	76,967	-	76,967
Equity representative instruments	69,220	-	69,220
Subordinated liabilities	12,033	-	12,033
Other liabilities	561,000	474	561,474
<b>Total liabilities</b>	<b>39,707,860</b>	<b>3,907</b>	<b>39,711,767</b>
<b>Shareholders' equity</b>			
Shareholders' equity attributable to shareholders of BST	3,303,272	(38,286)	3,264,986
Non-controlling interests	670	-	670
<b>Total shareholders' equity</b>	<b>3,303,942</b>	<b>(38,286)</b>	<b>3,265,656</b>
<b>Total liabilities and shareholders' equity</b>	<b>43,011,802</b>	<b>(34,379)</b>	<b>42,977,423</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

(Translation of notes originally issued in Portuguese – Note 54)

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

In the periods ended December 31, 2017 and 2016, the income statement by geographical segments was as follows:

	2017		
	Domestic Activity	International Activity	Total consolidated
Interest and similar income	1,060,661	827	1,061,488
Interest and similar charges	(362,108)	-	(362,108)
<b>Financial margin</b>	<b>698,553</b>	<b>827</b>	<b>699,380</b>
Income from equity instruments	2,911	-	2,911
Income from services and commissions	391,565	35	391,600
Charges with services and commissions	(65,292)	(6)	(65,298)
Result of assets and liabilities at fair value through profit or loss	(11,814)	-	(11,814)
Result of available-for-sale financial assets	81,915	-	81,915
Result of foreign exchange revaluation	8,295	82	8,377
Result from sale of other assets	40,429	-	40,429
Other operating results	(13,962)	(278)	(14,240)
<b>Net income from banking activities</b>	<b>1,132,600</b>	<b>660</b>	<b>1,133,260</b>
Staff costs	(308,602)	(73)	(308,675)
General administrative costs	(176,385)	(110)	(176,495)
Depreciation in the year	(37,089)	(3)	(37,092)
Provisions, net of reversals	(31,309)	(1,008)	(32,317)
Loan impairment net of reversals and recoveries	(41,941)	3,181	(38,760)
Impairment of other financial assets net of reversals and recoveries	(168)	-	(168)
Impairment of others assets net of reversals and recoveries	33,416	(380)	33,036
Results from associates	6,277	-	6,277
<b>Income before tax and non-controlling interests</b>	<b>576,799</b>	<b>2,267</b>	<b>579,066</b>
Current taxes	(142,945)	-	(142,945)
Deferred taxes	(14,964)	-	(14,964)
<b>Income after taxes and before non-controlling interests</b>	<b>418,890</b>	<b>2,267</b>	<b>421,157</b>
Non-controlling interests	-	-	-
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>418,890</b>	<b>2,267</b>	<b>421,157</b>

	2016		
	Domestic Activity	International Activity	Total consolidated
Interest and similar income	1,134,970	1,465	1,136,435
Interest and similar charges	(402,092)	(156)	(402,248)
<b>Financial margin</b>	<b>732,878</b>	<b>1,309</b>	<b>734,187</b>
Income from equity instruments	4,198	-	4,198
Income from services and commissions	372,470	319	372,789
Charges with services and commissions	(69,434)	(51)	(69,485)
Result of assets and liabilities at fair value through profit or loss	(38,477)	-	(38,477)
Result of available-for-sale financial assets	112,601	-	112,601
Result of foreign exchange revaluation	11,496	(1,348)	10,148
Result from sale of other assets	47,705	(40)	47,665
Other operating results	1,171	(618)	553
<b>Net income from banking activities</b>	<b>1,174,608</b>	<b>(429)</b>	<b>1,174,179</b>
Staff costs	(284,006)	(685)	(284,691)
General administrative costs	(215,644)	(540)	(216,184)
Depreciation in the year	(36,162)	(14)	(36,176)
Provisions, net of reversals	(32,127)	-	(32,127)
Loan impairment net of reversals and recoveries	(41,355)	(2,929)	(44,284)
Impairment of other financial assets net of reversals and recoveries	(34,978)	-	(34,978)
Impairment of others assets net of reversals and recoveries	(11,479)	-	(11,479)
Negative consolidation difference	599	-	599
Results from associates	13,226	-	13,226
<b>Income before tax and non-controlling interests</b>	<b>532,682</b>	<b>(4,597)</b>	<b>528,085</b>
Current taxes	(51,321)	-	(51,321)
Deferred taxes	(96,732)	-	(96,732)
<b>Income after taxes and before non-controlling interests</b>	<b>384,629</b>	<b>(4,597)</b>	<b>380,032</b>
Non-controlling interests	-	-	-
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>384,629</b>	<b>(4,597)</b>	<b>380,032</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

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## 4. GROUP COMPANIES AND TRANSACTIONS OCCURRING DURING THE YEAR

As at December 31, 2017 and 2016, the subsidiaries and associated companies and their most significant financial data taken from their respective separate financial statements, excluding adjustments on conversion to IAS/IFRS can be summarised as follows:

Company	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the year	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016
BANCO SANTANDER TOTTA, S.A.	Headquarters	Headquarters	Headquarters	Headquarters	52,850,084	45,801,324	3,510,488	2,834,839	695,630	336,500
TOTTA IRELAND, PLC <sup>(3)</sup>	100.00	100.00	100.00	100.00	449,882	944,147	449,743	430,106	812	3,251
SANTOTTA-INTERNACIONAL, SGPS, Sociedade Unipessoal, Lda	-	100.00	-	100.00	-	180,244	-	180,210	-	(621)
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. <sup>(1)</sup>	100.00	100.00	100.00	100.00	122,175	122,350	116,184	116,989	1,819	2,258
TAXAGEST, SGPS, SA	99.00	99.00	99.00	99.00	55,745	55,755	55,742	55,747	(4)	(1)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	79.51	79.08	79.51	79.08	367,737	393,423	336,915	330,892	7,840	7,752
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,049	6,917	6,870	6,774	96	333
HIPOTOTTA NO. 1 PLC	-	-	-	-	142	142	38	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	786,999	855,338	(4,492)	(12,429)	1,294	(6,590)
HIPOTOTTA NO. 5 PLC	-	-	-	-	755,365	776,282	(4,329)	(9,538)	361	(5,978)
HIPOTOTTA NO. 4 FTC	-	-	-	-	720,237	806,271	721,331	796,623	1,615	(8,031)
HIPOTOTTA NO. 5 FTC	-	-	-	-	685,863	749,211	684,664	740,895	3,395	(7,378)
ATLANTES MORTGAGE NO 1 PLC <sup>(2)</sup>	-	-	-	-	97,900	106,032	40	(11,276)	-	-
ATLANTES MORTGAGE NO 1 FTC <sup>(2)</sup>	-	-	-	-	75,393	85,950	73,008	84,105	304	-
ATLANTES FINANCE 6 <sup>(2)</sup>	-	22.01	-	22.01	-	58,939	-	453	-	-
Operações de Securitização geridas pela GAMMA, STC <sup>(2)</sup>	100.00	100.00	100.00	100.00	1,800,914	2,717,179	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.81	25.81	n.d.	11,218	n.d.	7,179	n.d.	(8)
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.90	21.50	21.90	21.50	347,928	339,037	102,658	83,418	24,309	60,548
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.77	25.77	25.77	25.77	143,683	145,123	98,294	94,407	3,887	1,949
BANIF INTERNACIONAL BANK, LTD	100.00	100.00	100.00	100.00	656	44,705	60	3,514	2,218	(4,487)
PRIMESTAR SERVICING, S.A. <sup>(4)</sup>	80.00	-	80.00	-	17,075	-	2,480	-	(1,392)	-
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. <sup>(4)</sup>	15.90	-	15.90	-	984,565	-	108,669	-	7,963	-

n/a – not available

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

As at December 31, 2017 and 2016, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation were as follows:

Company	Business	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Headquarters
TOTTA IRELAND, PLC <sup>(3)</sup>	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Portugal	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. <sup>(1)</sup>	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate	Portugal	Equity method
BANIF INTERNATIONAL BANK	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC <sup>(2)</sup>	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC <sup>(2)</sup>	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 FTC <sup>(2)</sup>	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 <sup>(2)</sup>	Securitized loans fund	Portugal	Equity method
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Fund management	Portugal	Equity method
PRIMESTAR SERVICING, S.A. <sup>(4)</sup>	Investment management	Portugal	Full
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. <sup>(4)</sup>	Insurance	Portugal	-

- (1) The equity of this subsidiary includes supplementary capital contributions amounting to €99,760 thousand.
- (2) These entities were consolidated for the first time in 2015. Gamma – Sociedade de Titularização de Créditos, SA (Gamma) is a securitisation company acquired by the Bank on December 31, 2016, formerly owned by Oitante. Within the scope of the acquisition of Banif's business, BST acquired eleven securitisation operations whose credits were originated by it and assigned to Gamma, which funded itself through the issuance of bonds with different levels of subordination and rating for each securitisation operation. For simplification, the Bank considered these securitisations as a whole, naming them "Gamma STC", having recorded these vehicles in accordance with the Group's continued involvement in these operations, determined on the basis of the percentage of the respective equity piece held. Additionally, there is a securitisation named "Atlantes Mortgages 1 PLC" in which the loans were sold to a securitisation fund named "Atlantes Mortgages nº 1 FTC", which issued units subscribed by the Irish company "Atlantes Mortgages nº 1 PLC". The financial statements for consolidation purposes relate to the sub-consolidation of the fund and of the company in Ireland, the Group having made adjustments to the statutory accounts. Lastly, "Atlantes Finance 6" concerned a securitisation in which the loans were also assigned to Gamma, and the BST Group does not hold the whole of the equity piece.
- (3) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Net Income for the year" columns correspond to the net income determined in December each year. In the periods from January 1 to November 30, 2017 and 2016, the net income of Totta Ireland, PLC amounted to €104,383 thousand and €15,334 thousand, respectively.
- (4) The holdings in these companies were included in the assets acquired by the Bank in December 2017 following the acquisition and merger of operation of BAPOP described in Note 1.4.

In compliance with IFRS 10, which superseded IAS 27 and SIC 12, the Group includes in its consolidated financial statements the special purpose entities (SPEs) created within the scope of the securitisation operations when it controls them, that is, when it has the majority of the risks and benefits associated with their business, in particular the bonds that they issued with a higher degree of subordination – equity pieces.

During 2017, the Group closed down Santotta-Internacional, SGPS.

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During 2016, the Group closed down the following companies:

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

As at December 31, 2017 & 2016, the composition of the Novimovest Fund balance sheet was as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Securities portfolio	3,210	3,175
Real estate portfolio	353,957	378,374
Accounts receivable	9,759	10,443
Cash and banks	479	489
Accruals and deferrals	332	942
	<u>367,737</u>	<u>393,423</u>
Fund capital	336,915	330,892
Adjustments and provisions	5,208	5,407
Accounts payable	23,186	54,862
Accruals and deferrals	2,428	2,262
	<u>367,737</u>	<u>393,423</u>

As at December 31, 2017 and 2016, the consolidated net income includes a profit of €6,231 thousand and €6,127 thousand, respectively, attributable to the Novimovest Fund.

##### 5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Cash	288,202	224,159
Demand deposits at Central Banks:		
Bank of Portugal	751,352	653,758
	<u>1,039,554</u>	<u>877,917</u>

In accordance with Regulation n° 2818/98, of December 1, issued by the European Central Bank, as from January 1, 1999, credit institutions established in the participating Member States shall maintain minimum cash reserves in accounts held with the participating National Central Banks. The basis of incidence includes all deposits placed with central banks and at financial and monetary institutions located outside the euro area and all deposits of customers repayable in less than two years. A coefficient of 1% is applied to this base and an amount of €100,000 is deducted. The minimum required reserves earn interest at the average of the rates for the main refinancing the ECB (on these dates this rate is zero), the excess has a penalty of 0.4%.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Balances due from domestic banks		
Demand deposits	6,548	12,191
Cheques for collection	106,065	66,420
Balances due from foreign banks		
Other credit institutions		
Demand deposits	543,038	578,819
Cheques for collection	2,504	1,462
	<u>658,155</u>	<u>658,892</u>

As at December 31, 2017 and 2016, the sub-heading “Cheques for collection” corresponds to cheques drawn by third parties on other credit institutions, which, in general, are cleared within the following business days.

As at December 31, 2017 and 2016, “Balances due from foreign banks” included a deposit in the amount of €78,870 thousand and €79,066 thousand, respectively, which is being mobilized upon the fulfilment of certain obligations towards third parties.

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Financial assets held for trading		
Derivatives with positive fair value	1,511,183	1,755,759
Securities – Participating units	3,525	3,175
Securities – Shares	528	-
	<u>1,515,236</u>	<u>1,758,934</u>
Financial liabilities held for trading		
Derivatives with negative fair value	<u>(1,533,760)</u>	<u>(1,766,765)</u>

As at December 31, 2017 and 2016, the breakdown of Derivative financial instruments is as follows:

	<u>31-12-2017</u>			<u>31-12-2016</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
			(Note 12)			(Note 12)
Forwards	7,344	7,254	90	13,162	13,611	(449)
Swaps						
Currency swaps	161	4,988	(4,827)	8,128	9,049	(921)
Interest rate swaps	1,382,349	1,400,687	(18,338)	1,573,218	1,574,903	(1,685)
Equity swaps	10,083	11,779	(1,696)	2,027	648	1,379
Options						
Foreign exchange options	2,405	2,362	43	2,382	2,368	14
Interest rate options	154	154	-	-	-	-
Equity options	10,950	9,423	1,527	28,720	28,292	428
Caps & Floors	97,737	97,113	624	128,122	137,894	(9,772)
	<u>1,511,183</u>	<u>1,533,760</u>	<u>(22,577)</u>	<u>1,755,759</u>	<u>1,766,765</u>	<u>(11,006)</u>

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As at December 31, 2017, the assets and liabilities headings relating to “Derivative financial instruments” are reduced by the amounts of approximately €25,000 thousand and €30,594 thousand of “Credit Value Adjustments” and “Debit Value Adjustments”, respectively (€126,669 thousand and €129,288 thousand as at December 31, 2016, respectively), in accordance with the methodology described in Note 49.

As at December 31, 2017 and 2016, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA

As at December 31, 2017 and 2016, “Securities – Participation Units” essentially involved units of the Fundo de Investimento Imobiliário Fechado Maxirent (Real Estate Investment Fund).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this heading is as follows:

	31-12-2017							Book Value
	Acquisition cost	Interest receivable	Hedge adjustments	Fair Value Reserve			Impairment	
				Positive	Negative	Total		
						(Nota 27)	(Nota 23)	
<b>Debt instruments</b>								
Issued by residents								
Treasury Bonds	3,299,882	80,725	-	320,594	-	320,594	(90)	3,701,111
Other residents								
Acquired in securitization operations	250,048	8,586	-	1,906	-	1,906	(230)	260,310
Unsubordinated debt	2,825	2	-	-	-	-	(2,827)	-
Issued by non-residents								
Foreign public issuers	441,994	2,473	-	-	-	-	-	444,467
Other non-residents	776	14	-	-	-	-	-	790
	<u>3,995,525</u>	<u>91,800</u>	<u>-</u>	<u>322,500</u>	<u>-</u>	<u>322,500</u>	<u>(3,147)</u>	<u>4,406,678</u>
<b>Equity instruments</b>								
Issued by residents								
Measured at fair value	102,603	-	-	807	(127)	680	(24,410)	78,873
Measured at cost	84,906	-	-	-	-	-	(34,871)	50,035
Issued by non-residents								
Measured at fair value	1,429	-	-	-	-	-	-	1,429
Measured at cost	874	-	-	-	-	-	(746)	128
	<u>189,812</u>	<u>-</u>	<u>-</u>	<u>807</u>	<u>(127)</u>	<u>680</u>	<u>(60,027)</u>	<u>130,465</u>
	<u>4,185,337</u>	<u>91,800</u>	<u>-</u>	<u>323,307</u>	<u>(127)</u>	<u>323,180</u>	<u>(63,174)</u>	<u>4,537,143</u>
	31-12-2016							
	Acquisition cost	Interest receivable	Hedge adjustments	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total	(Nota 27)	(Nota 23)
<b>Debt instruments</b>								
Issued by residents								
Treasury Bonds	4,946,587	105,163	30,573	38,070	(160,108)	(122,038)	(119)	4,960,166
Other residents								
Acquired in securitization operations	3,513	-	-	-	-	-	-	3,513
Unsubordinated debt	351,635	11,099	-	10,899	-	10,899	(230)	373,403
Subordinated debt	2,983	1	-	-	-	-	(2,983)	1
	<u>5,304,718</u>	<u>116,263</u>	<u>30,573</u>	<u>48,969</u>	<u>(160,108)</u>	<u>(111,139)</u>	<u>(3,332)</u>	<u>5,337,083</u>
Issued by non-residents								
Measured at fair value	57,375	-	-	897	(741)	156	(24,505)	33,026
Measured at cost	84,140	-	-	-	-	-	(32,787)	51,353
Issued by non-residents								
Measured at fair value	1,383	-	-	-	-	-	-	1,383
Measured at cost	857	-	-	-	-	-	(746)	111
	<u>143,755</u>	<u>-</u>	<u>-</u>	<u>897</u>	<u>(741)</u>	<u>156</u>	<u>(58,038)</u>	<u>85,873</u>
	<u>5,448,473</u>	<u>116,263</u>	<u>30,573</u>	<u>49,866</u>	<u>(160,849)</u>	<u>(110,983)</u>	<u>(61,370)</u>	<u>5,422,956</u>

As at December 31, 2016, “Treasury Bonds” included gains recognised in the income statement in the amounts of €30,573 thousand, related to value adjustments for interest-rate risk hedging operations. These securities have the following characteristics:

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Description	31-12-2017				31-12-2016						
	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
<b>National public issuers</b>											
Maturing between one and three years	-	-	-	-	-	1,077,537	26,550	-	38,070	-	1,142,157
Maturing between three and five years	-	-	-	-	-	681,716	17,100	27,244	(10,578)	-	715,482
Maturing between five and ten years	3,043,752	73,712	320,594	-	3,438,058	3,186,848	61,509	3,329	(149,530)	-	3,102,156
Others	256,130	7,013	-	(90)	263,053	486	4	-	-	(119)	371
<b>Foreign public issuers</b>											
Maturing between three and five years	1,509	4	-	-	1,513	-	-	-	-	-	-
Maturing between five and ten years	277,563	1,183	-	-	278,746	-	-	-	-	-	-
Others	162,922	1,286	-	-	164,208	-	-	-	-	-	-
	<u>3,741,876</u>	<u>83,198</u>	<u>320,594</u>	<u>(90)</u>	<u>4,145,578</u>	<u>4,946,587</u>	<u>105,163</u>	<u>30,573</u>	<u>(122,038)</u>	<u>(119)</u>	<u>4,960,166</u>

As at December 31, 2017 and 2016, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of € 94,669 thousand and €877,472 thousand respectively used as collateral in funding operations (Note 20).

As at December 31, 2017 and 2016, "Debt instruments" included, among others, the following securities:

Description	31-12-2017				31-12-2016					
	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value
<b>Acquired in securitization operations</b>										
ATLANTES FINANCE 6 S 03/20/33	-	-	-	-	-	3,513	-	-	-	3,513
<b>Unsubordinated debt</b>										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	199,827	7,144	295	-	207,265	200,402	7,144	7,009	-	214,555
Banco Comercial Português 22/06/2017	-	-	-	-	-	101,021	2,512	1,009	-	104,542
CGD 3% 2014/2019	49,991	1,442	1,611	-	53,044	49,982	1,443	2,881	-	54,306
Other	230	-	-	(230)	-	230	-	-	(230)	-
	<u>250,048</u>	<u>8,586</u>	<u>1,906</u>	<u>(230)</u>	<u>260,310</u>	<u>351,635</u>	<u>11,099</u>	<u>10,899</u>	<u>(230)</u>	<u>373,403</u>
<b>Subordinated debt</b>										
BPSM/97 - TOPS - OB. PERP. SUB	2,825	2	-	(2,827)	-	2,983	1	-	(2,983)	1

As at December 31, 2017 and 2016, "Equity instruments" included, among others, the following securities:

Description	31-12-2017			31-12-2016				
	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book Value
<b>Recorded at fair value</b>								
FUNDO SOLUCAO ARRENDAMENTO	40,366	(105)	-	40,261	28,925	(718)	-	28,207
AQUARIUS, FCR	19,753	-	-	19,753	-	-	-	-
ARRENDAMENTO MAIS -FIFAH	14,431	-	-	14,431	-	-	-	-
UNICAMPUS-FEI IMOBILIARIO FECHAD	1,500	14	-	1,514	1,500	14	-	1,514
VISA INC series C	1,429	-	-	1,429	1,375	-	-	1,375
FCR PORTUGAL VENTURES VALOR 2	3,836	171	(3,099)	908	3,836	297	(3,099)	1,034
FUNFRAP-FUNDAO PORTUGUESA, S.A	274	491	-	765	274	468	-	742
GARVAL - SOC.DE GARANTIA MUTUA S	201	19	-	220	518	32	-	550
FII FECHADO GEF II	391	16	-	407	391	(11)	-	380
Other	1,164	74	(624)	614	1,157	74	(624)	607
Securities with 100% impairment	20,687	-	(20,687)	-	20,782	-	(20,782)	-
	<u>104,032</u>	<u>680</u>	<u>(24,410)</u>	<u>80,302</u>	<u>58,758</u>	<u>156</u>	<u>(24,505)</u>	<u>34,409</u>
<b>Recorded at cost</b>								
FUNDO RECUPERACAO FCR CATEGOR	30,085	-	(12,715)	17,370	32,603	-	(12,715)	19,888
Fundo Fechado de Investimento Imobiliário - Imorent	18,850	-	(4,000)	14,850	18,663	-	(4,000)	14,663
BANIF PROPERTY	15,350	-	(10,000)	5,350	15,350	-	(10,000)	5,350
SIBS - SGPS, S.A.	3,985	-	-	3,985	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,749	-	(531)	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,749	-	(531)	3,218	3,749	-	(531)	3,218
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO,	1,065	-	(214)	851	1,065	-	(214)	851
Securities with 100% impairment	7,436	-	(7,436)	-	5,456	-	(5,456)	-
Other	1,511	-	(190)	1,321	901	-	(86)	815
	<u>85,780</u>	<u>-</u>	<u>(35,617)</u>	<u>50,163</u>	<u>84,997</u>	<u>-</u>	<u>(33,533)</u>	<u>51,464</u>

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As at December 31, 2017 and 2016, the negative fair value reserves resulting from the valuation at fair value of available-for-sale financial assets, had the following devaluation percentages compared to the respective acquisition costs:

	31-12-2017				Book value
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Negative reserve	
Debt instruments					
. Between 0% and 25%	-	-	-	-	-
Equity instruments					
. Between 0% and 25%	40,463	-	-	(118)	
. Between 25% and 50%	19	-	-	(9)	10
	<u>40,482</u>	<u>-</u>	<u>-</u>	<u>(127)</u>	<u>10</u>
	31-12-2016				
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Negative reserve	Book value
Debt instruments					
. Between 0% and 25%	3,963,213	78,610	30,573	(160,108)	3,912,288
Equity instruments					
. Between 0% and 25%	29,432	-	-	(733)	28,699
. Between 25% and 50%	19	-	-	(8)	11
	<u>29,451</u>	<u>-</u>	<u>-</u>	<u>(741)</u>	<u>28,710</u>
	<u>3,992,664</u>	<u>78,610</u>	<u>30,573</u>	<u>(160,849)</u>	<u>3,940,998</u>

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Loans and advances to other domestic banks		
Deposits	200,100	200,000
Loans	121,627	55,216
Other applications	260	-
Interest receivable	3,219	2,220
	<u>325,206</u>	<u>257,436</u>
Loans and advances to other foreign banks		
Very short term loans and advances	78,897	44,930
Deposits	275,006	223,367
Loans	748	-
Other applications	146,396	38,156
Interest receivable	114	35
	<u>501,161</u>	<u>306,488</u>
	<u>826,367</u>	<u>563,924</u>

As at December 31, 2017 and 2016, "Loans and advances to other foreign banks – Other applications" includes margin accounts of €145,501 thousand and €37,734 thousand, respectively.

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10. LOANS AND ADVANCES TO CUSTOMERS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Unsecured loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	253,651	146,417
Loans	9,599,810	4,416,723
Current account loans	1,337,239	905,215
Overdrafts	147,957	106,338
Factoring	1,528,015	1,133,408
Finance leasing	1,158,310	817,078
Other credits	90,151	611,223
To individuals		
Mortgage loans	15,636,395	13,180,788
Consumer credit and other loans	2,305,899	1,864,890
Foreign loans		
To corporate clients		
Loans	273,386	208,265
Current account loans	8,366	7,406
Overdrafts	78	189
Factoring	50,832	46,687
Finance leasing	4,650	5,095
Other credits	55,817	10,952
To individuals		
Mortgage loans	469,823	411,741
Consumer credit and other loans	45,685	37,131
	<u>32,966,064</u>	<u>23,909,546</u>
Loans represented by securities		
Non-subordinated debt securities	<u>4,280,415</u>	<u>4,201,242</u>
Non-derecognized securitized assets		
To corporate clients - loans - Gamma STC	-	483,100
To individuals		
Mortgage loans		
.Hipototta No. 4 PLC	711,848	795,196
.Hipototta No. 5 PLC	674,136	738,289
.Gamma STC	1,449,644	1,631,395
Mortgage loans - Gamma STC	-	7,783
	<u>2,835,628</u>	<u>3,655,763</u>
Overdue loans and interest		
Up to 90 days	45,400	77,790
More than 90 days	1,187,896	1,214,694
	<u>1,233,296</u>	<u>1,292,484</u>
	<u>41,315,403</u>	<u>33,059,035</u>
Accrued interest		
Loans and advances	87,805	71,469
Loans represented by securities	15,263	16,911
Non-derecognized securitized assets	1,462	5,015
Hedge adjustments	18,408	(1,971)
Deferred expenses	73,742	73,752
Commissions associated with amortized cost (net)	(138,006)	(109,072)
	<u>58,674</u>	<u>56,104</u>
	<u>41,374,077</u>	<u>33,115,139</u>
Impairment of loans and advances to customers (Note 23)	<u>(1,740,865)</u>	<u>(1,662,803)</u>
	<u>39,633,212</u>	<u>31,452,336</u>

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In financial years 2017 and 2016 portfolios of loans granted to private individuals and companies were sold. As a result of these transactions net gains were recorded in 2017 and 2016 in the amounts of €31,512 thousand and €29,038 thousand, respectively (Note 39).

As at December 31, 2017 & 2016, “Domestic loans – To individuals – Mortgage loans” included loans assigned to the autonomous pool of the covered loans issued by the Bank and by the former BAPOP amounting to €9,980,181 thousand and €8,051,500 thousand, respectively (Note 22).

Changes in impairments of loans and advances to customers during 2017 and 2016 are presented in note 23.

As at December 31, 2017 and 2016, the breakdown of overdue loans and interest by period of default was as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Up to three months	45,400	77,790
Between three and six months	26,293	43,252
Between six months and one year	220,723	273,034
Between one year and three years	381,315	398,178
More than three years	<u>559,565</u>	<u>500,230</u>
	<u>1,233,296</u>	<u>1,292,484</u>

As at December 31, 2017, (excluding the BAPOP portfolio) and 2016, the breakdown of overdue and outstanding loans with and without evidence of impairment, considering the segmentation for the purpose of determination of the Bank's impairment losses, was as follows:

	<u>31-12-2017</u>			<u>31-12-2016</u>		
	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>
Corporate loans						
Without objective evidence of impairment	-	14,697,821	14,697,821	-	11,184,292	11,184,292
With objective evidence of impairment	472,048	412,933	884,981	772,228	629,694	1,401,922
	<u>472,048</u>	<u>15,110,754</u>	<u>15,582,802</u>	<u>772,228</u>	<u>11,813,986</u>	<u>12,586,214</u>
Mortgage loans						
Without objective evidence of impairment	-	16,336,194	16,336,194	-	16,044,807	16,044,807
With objective evidence of impairment	255,488	561,759	817,247	391,851	691,870	1,083,721
	<u>255,488</u>	<u>16,897,953</u>	<u>17,153,441</u>	<u>391,851</u>	<u>16,736,677</u>	<u>17,128,528</u>
Consumer loans						
Without objective evidence of impairment	-	1,188,851	1,188,851	-	1,114,600	1,114,600
With objective evidence of impairment	15,603	52,039	67,642	18,710	52,436	71,146
	<u>15,603</u>	<u>1,240,890</u>	<u>1,256,493</u>	<u>18,710</u>	<u>1,167,036</u>	<u>1,185,746</u>
Loans granted through credit cards						
Without objective evidence of impairment	-	340,447	340,447	-	295,498	295,498
With objective evidence of impairment	12,552	5,831	18,383	16,181	4,772	20,953
	<u>12,552</u>	<u>346,278</u>	<u>358,830</u>	<u>16,181</u>	<u>300,270</u>	<u>316,451</u>
Other loans to individuals						
Without objective evidence of impairment	-	824,728	824,728	-	1,733,945	1,733,945
With objective evidence of impairment	42,787	47,284	90,071	93,514	70,740	164,254
	<u>42,787</u>	<u>872,012</u>	<u>914,799</u>	<u>93,514</u>	<u>1,804,685</u>	<u>1,898,199</u>
	<u>798,478</u>	<u>34,467,887</u>	<u>35,266,365</u>	<u>1,292,484</u>	<u>31,822,655</u>	<u>33,115,139</u>

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## 11. HELD-TO-MATURITY INVESTMENTS

The breakdown of this heading is as follows:

Description	31-12-2017			31-12-2016		
	Acquisition cost	Interest receivable	Book value	Acquisition cost	Interest receivable	Book value
<b>Other national public entities</b>						
OB.CML-CAMARA MUNICIPAL LISBOA-9	2,844	-	2,844	4,240	-	4,240
<b>Other national entities</b>						
EDIA 2010/2030	17,407	169	17,576	18,745	188	18,934
OB.IBERWIND II P- CONSULTORIA SE	19,165	18	19,183	21,210	20	21,230
OB.IBERWIND II P-CONSULTORIA SEN	5,777	11	5,788	6,398	13	6,410
OB.REN REDES ENERGETICAS-31/01/2	9,023	342	9,365	9,305	341	9,646
OB.TAGUS CLASSE A-VARIAVEL-12/05	53,979	40	54,019	60,991	44	61,035
ENERGY ON NO.2 CLASS B NOTES MAY/	34	-	34	32	-	32
OB.CAIXA GERAL DE DEPOSITOS EMTN	-	-	-	122,403	24	122,427
	105,385	580	105,965	239,084	630	239,714
	108,229	580	108,809	243,324	630	243,954

During 2016 the Bank reclassified non-derivative financial assets of the available-for-sale financial assets portfolio to the financial assets held to maturity portfolio.

	31-12-2016		31-12-2015		at reclassification date		Reserva de justo valor
	Book value	Fair value	Book value	Fair value	Book value	Fair value	
Financial assets held for sale to held to maturity	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)
	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)

The amounts recognised during 2017 and 2016 in the income statement and in fair-value reserves, relating to the reclassified financial assets, are as follows:

	31-12-2017			31-12-2016		
	P&L for the year	Equity	Equity	P&L for the year	Equity	Equity
	Effective Interest	Impairment	Fair value reserve	Effective Interest	Impairment	Fair value reserve
Financial assets held for sale to held to maturity			(Note 27)			(Nota 27)
	6,468	-	7,151	6,938	-	7,992
	6,468	-	7,151	6,938	-	7,992

Had the reclassifications described above not occurred, the additional amounts recognised in profit or loss and in equity would be as follows:

	31-12-2017		31-12-2016	
	P&L for the year	Fair value reserve	P&L for the year	Fair value reserve
Financial assets held for sale to held to maturity				
	6,468	5,155	6,938	6,609
	6,468	5,155	6,938	6,609

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## 12. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	31-12-2017			31-12-2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	14,620	34,411	(19,791)	22,218	69,871	(47,653)
Equity swaps	636	2,184	(1,548)	6,741	5,676	1,065
Options	93	493	(400)	-	863	(863)
Cash-flows hedge						
Interest rate swaps	-	2,187	(2,187)	3,741	5,245	(1,504)
	<u>15,349</u>	<u>39,275</u>	<u>(23,926)</u>	<u>32,700</u>	<u>81,655</u>	<u>(48,955)</u>

As at December 31, 2017 and 2016, the breakdown of derivative financial instruments was as follows:

Type of financial instrument	31-12-2017							Notional amounts	
	Book Value	Notional amounts					Total	Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years		EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	90	180,229	15,725	8,686	355	-	204,995	91,276	113,720
Sold		157,106	34,944	21,591	1,068	-	214,709	110,440	104,269
Currency swaps									
Purchased	(4,827)	699,485	4,202	279	-	-	703,966	10,681	693,286
Sold		704,179	4,290	284	-	-	708,753	698,094	10,659
Interest rate swaps	(18,338)	30,006	58,895	33,119	4,201,883	21,633,136	25,957,039	25,917,294	39,744
Equity swaps	(1,696)	-	-	298,077	138,295	518,252	954,624	954,623	-
Cross currency swaps									
Purchased	43	77,127	24,547	55,124	20,220	-	177,018	-	177,018
Sold		74,799	24,547	55,124	20,220	-	174,690	-	174,690
Equity options									
Purchased	1,527	-	-	-	204,862	-	204,862	204,862	-
Sold		-	-	-	204,862	-	204,862	204,862	-
Caps & Floors	624	783	10,945	831,619	1,627,014	958,037	3,428,398	3,428,399	-
	<u>(22,577)</u>	<u>1,923,714</u>	<u>178,095</u>	<u>1,303,903</u>	<u>6,418,779</u>	<u>23,109,425</u>	<u>32,933,916</u>	<u>31,620,531</u>	<u>1,313,386</u>
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(3,536)	50,000	-	30,000	-	-	80,000	80,000	-
Liabilities and loans	(16,255)	641	-	23,063	297,653	2,774,714	3,096,070	2,929,306	166,764
Auto Callable options	(400)	196,916	-	-	-	-	196,916	196,916	-
Equity swaps	(1,548)	141,339	396,089	65,439	69,644	-	672,511	542,766	129,745
Cash flow hedge									
Interest rate swaps	(2,187)	-	-	172,348	351,422	-	523,771	523,771	-
	<u>(23,926)</u>	<u>388,895</u>	<u>396,089</u>	<u>290,851</u>	<u>718,719</u>	<u>2,774,714</u>	<u>4,569,268</u>	<u>4,272,759</u>	<u>296,509</u>



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	31/12/2016								
	Book Value	Notional amounts					Total	Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years		EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(449)	67,751	38,592	18,852	953	-	126,148	62,032	64,116
Sold		67,718	38,575	18,838	952	-	126,083	62,024	64,059
Currency swaps									
Purchased	(921)	975,230	-	-	-	-	975,230	-	975,230
Sold		970,553	-	-	-	-	970,553	970,553	-
Interest rate swaps	(1,685)	4,401,381	2,205,417	280,277	2,844,331	16,636,801	26,368,207	26,368,207	-
Equity swaps	1,379	519	-	-	436,066	275,418	712,003	712,003	-
Cross currency swaps									
Purchased	14	182,703	32,278	47,934	272	-	263,187	-	263,187
Sold		182,703	32,278	47,934	272	-	263,187	-	263,187
Equity options									
Purchased	428	-	1,654	-	-	-	1,654	-	1,654
Sold		-	1,654	-	-	-	1,654	-	1,654
Caps & Floors	(9,772)	43	1,311,620	31,068	4,117,973	1,334,960	6,795,664	6,795,664	-
	<u>(11,006)</u>	<u>6,848,601</u>	<u>3,662,068</u>	<u>444,903</u>	<u>7,400,819</u>	<u>18,247,179</u>	<u>36,603,570</u>	<u>34,970,483</u>	<u>1,633,087</u>
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(61,691)	-	-	-	-	600,000	600,000	600,000	-
Liabilities and loans	14,038	17,530	12,199	10,561	107,588	696,800	844,678	654,943	189,735
Auto Callable options	(863)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	1,065	244,484	178,977	287,227	645,101	-	1,355,789	1,216,415	139,374
Cash flow hedge									
Interest rate swaps	(1,504)	125,000	100,000	-	521,671	-	746,671	746,671	-
	<u>(48,955)</u>	<u>387,014</u>	<u>291,176</u>	<u>297,788</u>	<u>1,470,876</u>	<u>1,296,800</u>	<u>3,743,654</u>	<u>3,414,545</u>	<u>329,109</u>

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

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

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

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

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

In accordance with IAS 39, embedded derivatives are also separated and recorded as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

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

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

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

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13. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Property received as settlement of defaulting loans	128,551	138,310
Own property for sale	-	3,225
Equipment	-	1,992
Other properties	1,574	100
	<u>130,125</u>	<u>143,627</u>
Impairment (Note 23)	<u>(42,856)</u>	<u>(53,201)</u>
	<u>87,269</u>	<u>90,426</u>

Movement under Non-current assets held for sale in 2017 and 2016 was as follows:

	2017												
	31-12-2016				Transfers				Impairment			31-12-2017	
	Gross amount	Impairment	Increases	Sales	Gross amount	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount		
		(Nota 23)					(Nota 23)			(Nota 23)			
Property:													
Received as settlement of defaulting loans	138,310	(49,668)	54,268	(92,781)	28,754	(23,493)	17,302	14,283	128,551	(41,576)	86,975		
Own property for sale	3,225	(1,943)	-	-	(3,225)	-	1,943	-	-	-	-		
Equipment	1,992	(1,590)	388	(806)	-	(525)	314	521	1,574	(1,280)	294		
Other properties	100	-	-	-	(100)	-	-	-	-	-	-		
	<u>143,627</u>	<u>(53,201)</u>	<u>54,656</u>	<u>(93,587)</u>	<u>25,429</u>	<u>(24,018)</u>	<u>19,559</u>	<u>14,804</u>	<u>130,125</u>	<u>(42,856)</u>	<u>87,269</u>		

	2016												
	31-12-2015				Transfers				Impairment			31-12-2016	
	Gross amount	Accumulated impairment	Increases	Sales	Gross amount	Impairment	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount	
Property:													
Received as settlement of defaulting loans	253,626	(89,821)	77,537	(138,623)	(54,230)	25,330	(18,123)	8,596	24,350	138,310	(49,668)	88,642	
Own property for sale	37,238	(25,813)	32	(8,414)	(25,631)	21,406	(2,765)	133	5,096	3,225	(1,943)	1,282	
Equipment	2,254	(1,205)	1,081	(1,343)	-	-	(1,728)	484	859	1,992	(1,590)	402	
Participation units	18,663	(4,000)	-	-	(18,663)	4,000	-	-	-	-	-	-	
Other properties	100	-	-	-	-	-	-	-	-	100	-	100	
	<u>311,881</u>	<u>(120,839)</u>	<u>78,650</u>	<u>(148,380)</u>	<u>(98,524)</u>	<u>50,736</u>	<u>(22,616)</u>	<u>9,213</u>	<u>30,305</u>	<u>143,627</u>	<u>(53,201)</u>	<u>90,426</u>	

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

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

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

a) Comparative Market method

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

b) Income method

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

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c) Cost method

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

The valuations performed on the properties referred to above are performed by independent, specialised entities accredited by the Securities Markets Commission (Comissão dos Mercados dos Valores Mobiliários – CMVM).

14. INVESTMENT PROPERTIES

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Real estate held by the Novimovest Real Estate Fund	353,957	378,374
	=====	=====

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

As at December 31, 2017 and 2016, the characteristics of properties held by the Novimovest Real Estate Fund were as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Land		
Urbanized	15,023	14,876
Non-urbanized	1,109	1,123
Finished constructions		
Rented	260,872	260,836
Not rented	60,198	64,656
Other construction projects	16,755	36,883
	<u>353,957</u>	<u>378,374</u>

On the other hand, during financial years 2017 and 2016, the properties held by the Novimovest Real Estate Fund generated, among others, the following annual income and charges:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Rents (Note 40)	15,586	17,916
Condominium expenses	(1,219)	(1,255)
Maintenance and repair expenses	(878)	(813)
Insurances	(231)	(255)
	<u>13,259</u>	<u>15,593</u>

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Movement under “Investment properties” in financial years 2017 and 2016 was as follows:

	2017				Balances at 31-12-2017
	Balances at 31-12-2016	Increases	Fair value valuation	Sales	
Properties held by Novimovest Fund	378,374	-	(6,914)	(17,503)	353,957

	2016				Balances at 31-12-2016
	Balances at 31-12-2015	Increases	Fair value valuation	Sales	
Properties held by Novimovest Fund	387,193	-	8,100	(16,919)	378,374

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under “Other operating results – Unrealized Gains / Losses on investment properties” (Note 40).

Investment properties held by the Group are valued every two years, or whenever an event occurs giving rise to doubts as to the value of the latest valuation, using specialised, independent entities in accordance with the method described in Note 13.

As at December 31, 2017 and 2016, the form of determination of the fair value of the investment properties in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	2017	2016
Investment properties	353,957	378,374

In accordance with the requirements of IFRS 13, a summary is presented hereunder, for the investment properties of greater value in the Group’s portfolio as at December 31, 2017 and 2016, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

Description of the property	Use	Value on		Valuation technique	Relevant inputs
		31-12-2017	31-12-2016		
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,398	34,614	Income method	Lease value per m2 Capitalization rate
Sª Cruz do Bispo - Lots 1, 2 and 3 Plots in Matosinhos	Urbanized	41,063	40,601	Comparative market method / Residual value method	Capitalization rate Land value and cost of construction and marketing per m2
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	26,050	25,265	Income method / Comparative market method	Lease value per m2
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,916	15,850	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	11,941	12,173	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	12,262	12,263	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2 Golf courses in Loulé	Leased out	12,240	12,033	Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logístico SPC Armazéns 1 e 4	Leased out (SPC 1)	10,312	10,296	Income method / Comparative market method	Lease value per m2 Capitalization rate
Alfena - Valongo Plots Plots in Valongo	Non-urbanized	9,661	8,732	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		<u>173,843</u>	<u>171,827</u>		

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

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15. OTHER TANGIBLE AND INTANGIBLE ASSETS

Movement under these headings during 2017 and 2016 is as follows.

	31-12-2017															
	31-12-2016			BAPOP merger			Acquisitions	Write-offs and sales		Transfers		Depreciation in the period	31-12-2017			Net amount
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Gross amount	Accumulated depreciation	Impairment (Note 23)		Gross amount	Accumulated depreciation	From/to non-current assets held for sale	From/to non-current assets held for sale		Gross amount	Accumulated depreciation	Impairment (Note 23)	
<b>Tangible assets</b>																
Property																
Property for own use	402,284	143,664	3,870	79,645	21,816	2,411	6,779	2,497	302	(16,786)	(5,767)	7,405	469,425	166,816	6,281	296,328
Leasehold expenditure	148,941	141,295	-	11,985	11,114	-	807	151	154	59	40	2,551	161,641	154,846	-	6,795
Other property	1,307	148	20	-	-	-	-	999	141	-	-	4	308	11	20	277
Unfinished tangible assets																
Property for own use	88	-	-	-	-	-	-	-	-	-	-	-	88	-	-	88
	<u>552,620</u>	<u>285,107</u>	<u>3,890</u>	<u>91,630</u>	<u>32,930</u>	<u>2,411</u>	<u>7,586</u>	<u>3,647</u>	<u>597</u>	<u>(16,727)</u>	<u>(5,727)</u>	<u>9,960</u>	<u>631,462</u>	<u>321,673</u>	<u>6,301</u>	<u>303,488</u>
<b>Equipment</b>																
Furniture and fixtures	23,621	19,843	-	2,303	2,183	-	2,529	83	83	-	-	924	28,370	22,867	-	5,503
Machinery and tools	6,027	5,462	-	309	261	-	603	3	3	-	-	163	6,936	5,883	-	1,053
Computer hardware	95,298	83,486	-	9,170	8,841	-	2,723	923	906	-	-	4,147	106,268	95,568	-	10,700
Indoor facilities	28,458	15,404	-	2,365	2,036	-	6,177	21	15	-	-	2,320	36,979	19,745	-	17,234
Vehicles	20,470	9,800	-	35	35	-	3,058	4,032	2,983	-	-	1,924	19,531	8,776	-	10,755
Security equipment	13,264	12,368	-	5,598	5,483	-	652	-	-	-	-	336	19,514	18,187	-	1,327
Other equipment	5,546	4,706	-	1,419	1,418	-	592	1	1	-	-	246	7,556	6,369	-	1,187
Unfinished tangible assets	-	-	-	9	-	-	-	-	-	-	-	-	9	-	-	9
	<u>192,684</u>	<u>151,069</u>	<u>-</u>	<u>21,208</u>	<u>20,257</u>	<u>-</u>	<u>16,334</u>	<u>5,063</u>	<u>3,991</u>	<u>-</u>	<u>-</u>	<u>10,060</u>	<u>225,163</u>	<u>177,395</u>	<u>-</u>	<u>47,768</u>
<b>Other tangible assets</b>																
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,826	-	-	149	-	-	73	-	-	-	-	-	2,048	-	-	2,048
Other	3,464	3,463	-	-	-	-	-	1	1	-	-	-	3,463	3,462	-	1
	<u>5,571</u>	<u>3,744</u>	<u>-</u>	<u>149</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,792</u>	<u>3,743</u>	<u>-</u>	<u>2,049</u>
	<u>750,875</u>	<u>439,920</u>	<u>3,890</u>	<u>112,987</u>	<u>53,187</u>	<u>2,411</u>	<u>23,993</u>	<u>8,711</u>	<u>4,589</u>	<u>(16,727)</u>	<u>(5,727)</u>	<u>20,020</u>	<u>862,417</u>	<u>502,811</u>	<u>6,301</u>	<u>353,305</u>
<b>Intangible assets</b>																
Software purchased	414,887	385,087	-	5,288	4,217	-	16,046	-	-	2,669	-	17,072	438,890	406,376	-	32,514
Unfinished intangible assets	2,894	-	-	-	-	-	(164)	-	-	(2,669)	-	-	61	-	-	61
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Other	-	-	-	1,040	475	-	-	-	-	-	-	-	1,040	475	-	565
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	<u>422,287</u>	<u>388,433</u>	<u>-</u>	<u>6,328</u>	<u>4,692</u>	<u>-</u>	<u>15,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,072</u>	<u>444,497</u>	<u>410,197</u>	<u>-</u>	<u>34,300</u>

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	31-12-2016																					
	31-12-2015			Entry and/or exit of entities in the consolidation perimeter			Transfers						Depreciation			Other and foreign exchange differences			31-12-2016			
	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Acquisitions	Write-offs and sales		From/to non-current assets held for sale		Between Tangible / intangible assets		in the period	Impairment losses	Impairment reversals	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment	Net amount	
			(Note 23)				Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation		(Note 23)		Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	(Note 23)		
<b>Tangible assets</b>																						
Property																						
Property for own use	387,162	139,061	3,843	(376)	(292)	8,442	(3)	-	(7,346)	(2,625)	14,399	-	7,520	226	(198)	-	-	402,284	143,664	3,871	254,749	
Leasehold expenditure	148,784	138,518	-	-	-	622	598	325	136	137	-	-	2,968	-	-	(3)	(3)	148,941	141,295	-	7,646	
Other property	1,293	287	20	-	-	14	-	-	-	-	-	-	12	-	-	-	(151)	1,307	148	20	1,139	
Unfinished tangible assets																						
Property for own use	9,034	-	-	-	-	5,453	-	-	-	(14,399)	-	-	-	-	-	-	-	88	-	-	88	
	546,273	277,866	3,863	(376)	(292)	14,531	595	325	(7,210)	(2,488)	-	-	10,500	226	(198)	(3)	(154)	552,620	285,107	3,891	263,622	
<b>Equipment</b>																						
Furniture and fixtures	20,840	19,129	-	-	-	2,846	63	63	-	-	-	-	777	-	-	(1)	-	23,622	19,843	-	3,779	
Machinery and tools	5,555	5,462	-	-	-	520	47	47	-	-	-	-	48	-	-	(1)	(1)	6,027	5,462	-	565	
Computer hardware	98,949	89,608	-	-	-	6,655	10,307	10,306	-	-	-	-	4,185	-	-	1	(1)	95,298	83,486	-	11,812	
Indoor facilities	24,740	13,550	-	-	-	3,853	40	21	(94)	(52)	-	-	1,928	-	-	(1)	(1)	28,458	15,404	-	13,054	
Vehicles	21,848	11,720	-	-	-	2,548	3,925	3,832	-	-	-	-	1,912	-	-	(1)	-	20,470	9,800	-	10,670	
Security equipment	12,669	12,172	-	-	-	418	-	-	-	-	178	-	196	-	-	(1)	-	13,264	12,368	-	896	
Other equipment	5,320	4,472	-	-	-	227	-	-	-	-	-	-	235	-	-	(1)	(1)	5,546	4,706	-	840	
Unfinished tangible assets	14	-	-	-	-	162	-	-	-	(178)	-	-	-	-	-	2	-	-	-	-	-	
	189,935	156,113	-	-	-	17,229	14,382	14,269	(94)	(52)	-	-	9,281	-	-	(3)	(4)	192,686	151,069	-	41,616	
<b>Other tangible assets</b>																						
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-	
Work of Art	1,829	-	-	-	-	-	2	-	-	-	-	-	-	-	-	(1)	-	1,826	-	-	1,826	
Other	3,464	3,464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	3,464	3,463	-	1	
	5,574	3,745	-	-	-	-	2	-	-	-	-	-	-	-	-	(1)	(1)	5,571	3,744	-	1,827	
	741,782	437,724	3,863	(376)	(292)	31,760	14,979	14,594	(7,304)	(2,540)	-	-	19,781	226	(198)	(7)	(159)	750,876	439,920	3,891	307,065	
<b>Intangible assets</b>																						
Software purchased	393,964	368,691	-	-	-	18,011	20	-	-	2,993	-	-	16,395	-	-	-	1	414,948	385,087	-	25,802	
Unfinished intangible assets	5,782	-	-	-	-	45	-	-	-	(2,993)	-	-	-	-	-	-	-	2,834	-	-	8,022	
Business transfers	3,345	3,346	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,345	3,346	-	-	
Positive consolidation differences	-	-	-	-	-	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	-	
	403,091	372,037	-	-	-	19,216	20	-	-	-	-	-	16,395	-	-	-	1	422,287	388,433	-	33,824	

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16. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2017 and 2016, the breakdown of this heading is as follows:

	31-12-2017		31-12-2016	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1,853	25.81	1,855
Eurovida - Companhia de Seguros de Vida	15.00	22,579	-	-
Lusimovest	25.77	25,329	25.76	24,328
Unicre - Instituição Financeira de Crédito, S.A.	21.86	32,373	21.50	29,916
		<u>82,134</u>		<u>56,099</u>
Impairment of investments in associates (Note 23)				
Eurovida - Companhia de Seguros de Vida		(3,679)		-
Benim - Sociedade Imobiliária, S.A.		(1,853)		(1,500)
		<u>(5,532)</u>		<u>(1,500)</u>
		<u>76,602</u>		<u>54,599</u>

The holding in Benim – Sociedade Imobiliária, SA, is indirectly held by the bank through Totta Urbe – Empresa de Administração e Construções, SA (Totta Urbe).

As at December 31, 2017 and 2016, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

At the present date there are neither responsibilities to be complied with before the associated companies nor contingent liabilities to be recognized by the Bank as a result of the shareholdings in same.

17. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

As at December 31, 2017 and 2016, the breakdown of these headings is as follows:

	31-12-2017	31-12-2016
Current tax assets:		
Corporate income tax receivable	<u>19,053</u>	<u>12,720</u>
Current tax liabilities:		
Corporate income tax payable	432	7,662
Other	74,932	2,188
	<u>75,364</u>	<u>9,850</u>
Deferred tax assets:		
Relating to temporary differences	<u>448,353</u>	<u>366,992</u>
Deferred tax liabilities:		
Relating to temporary differences	<u>157,117</u>	<u>76,967</u>

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As at December 31, 2017 and 2016, the breakdown of taxes in the income statement is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Current tax		
Of the period	(131,290)	(43,938)
Special contribution to the banking sector	(21,580)	(19,633)
Consortiums ("ACE's")	(3,515)	(564)
Other	13,440	12,814
	<u>(142,945)</u>	<u>(51,321)</u>
Deferred tax		
Increases and reversals of temporary differences, net	(14,964)	(96,732)
	<u>(157,909)</u>	<u>(148,053)</u>

Movements under deferred tax assets and liabilities in the periods ended December 31, 2017 &amp; 2016, were as follows:

	Balances at 31-12-2015	Other Comprehensive Income	Income statement	Balances at 31-12-2016	Other Comprehensive Income	Income statement	BAPOP merger	Balances at 31-12-2017
Provisions/Impairment temporarily not accepted for tax purposes								
.Deferred tax assets	220,997	-	(49,965)	171,032	-	(15,954)	133,920	288,998
.Deferred tax liabilities	(1,818)	-	(3,113)	(4,931)	-	(312)	-	(5,243)
Revaluation of tangible assets								
.Deferred tax assets	-	-	2,140	2,140	-	-	-	2,140
.Deferred tax liabilities	(3,311)	-	163	(3,148)	-	-	(45)	(3,193)
Pensions:								
.Actuarial deviations	101,629	-	(18,051)	83,578	-	(11,614)	-	71,964
.Early retirement pensions	23,096	-	(2,018)	21,078	-	6,747	-	27,825
.Long service bonuses	10,861	-	(10,861)	-	-	-	516	516
Transfer of pension liabilities to the Social Security	4,838	-	(302)	4,536	-	(10)	188	4,714
Available for sale assets								
.Deferred tax assets	(70,053)	55,695	-	(14,358)	(92,584)	-	-	(106,942)
.Deferred tax liabilities	18,352	30,670	-	49,022	(39,873)	-	6,811	15,960
Hedging derivatives - cash flows	132	4,995	-	5,127	(818)	-	-	4,309
Securitization operations:								
.Premium/discount on debt issued	(185)	-	23	(162)	-	17	-	(145)
.Recognition of an interest accrual regarding the notes with higher subordination	(4,271)	-	(3,875)	(8,146)	-	(482)	-	(8,628)
.Results on intra-group securities purchases	(21,642)	-	(3,103)	(24,745)	-	11,266	-	(13,479)
Integration costs	15,369	-	(8,055)	7,314	-	(1,838)	8,060	13,536
Other	-	-	-	-	-	-	-	-
	<u>295,397</u>	<u>91,360</u>	<u>(96,732)</u>	<u>290,025</u>	<u>(133,275)</u>	<u>(14,964)</u>	<u>149,450</u>	<u>291,236</u>

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

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

The Bank was subject to tax inspections up to 2014, inclusive. As a result of the tax inspection on the accounts for 2014, the Bank was subject to an additional assessment of Corporate Income Tax relating to autonomous taxation and several corrections to the tax losses reported in that year. In terms of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to the Corporate Income Tax base covered several matters, including, amongst others, adjustments relating to the fiscal recognition of actuarial deviations and to the use of the provisions for overdue loans. Parts of these corrections are merely temporary.

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



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The Bank records under “Provisions” under Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 22).

In 2015 the Bank applied the tax neutrality regime to the profit determined on the acquisition of a significant part of the business of the former Banif. Although the 2015 inspection has not yet been finalised, the Board of Directors is of the conviction that the result in question is not subject to taxation under the IRC code.

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS) in 2017. This new regime involves the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are: – the parent company Santander Totta, SGPS, and the controlled companies (Taxagest, BST, Santander Totta Seguros, TottaUrbe).

Deferred taxes were constituted for the temporary differences determined between the carrying amount of the BAPOP assets and liabilities and the respective purchase price.

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18. OTHERS ASSETS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Debtors and other applications		
Debtors resulting from operations with futures	4,220	6,612
VAT recoverable	18,695	6,315
Debtors for loan interest subsidies	8,064	12,993
Other debtors		
. Subsidies receivable	6,201	18,349
. Property transfer tax to recover	29,199	-
. Banif Rent	10,743	10,743
. Other	33,730	18,137
Shareholders' loans		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestinsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Supplies-BAPOP	334	
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.		2,068
Shareholder's loans granted by the former Banif	-	23,083
Gold, other precious metals, coins and medals	3,236	3,062
Promises and other assets received as settlement of defaulting assets received as settlement of defaulting	397,886	136,349
Income receivable and deferred income	26,484	37,553
Liabilities with pensions and other benefits		
Responsibilities-BST	(959,369)	
Fair value of BST Pension Fund	996,786	-
Responsibilities-London branch	(47,440)	-
Fair value of London branch Pension Fund	40,711	-
Responsibilities-ex-Banif	(142,441)	-
Fair value of ex-Banif Pension Fund	110,505	-
Responsibilities-BAPOP	(163,975)	-
Fair value of BAPOP Pension Fund	166,358	-
Deferred costs	7,147	2,783
Other assets pending regularization	588,019	582,826
	<u>1,135,583</u>	<u>861,363</u>
Impairment losses (Note 23):		
Debtors and other applications		
Debtors and other applications	(7,774)	(7,973)
Debtors, other investments and other assets		
Assets received as settlement of defaulting loans	(128,159)	(39,440)
Own properties for sale	(29,282)	(21,407)
Supplies	(486)	(25,489)
Other assets and other investments	(34,511)	(45,274)
	<u>(200,212)</u>	<u>(139,583)</u>
	<u>935,371</u>	<u>721,780</u>

“Debtors and other applications – Debtors resulting from operations with futures” refers to current accounts kept by the Bank at international financial institutions for its trading of futures. The margin accounts of customers’ futures are carried under “Other liabilities – Creditors resulting from operations with futures” (Note 26).

As at December 31, 2017 and 2016, “Debtors and other applications - Overdue capital” included €6,224 thousand and €6,268 thousand, respectively, related to overdue rents on properties leased by the Novimovest Fund.

As at December 31, 2017 and 2016, “Income receivable” mainly included commissions receivable from insurers for the marketing of their insurance products (Note 44).

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As at December 31, 2017 and 2016, "Other" includes transactions pending settlement as detailed below:

	31-12-2017		31-12-2016	
	Other assets	Other liabilities (Note 26)	Other assets	Other liabilities (Nota 26)
Interest receivable from swap contracts established with Portuguese State-owned companies	394,152		533,487	-
Cheques, values in transit and other transactions to be settled	35,229	(73,354)	-	(96,284)
Transfers within SEPA	83,994	(211,271)	-	(82,610)
Balances to be settled in ATMs	2,967		-	-
Other	71,677	(50,259)	49,339	-
	<u>588,019</u>	<u>(334,884)</u>	<u>582,826</u>	<u>(178,894)</u>

Movement under payment in kind, auctions and other assets received as payment in kind during 2017 was as follows:

	31 December 2016			Transfers						BAPOP merger		31 December 2017						
	Gross amount	Provisions	Net amount	Increases	Sales	Utilization	between non current assets and other Capital	Provision	Transfers of fixed tangible assets Capital	Provision	Allocation to provisions	Reversal of provisions	Capital	Provision	Gross amount	Provision	Net amount	
Assets received as settlement of defaulting																		
Properties received as settlement of defaulting	72,893	(29,330)	43,563	-	-	-	(28,754)	15,350	-	-	-	-	217,727	(102,129)	261,866	(116,109)	145,757	
Promises	3,254	(224)	3,030	2,399	(4,589)	-	-	-	-	-	(116)	205	11,251	-	12,315	(37)	12,278	
Public sales	19,593	(3,978)	15,617	35,508	(41,629)	-	3,772	-	-	-	(693)	504	38,928	-	57,170	(4,136)	53,035	
Other property	8,393	(3,642)	4,751	9,390	(9,476)	51	(944)	-	-	-	(3,625)	2,932	13,328	(1,811)	20,691	(6,095)	14,596	
Liquidation assets	2,268	(2,268)	-	3,124	(781)	30	(2,828)	-	-	-	(933)	1,388	-	-	1,783	(1,783)	-	
Own properties for sale	29,948	(21,407)	8,541	871	(1,831)	972	-	11,196	381	(7,820)	455	3,877	(1,863)	44,061	(29,282)	14,779		
	<u>136,349</u>	<u>(60,847)</u>	<u>75,502</u>	<u>51,292</u>	<u>(56,306)</u>	<u>1,053</u>	<u>(28,754)</u>	<u>15,350</u>	<u>11,196</u>	<u>381</u>	<u>(13,059)</u>	<u>5,484</u>	<u>286,109</u>	<u>(105,803)</u>	<u>397,886</u>	<u>(157,441)</u>	<u>240,445</u>	

## 19. RESOURCES OF CENTRAL BANKS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Resources from Bank of Portugal		
Deposits	3,076,000	2,446,000
Resources from other central banks		
Deposits	4,538	4,694
	<u>3,080,538</u>	<u>2,450,694</u>

## 20. RESOURCES OF OTHER CREDIT INSTITUTIONS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Resources of domestic credit institutions		
Deposits	270,227	115,607
Other resources	23	3,301
Interest payable	22	8
	<u>270,272</u>	<u>118,916</u>
Resources of foreign credit institutions		
Consigned resources	950,000	600,063
Very short term resources	-	4,088
Deposits	378,798	89,899
Sale operations with repurchase agreement	2,710,621	1,078,940
Other resources	40,686	131,387
Interest payable	709	86
	<u>4,080,814</u>	<u>1,904,463</u>
	<u>4,351,086</u>	<u>2,023,379</u>

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

As at December 31, 2017 and 2016, “Resources of foreign credit institutions – Sale operations with repurchase agreement” is broken down by type of asset underlying the repo operations:

Type of underlying	31-12-2017			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	94,669	(11)	5	94,663
Non-subordinated Bonds issued by domestic credit institutions	43,497	-	-	43,497
Bonds issued by the group in the context of securitization operations and repurchased by BST	997,298	47	(8)	997,337
Covered bonds issued and reacquired by BST	1,575,134	(32)	22	1,575,124
	<u>2,710,598</u>	<u>4</u>	<u>19</u>	<u>2,710,621</u>

Type of underlying	31-12-2016			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	877,472	(120)	80	877,432
Bonds issued by the group in the context of securitization operations and repurchased by BST	201,508	-	-	201,508
	<u>1,078,980</u>	<u>(120)</u>	<u>80</u>	<u>1,078,940</u>

## 21. RESOURCES OF CUSTOMERS AND OTHER DEBTS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
Demand deposits	15,703,242	12,961,964
Term deposits	13,168,309	11,224,579
Other Clients Resources	1,935,634	2,400,247
Savings deposits	1,180,229	1,730,071
Advance notice deposits	20,612	38,987
	<u>32,008,026</u>	<u>28,355,848</u>
Interest payable	19,646	43,342
Cheques and orders payable	104,246	108,994
Hedge Adjustments	5,550	5,294
	<u>129,442</u>	<u>157,630</u>
	<u>32,137,468</u>	<u>28,513,478</u>

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22. DEBT SECURITIES

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Bonds in circulation		
Covered bonds		
Issued	7,700,000	6,950,000
Repurchased	(4,200,000)	(4,450,000)
Interest payable and another deferred costs and income	(14,137)	11,882
Bonds issued in securitization operations		
Issued	3,249,292	4,509,231
Repurchased	(2,121,485)	(3,061,174)
Interest payable and another deferred costs and income	(71,535)	(80,675)
Cash Bonds		
Issued	1,072	25,005
Repurchased	-	(8,983)
Interest payable and another deferred costs and income	29	1,242
	<u>4,543,237</u>	<u>3,896,528</u>
Other		
EMTN Programme	25,744	28,460
Interest payable	224	254
	<u>25,968</u>	<u>28,714</u>
Hedge Adjustments	-	160
	<u>4,569,205</u>	<u>3,925,402</u>

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

The conditions of the covered bonds and cash bonds are described in Annex I.

Between May 2008 and December 2017, BST undertook twenty-three covered-bond issues under the "€12,500,000,000 Covered Bonds Programme". As at December 31, 2017 and 2016, covered bonds had an autonomous pool of assets comprising:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Loans and advances to customers(Note 10)	9,980,181	8,051,500
Interest on loans	8,151	6,593
Commissions	(45,258)	(38,367)
Deferred expenses	2,130	5,847
Derivatives	(105,205)	(143,368)
	<u>9,839,999</u>	<u>7,882,205</u>

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Movement under covered bonds and cash and other debt issued by the Group during 2017 and 2016 was as follows:

	Deposit	Bonds outstanding		EMTN Programme	
	Certificates	Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2015	52,392	6,810,189	(4,293,983)	200,167	(3,047)
.Issues made	-	2,950,000	-	-	-
.Issues repurchased	(51,141)	(2,785,000)	2,785,000	(172,612)	3,047
.Issues reacquired	-	-	(2,950,000)	-	-
.Exchange rate movements	(1,251)	(184)	-	905	-
Balances at December 31, 2016	-	6,975,005	(4,458,983)	28,460	-
.Issues BAPOP	-	1,072	-	729	-
.Issues made	-	2,750,000	-	-	-
.Issues repurchased	-	(2,024,800)	258,983	-	-
.Exchange rate movements	-	(205)	-	(3,445)	-
Balances at December 31, 2017	-	7,701,072	(4,200,000)	25,744	-

Movement during 2017 and 2016 under bonds issued within the scope of securitisation operations was as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2015	5,758,634	(3,401,765)
. Repurchased	(1,249,403)	599,227
. Reacquired		
. Hipototta 4 - Class A	-	(28,165)
. Hipototta 5 - Class A2	-	(137,539)
. Atlantes Mortgage 3 - Class A	-	(91,932)
. Azor Mortgage 1 - Class C	-	(500)
. Azor Mortgage 1 - Class B	-	(500)
Balances at December 31, 2016	4,509,231	(3,061,174)
. Repurchased	(1,259,939)	970,145
. Reacquired		
. Hipototta 4 - Class A	-	(30,456)
	-	(30,456)
Balances at December 31, 2017	3,249,292	(2,121,485)

## 23. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in Provisions and impairment during the periods ended December 31, 2017 and 2016, was as follows:

	2017					
	31-12-2016	BAPOP merger	Increases	Reversals	Utilization	31-12-2017
Provision for tax contingencies	11,802	-	-	(779)	-	11,023
Provision for pensions and other charges	85,982	-	33,453	-	(79,504)	39,931
Impairment and provisions for guarantees and other sureties given	21,547	2,242	5,597	(5,365)	-	24,021
Other provisions	101,519	7,464	64,947	(65,536)	(15,819)	92,575
	220,850	9,706	103,997	(71,680)	(95,323)	167,550
	2016					
	31-12-2015	Input and / or output entities in the perimeter consolidation	Increases	Reversals	Utilization	31-12-2016
Provision for tax contingencies	12,062	-	600	-	(860)	11,802
Provision for pensions and other charges	99,444	-	28,991	(2)	(42,451)	85,982
Impairment and provisions for guarantees and other sureties given	11,185	-	13,236	(2,874)	-	21,547
Other provisions	200,399	51	111,103	(118,927)	(91,107)	101,519
	323,090	51	153,930	(121,803)	(134,418)	220,850

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	2017						Recovery of past due loans
	Balance at 31-12-2016	BAPOP merger	Impairment losses	Reversals of impairment losses	Utilization	Balance at 31-12-2017	
Impairment of loans and advances to customers (Note 10):							
Domestic loans	696,237	265,178	532,944	(709,986)	(18,457)	765,916	-
Foreign loans	28,761	142	-	-	(28,761)	142	-
Non-derecognized securitized loans	10,719	-	405	(2,206)	-	8,918	-
Other securitized loans and receivables	4,053	913	9	(2,799)	-	2,176	-
Impairment of overdue loans and interest (Note 10):							
Domestic loans	713,229	385,624	468,366	(138,924)	(543,405)	884,890	11,098
Foreign loans	59,244	9,879	16,131	(10,993)	(44,334)	29,927	1,792
Non-derecognized securitized loans	147,560	5,279	19,013	(120,310)	(2,648)	48,894	-
Other receivables	3,000	-	-	-	2	3,002	-
	<u>1,662,803</u>	<u>667,015</u>	<u>1,036,868</u>	<u>(985,218)</u>	<u>(640,603)</u>	<u>1,740,865</u>	<u>12,890</u>
Impairment of available-for-sale financial assets (Note 8)	61,370	2,454	63	(248)	(465)	63,174	-
Impairment of investments in associated companies (Note 16)	1,500	3,680	353	-	(1)	5,532	-
	<u>62,870</u>	<u>6,134</u>	<u>416</u>	<u>(248)</u>	<u>(466)</u>	<u>68,706</u>	<u>-</u>
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	53,201	-	24,018	(19,559)	(14,804)	42,856	-
Other tangible assets (Note 15)	3,890	2,411	380	-	(380)	6,301	-
Other assets (Note 18)	139,583	105,997	23,919	(61,794)	(7,493)	200,212	-
	<u>196,674</u>	<u>108,408</u>	<u>48,317</u>	<u>(81,353)</u>	<u>(22,677)</u>	<u>249,369</u>	<u>-</u>
	<u>1,922,347</u>	<u>781,557</u>	<u>1,085,601</u>	<u>(1,066,819)</u>	<u>(663,746)</u>	<u>2,058,940</u>	<u>12,890</u>

	2016						Impairment recoveries
	31-12-2015	Input and / or output entities in the perimeter consolidation	Impairment losses	Reversals of impairment losses	Other	31-12-2016	
Impairment of loans and advances to customers							
Domestic loans	1,061,142	(2,041)	773,112	(1,064,965)	23	696,237	-
Foreign loans	2,420	-	28,761	(2,420)	-	28,761	-
Non-derecognized securitized loans	9,382	-	2,173	(836)	-	10,719	-
Other securitized loans and receivables	5,891	-	-	(1,838)	-	4,053	-
Impairment of overdue loans and interest							
Domestic loans	984,626	1,615	702,490	(364,607)	24	713,229	2,418
Foreign loans	90,169	-	11,463	(37,575)	2	59,244	28
Non-derecognized securitized loans	190,746	(32,222)	150,990	(151,913)	-	147,560	-
Other securitized loans and receivables	1,110	-	3,000	(1,105)	(5)	3,000	-
	<u>2,345,486</u>	<u>(32,647)</u>	<u>1,671,989</u>	<u>(1,625,259)</u>	<u>43</u>	<u>1,662,803</u>	<u>2,446</u>
Impairment of available-for-sale financial assets	82,161	-	7,448	(48)	-	61,370	-
Impairment of investments held to maturity	-	-	27,578	-	-	-	-
Impairment of investments in associated companies	1,500	-	-	-	-	1,500	-
	<u>83,661</u>	<u>-</u>	<u>35,026</u>	<u>(48)</u>	<u>-</u>	<u>62,870</u>	<u>-</u>
Non-current assets held for sale (Note 13)	120,839	-	22,616	(9,213)	(50,736)	53,201	-
Other tangible assets	3,862	-	226	(198)	-	3,890	-
Other assets	76,484	21,430	88,396	(90,348)	50,736	139,583	-
	<u>201,185</u>	<u>21,430</u>	<u>111,238</u>	<u>(99,759)</u>	<u>-</u>	<u>196,674</u>	<u>-</u>
	<u>2,630,332</u>	<u>(11,217)</u>	<u>1,818,253</u>	<u>(1,725,066)</u>	<u>43</u>	<u>1,922,347</u>	<u>2,446</u>

As at December 31, 2017 and 2016, the breakdown of Provisions for pensions and other charges was as follows:

	31-12-2017	31-12-2016
Restructuring plans	15,811	62,315
Supplementary pension plan of the Board of Directors (Note 47)	24,120	23,667
	<u>39,931</u>	<u>85,982</u>

As at December 31, 2017, "Other provisions" included:

- Provisions for contingencies associated with the inclusion of the former Banif, in the amount of €41,735 thousand;
- Provisions for legal proceedings lodged against the Bank by its customers and by its employees in the amount of €23,183 thousand. The Legal Department of the Bank estimates the expected loss for each process based on the developments reported by each lawyer;
- Other provisions primarily intended to address several contingencies, including fraud, operations pending confirmation, open items and fines.

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24. EQUITY REPRESENTATIVE INSTRUMENTS

As at December 31, 2017 and 2016, this item represented the units of the Novimovest Fund not held by the Group.

25. SUBORDINATED LIABILITIES

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
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
Banco Santander Totta SA 7.5%	7,599	7,599
	<u>296,139</u>	<u>296,139</u>
Repurchased securities	(284,265)	(284,265)
Interest payable	158	159
	<u>12,032</u>	<u>12,033</u>

The conditions of the subordinated liabilities are detailed in Annex II.



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26. OTHER LIABILITIES

The breakdown of this heading is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Creditors and other resources		
Creditors resulting from operations with futures	4,220	6,612
Other resources		
Secured account resources	76,663	81,314
Collateral account resources	1,395	807
Other resources	1,345	1,497
Public sector		
VAT payable	15,186	3,553
Withholding taxes	15,892	17,612
Social Security contributions	5,030	5,265
Other	819	757
Collections on behalf of third parties	262	178
Contributions to other health systems	1,781	1,685
Other creditors		
Creditors under factoring contracts	45,579	27,934
Creditors under securities values	183	-
Creditors for the supply of goods	30,371	5,272
Other creditors	40,920	28,464
Relating to personnel		
Vacation and Christmas subsidies	38,333	33,933
Other variable remuneration	28,161	29,190
Other personnel costs	7,898	165
General administrative costs	93,032	69,614
Other	39,968	18,298
Liabilities with pensions		
Total responsibilities		
BST pension fund	-	932,276
London branch liabilities	-	49,894
Former Banif pension fund	-	139,906
Pension Fund Value		
Fair value of BST pension fund	-	(932,465)
Fair value of London branch	-	(37,501)
Fair value of Former Banif pension fund	-	(115,823)
Other deferred income	5,332	12,339
Liability operations to be settled	813	1,804
Other (Note 18)	334,884	178,894
	<u>788,067</u>	<u>561,474</u>

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27. SHAREHOLDERS' EQUITY

As at December 31, 2017 and 2016, the Bank's share capital was represented by 1,256,723,284 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	31-12-2017		
	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	399,215	0.03%	399
Other	551,241	0.05%	551
	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>

	31-12-2016		
	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	305,330	0.01%	305
Other	645,126	0.07%	645
	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>

On March 23, 2016 and December 31, 2015, the Bank realised share capital increases, through the issue of 300,000,000 new shares on each of these dates.

In 2017 and 2016, the Bank acquired 93,885 and 14,895 own shares for the amounts of €370 thousand and €60 thousand, respectively.

Under the terms of Order-in-Council n° 408/99, of June 4, published in *Diário da República* – 1st series B, n. 129, the issue premiums, in the amount of €193,390 thousand, cannot be used for the allocation of dividends or for the acquisition of own shares.

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

In 2017 the Bank distributed dividends in the amount of €302,850 thousand (amount of dividends allocated to own shares), equivalent to a unit dividend of approximately €0.241 per share. During the period the Bank distributed free reserves in the amount of €45,817 thousand.

In 2016 the Bank distributed dividends in the amount of €178,287 thousand (amount of dividends allocated to own shares), equivalent to a unit dividend of approximately €0.1419 per share.

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As at December 31, 2017 and 2016, the breakdown of the revaluation reserves is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	323,180	(110,983)
Investments held to maturity (Note 11)	(7,151)	(7,992)
Available-for-sale financial assets of companies under the equity method	969	202
Cash-flow hedging instruments	(13,901)	(17,682)
Actuarial gains and losses (Note 45)		
Pension Fund of BST	(658,333)	(695,584)
Pension Fund of the Lond branch of BST	(13,406)	(16,172)
Pension fund of Former Banif	(8,008)	(4,826)
Actuarial gains and losses of companies under the equity method	(2,049)	(2,691)
Legal revaluation reserves	23,245	23,245
	<u>(355,454)</u>	<u>(832,483)</u>
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Available-for-sale financial assets	(97,793)	34,664
Financial assets held to maturity		
Available-for-sale financial assets of companies under the equity method	(247)	(51)
Cash-flow hedging instruments	4,309	5,127
Tax impact of actuarial gains and losses	174,740	186,179
Tax impact from the change in accounting policies of companies under the equity method	368	725
Relating to the revaluation of tangible assets	(3,148)	(3,311)
	<u>78,229</u>	<u>223,333</u>
	<u>(277,225)</u>	<u>(609,150)</u>

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

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

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

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As at December 31, 2017 and 2016, the breakdown of “Other reserves and retained earnings” is as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Legal reserve	344,748	311,098
Other reserves		
Reserves of consolidated companies	358,856	238,051
Reserves of companies consolidated under the equity method	3,096	9,782
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	-
Other	60	83
Retained earnings	609,746	726,339
	<u>1,975,354</u>	<u>1,952,612</u>

Legal reserve

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

This reserve may be used only to cover accumulated losses or to increase the share capital.

Merger reserve

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

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28. CONSOLIDATED NET INCOME FOR THE YEAR

In 2017 and 2016, the determination of the consolidated net income can be summarised as follows:

	31-12-2017		31-12-2016	
	Net Income for the year	Contribution to the consolidated net income	Net Income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	695,630	695,630	336,500	336,500
Net income of other Group companies:				
Totta Ireland, Plc.	105,195	105,195	18,585	18,585
BST International Bank, Inc. - Puerto Rico	-	-	10,400	10,400
Novimovest - Fundo de Investimento Imobiliário Aberto	7,840	6,234	7,752	6,131
Unicre, Instituição Financeira de Crédito, S.A.	24,309	5,226	60,548	13,017
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	96	96	-	-
Totta Urbe, Empresa de Administração e Construções, S.A.	1,819	1,819	2,258	2,258
Banif International Bank, LTD	2,218	2,218	(4,487)	(4,487)
Totta & Açores, Inc. - Newark	-	-	(754)	(754)
Santotta - Internacional, SGPS, S.A.	-	-	(621)	(621)
Lusimovest Fundo de Investimento Imobiliário	3,887	1,002	1,949	1,030
Taxagest, S.A.	(4)	(4)	(1)	(1)
	<u>145,360</u>	<u>121,786</u>	<u>95,629</u>	<u>45,558</u>
Elimination of dividends:				
Totta Ireland, Plc.		(107,634)		(19,768)
Unicre, Instituição Financeira de Crédito, S.A.		(4,171)		(17,742)
		<u>(111,805)</u>		<u>(37,510)</u>
Adjustments related with securitization operations		(112,957)		38,856
Dissolution of Santotta-Internacional, SGPS		(167,802)		-
Dissolution of BSTI Porto Rico		-		(1,594)
Dissolução da Totta & Açores, Inc.		-		325
Other		(3,695)		(2,103)
Consolidated net income for the period		<u>421,157</u>		<u>380,032</u>

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

	31-12-2017	31-12-2016
Consolidated net income attributable to the shareholders of BST	421,157	380,032
Weighted average number of ordinary shares issued	1,256,723,284	1,189,510,169
Weighted average number of own shares	14,992,530	14,898,645
Weighted average number of ordinary shares outstanding	1,241,800,284	1,174,626,256
Basic earnings per share attributable to the shareholders of BST	0.34	0.32

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

29. NON-CONTROLLING INTERESTS

As at December 31, 2017 and 2016, the breakdown per entity of the value of third-party holdings in Group companies is as follows:

	31-12-2017	31-12-2016
Taxagest, S.A.	557	557
Other	581	113
	<u>1,138</u>	<u>670</u>

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**30. OFF-BALANCE-SHEET ITEMS**

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

	<u>31-12-2017</u>	<u>31-12-2016</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,717,603	1,386,997
Documentary credits	347,498	265,987
Other contingent liabilities		
Bank of Portugal	176,242	140,412
Deposit Guarantee Fund	85,814	71,443
Investor Indemnity System	6,601	5,496
Assets pledged as guarantees	7,810,862	10,485,995
	<u>10,144,620</u>	<u>12,356,330</u>
Commitments		
Credit lines		
Revocable	5,192,952	4,591,949
Irrevocable	1,352,174	536,938
Deposit Guarantee Fund	68,969	63,655
Investor Indemnity System	9,401	4,586
Other revocable commitments	215	215
Credit lines	87,221	-
	<u>6,710,932</u>	<u>5,197,343</u>
Liabilities for services rendered		
Deposit and custodial services	32,122,516	22,420,417
Amounts received for collection	220,568	107,175
Other values	136,972	4
	<u>32,480,056</u>	<u>22,527,596</u>

**Deposit Guarantee Fund**

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

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid amounts accumulated as at December 31, 2017 and 2016, for which this commitment was entered into amounts to €68,969 thousand and €63,655 thousand, respectively. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2017 and 2016, the Bank paid 100% of the annual contribution in the amounts of €21 thousand and €12 thousand, respectively (Note 40).

**Investor Compensation System (SII)**

Liabilities to the Investor Compensation System are not recognised as cost. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2017 and 2016, these liabilities amounted to €9.401 thousand and €4,586 thousand, respectively.

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**31. INTEREST AND SIMILAR INCOME**

The breakdown of this heading is as follows:

	<u>2017</u>	<u>2016</u>
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	-	27
In credit institutions	99	15
Interest on applications		
In domestic credit institutions	2,931	3,055
In foreign credit institutions	8,778	17,666
Interest on loans and advances to customers		
Domestic loans	522,825	521,380
Foreign loans	12,856	13,758
Other loans and receivables (commercial paper)	77,610	87,079
Income from comissions received associated to amortized cost	42,515	39,289
Interest from securitized assets not derecognized	25,470	75,140
Interest on overdue loans	10,909	9,014
Interest and similar income on other financial assets		
Available-for-sale financial assets	116,186	147,232
Hedging Derivatives	231,282	193,180
Debtors and other applications	6	-
Other interest and similar income	10,021	29,600
	<u>1,061,488</u>	<u>1,136,435</u>

**32. INTEREST AND SIMILAR CHARGES**

The breakdown of this heading is as follows:

	<u>2017</u>	<u>2016</u>
Interest on resources of Central Banks		
Bank of Portugal	4,744	5,041
Interest on resources of credit institutions		
Domestic	297	2,421
Foreign	2,030	5,260
Interest on customers' deposits		
Deposits		
Residents	56,440	108,542
Non-residents	5,010	5,662
Other resources	220	970
Interest on debt securities issued		
Deposit certificates	-	1,036
Bonds	38,060	44,807
Other debt securities	660	1,152
Interest on subordinated liabilities		
Subordinated loans	634	206
Fair value hedge		
Coverage of fair value	226,530	121,785
Coverage of cash flows	15,133	69,958
Other interest and similar charges	3,275	24,547
Payables associated to amortized cost		
Debt securities	9,047	10,816
Subordinated liabilities	28	45
	<u>362,108</u>	<u>402,248</u>

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**33. INCOME FROM EQUITY INSTRUMENTS**

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

	<u>2017</u>	<u>2016</u>
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	2.798	3.827
BANIF PROPERTY	-	320
Unicampos	92	43
Other	21	8
	<u>2.911</u>	<u>4.198</u>

**34. INCOME FROM SERVICES AN COMMISSIONS**

The breakdown of this heading is as follows:

	<u>2017</u>	<u>2016</u>
On guarantees given		
Guarantees and securities	15,792	16,451
Documentary credits	2,734	3,470
On commitments to third parties		
Irrevocable credit lines	42	133
Revocable commitments	1,810	616
By banking services provided		
Deposit and custody services	4,630	4,534
Asset management and collection	11,192	12,161
Real estate and mutual fund management	20,858	17,301
Transfers	1,608	1,296
Card transactions	82,174	71,706
Annuities	23,602	20,682
Credit operations	46,574	36,713
Other	192	2,152
On operations carried out on behalf of third parties		
On securities	16,488	16,768
Other	253	207
Other commission received		
Insurance companies (Note 44)	88,975	88,256
Deposits	52,069	35,072
Cheques	10,632	8,543
Other	11,975	36,728
	<u>391,600</u>	<u>372,789</u>



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35. CHARGES WITH SERVICES AND COMMISSIONS

The breakdown of this heading is as follows:

	<u>2017</u>	<u>2016</u>
On guarantees received		
Guarantees and securities	3,785	2,038
On banking services rendered by third parties		
Funds for collection and management	1,273	2,861
Undertakings for collective investment in transferable securities	2,001	1,975
Credit operations	9,101	10,812
Cards	41,877	44,057
Other	3,185	3,990
On operations carried out by third parties		
Securities	1,912	1,784
Other	1,772	1,465
Other commission paid	392	503
	<u>65,298</u>	<u>69,485</u>

36. RESULTS OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of these headings is as follows:

	<u>2017</u>	<u>2016</u>
Financial assets held for trading:		
Equity instruments	94	137
Derivative instruments:		
Swaps:		
Currency swaps	221	115
Interest rate swaps	(10,276)	(64,623)
Equity swaps	(8)	1,299
Other	(3,579)	23,906
Options:		
Currency swaps	193	329
Equity swaps	1,448	(17)
Other	-	125
Interest rate guarantee contracts	171	440
	<u>(11,736)</u>	<u>(38,289)</u>
Hedging derivatives:		
Swaps		
Interest rate swaps	5,291	(8,910)
Equity swaps	2,989	12,643
Autocallable options	464	756
Value adjustments of hedged assets and liabilities	<u>(8,822)</u>	<u>(4,677)</u>
	<u>(78)</u>	<u>(188)</u>
	<u>(11,814)</u>	<u>(38,477)</u>

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37. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this heading is as follows:

	2017			2016		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	81,800	-	81,800	103,340	(1,721)	101,619
Other residents	-	(19)	(19)	2,478	-	2,478
Issued by non-residents						
Other non-residents	-	(7)	(7)	-	(53)	(53)
Equity instruments						
Measured at fair value	108	(21)	87	8,180	(101)	8,079
Measured at historical cost	56	(2)	54	479	(1)	478
	<u>81,964</u>	<u>(49)</u>	<u>81,915</u>	<u>114,477</u>	<u>(1,876)</u>	<u>112,601</u>

In 2017 and 2016, the gains recorded under Available-for-sale financial assets were essentially the result of the sale of Portuguese Treasury Bonds.

38. RESULT OF FOREIGN EXCHANGE REVALUATION

The breakdown of this heading is as follows:

	2017	2016
Gains on the revaluation of the foreign exchange position	393,257	270,306
Exchange gains on investments in foreign operations	-	1,969
Losses on the revaluation of the foreign exchange position	(384,880)	(262,127)
	<u>8,377</u>	<u>10,148</u>

39. RESULT FROM THE SALE OF OTHER ASSETS

The breakdown of this heading is as follows:

	2017	2016
Gains on the sale of loans and advances to customers (Note 10)	33,524	29,746
Gains on the repurchase of bonds issued associated with securitization operations	427	17,020
Gains on non-current assets held for sale	10,286	8,195
Gains on tangible assets	3,240	4,014
Other gains on financial operations	-	435
	<u>47,477</u>	<u>59,410</u>
Losses on the sale of loans and advances to customers (Note 10)	(2,012)	(708)
Losses on the sale of investments in subsidiaries and associates	-	(87)
Losses on non-current assets held for sale	(1,456)	(1,435)
Losses on tangible assets	(2,859)	(2,224)
Other losses on non-financial operations	-	(69)
Other losses on financial operations	(721)	(7,222)
	<u>(7,048)</u>	<u>(11,745)</u>
	<u>40,429</u>	<u>47,665</u>

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40. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	31-12-2017	31-12-2016
	<u>2017</u>	<u>2016</u>
Other Operating income		
Rents received	15,793	18,258
Capital gains on investment properties	3,452	46,203
Reimbursement of expenses	2,729	6,653
Income from rendering of services	3,108	7,331
Rents of automatic payment terminals	20,109	16,589
	<u>2,857</u>	<u>6,617</u>
	<u>48,048</u>	<u>101,651</u>
Other operating expenses		
Subscriptions and donations	(7,682)	(7,107)
Contributions to the Deposit Guarantee Fund	(21)	(12)
Contributions to the Resolution Fund	(19,352)	(15,090)
Unrealized losses on investment properties	(5,163)	(49,008)
Charges related to transactions made by customers	(7,234)	(6,343)
Charges related to cards	(12,732)	(10,746)
Charges related to clients	(4,202)	(3,595)
Other charges and operating expenses	(2,581)	(5,010)
Other taxation		
Direct	(1,431)	(1,741)
Indirect	(1,890)	(2,446)
	<u>(62,288)</u>	<u>(101,098)</u>
	<u>(14,240)</u>	<u>553</u>

As at December 31, 2017 and 2016, Rents earned includes the amounts of €15,586 thousand and €17,916 thousand, respectively, in respect of the rents received by the Novimovest Real Estate Fund.

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice nº 1/2013 and Instructions nºs 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. As at December 31, 2017 & 2016, BST's periodic contribution amounted to €4,556 thousand and €2,850 thousand, respectively.

Within the scope of the single Resolution mechanism the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014.

The Bank of Portugal, as resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318 thousand, in keeping with a letter received from the Bank of Portugal in November 2015. In 2016 and 2017 and as provided for in the Bank of Portugal's letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €17,406 thousand and €14,400 thousand respectively.

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41. STAFF COSTS

The composition of this heading is as follows:

	<u>2017</u>	<u>2016</u>
Remuneration		
Management and supervisory boards (Note 47)	9,231	9,062
Employees	206,302	188,325
Stock option plans (Note 48)	291	293
Other variable remuneration	23,013	23,149
	<u>238,837</u>	<u>220,829</u>
Mandatory social charges		
Charges on remuneration	56,832	61,219
Pension Funds (Note 45)	6,222	5,534
Other mandatory social charges	859	(8,048)
	<u>63,913</u>	<u>58,705</u>
Other staff costs		
Complementary pension plan (Note 45)	583	580
Staff transfers	569	547
Contractual compensation	104	154
Other	4,669	3,876
	<u>5,925</u>	<u>5,157</u>
	<u>308,675</u>	<u>284,691</u>

42. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	<u>2017</u>	<u>2016</u>
External services		
Specialized services	66,204	82,217
Maintenance of software and hardware	39,676	57,978
Rent and leases	13,631	16,820
Communications	11,828	14,266
Advertising and publishing	11,499	11,020
Travel, lodging and representation expenses	5,675	5,261
Maintenance and repairs	4,162	4,273
Transportation	3,665	3,553
Insurance	1,289	1,485
Staff training	2,145	1,454
Other	5,920	6,365
External supplies		
Water, electricity and fuel	8,508	9,193
Current consumable material	1,934	2,047
Other	359	252
	<u>176,495</u>	<u>216,184</u>

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43. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	2017	2016
Unicre - Instituição Financeira de Crédito, S.A.	5,226	13,018
Lusimovest - Fundo de Inv. Imobiliario	1,002	431
Benim - Sociedade Imobiliária, S.A.	(2)	(223)
Atlantes Finance 6 C 3/20/33	51	-
	<u>6,277</u>	<u>13,226</u>

44. INSURANCE BROKERAGE SERVICES RENDERED

Insurance brokerage services rendered relate primarily to commissions billed for the marketing of life and non-life insurance, as follows:

	2017			2016		
	Life Products	Non-Life Products	Total	Life Products	Non-Life Products	Total
			(Nota 34)			(Note 34)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	38,151	-	38,151	45,658	-	45,658
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	34,320	-	34,320	27,400	-	27,400
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	2,166	2,166	-	1,505	1,505
Liberty Seguros	-	13,733	13,733	-	13,118	13,118
Other	-	605	605	-	575	575
	<u>72,471</u>	<u>16,504</u>	<u>88,975</u>	<u>73,058</u>	<u>15,198</u>	<u>88,256</u>

As at December 31, 2017 and 2016, Other assets – Income receivable - Of other services provided (Note 18) includes commissions receivable from insurers as detailed hereunder:

	2017	2016
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	9,958	11,880
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	2,568	2,477
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	201	154
Other	1,125	1,263
	<u>13,852</u>	<u>15,774</u>

These amounts refer essentially to the commissions determined and not yet paid in respect of premiums of insurance marketed during the last quarters of 2017 and 2016.

45. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services to BST in respect of employees in service and those already retired, actuarial studies were conducted by Mercer (Portugal), Limitada, in 2017 and by Towers Watson (Portugal) Unipessoal Limitada in 2016). The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

BST's liabilities for retirement pensions, health care and death benefits as at December 31, 2017, and

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in the four preceding years, as well as the respective coverage, are detailed as follows:

	2017	2016	2015	2014	2013
Estimate of responsibilities for past services:					
- Pensions					
- Current employees	289,518	314,119	303,523	308,223	282,028
- Pensioners	34,059	31,526	26,928	26,343	22,891
- Retired staff and early retired staff	475,916	424,970	399,942	415,679	399,434
	<u>799,493</u>	<u>770,615</u>	<u>730,393</u>	<u>750,245</u>	<u>704,353</u>
- Healthcare systems (SAMS)	147,942	147,207	151,544	151,903	137,970
- Death subsidy	5,132	6,372	5,759	5,543	4,562
- Retirement bonus	6,802	8,082	-	-	-
	<u>959,369</u>	<u>932,276</u>	<u>887,696</u>	<u>907,691</u>	<u>846,885</u>
Coverage of responsibilities:					
- Net assets of the Fund	<u>996,786</u>	<u>932,465</u>	<u>914,204</u>	<u>910,580</u>	<u>840,543</u>
Excess / insufficient funding	<u>37,417</u>	<u>189</u>	<u>26,508</u>	<u>2,889</u>	<u>(6,342)</u>
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	-	30,579	-	37,912	42,565
- Experience adjustments:					
- Other actuarial (gains) / losses	(4,319)	23,815	(9,857)	6,580	(1,775)
- Financial (gains) / losses	(32,933)	2,050	(17,675)	1,111	(3,115)
	<u>(37,252)</u>	<u>25,865</u>	<u>(27,532)</u>	<u>7,691</u>	<u>(4,890)</u>
	<u>(37,252)</u>	<u>56,444</u>	<u>(27,532)</u>	<u>45,603</u>	<u>37,675</u>

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

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

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

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at December 31, 2017 and 2016, were as follows:

Mortality table	TV 88/90
Rate of return on pension fund assets	2.00%
Technical actuarial rate (discount rate)	2.00%
Wage growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.75%

For the purposes of determination of the value of the Social Security pension that, under the terms of the banking sector CBA must be deducted from the pension provided for in the said CBA, the following assumptions were used on December 31, 2017 and 2016:

Salary growth rate for calculation of the deductible pension	0.75%
Inflation (Article 27(1))	0.45%
Inflation (Article 27(2))	0.55%
Age of access to retirement pension	66 years
Evolution of the future sustainability factor	0.5% per year

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

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

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Movement under liabilities for past services during the years ended December 31, 2017 and 2016, can be detailed as follows with regard to the BST pension plan:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Liabilities at the beginning of the period	932,276	887,696
Cost of current services	4,536	4,247
Interest cost	17,912	21,282
Actuarial (Gains)/losses	(4,319)	54,394
Early retirement	51,367	14,554
Amounts paid	(44,873)	(41,026)
CBA alteration	-	(11,220)
Employee contributions	2,470	2,349
	-----	-----
Liabilities at the end of the period	959,369	932,276
	=====	=====

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the years ended December 31, 2017 and 2016, the breakdown of pension costs is as follows (Note 41):

	<u>2017</u>	<u>2016</u>
Cost of current services	4,536	4,247
Interest cost	17,912	21,282
Return on assets calculated with the discount rate	(17,912)	(21,282)
	-----	-----
Defined-benefit plan	4,536	4,247
Defined-contribution plan	1,132	979
London Branch plan	554	308
	-----	-----
	6,222	5,534
	=====	=====

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

Movement under actuarial deviations during 2017 and 2016 was as follows:

Balance at December 31, 2015	639,140
Actuarial losses on pensions generated in 2016	47,036
Financial losses on pensions generated in 2016	1,459
Actuarial losses on healthcare and death benefit in 2016	7,358
Financial losses on healthcare and death benefit in 2016	591
	-----
Balance as at December 31, 2016 (Note 27)	695,584
Actuarial losses on pensions generated in 2017	(1,437)
Financial losses on pensions generated in 2017	(27,281)
Actuarial losses on healthcare and death benefit in 2017	(2,882)
Financial losses on healthcare and death benefit in 2017	(5,651)
	-----
Balance as at December 31, 2017 (Note 27)	658,333
	=====

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Actuarial deviations with pensions in 2017 and 2016 are detailed as follows:

	<u>2017</u>	<u>2016</u>
Change of actuarial assumptions	-	24,928
Change of the salary scale		
with impact on pensions and salaries	8,922	17,099
Changes in the population	(8,156 )	5,296
Mortality deviations		
. For departures	(5,111 )	( 5,523 )
. For permanence	2,432	4,184
For survivors' and orphans' pensions	2,489	3,454
Shift of early retirees to pensioners	(2,013)	(2,402)
	-----	-----
	(1,437)	47,036
	=====	=====

In 2016, the change of actuarial assumptions included the effect of the reduction of the discount rate from 2.5% to 2.0%.

Estimated salary and pension growths take into account the country's current situation and the consequent perspectives of smaller increases in the future, or even maintenance of current values.

Actuarial deviations with health care and death benefit in 2017 and 2016 can be detailed as follows:

	<u>2017</u>	<u>2016</u>
Change in assumptions	-	5,651
Salary and level changes	612	1,362
Other	(3,494)	345
	-----	-----
	(2,882)	7,358
	=====	=====

In 2018 BST expects make a contribution of €8,824 thousand to its defined-benefit plan.

The average duration of pension liabilities of BST employees is 15 years, including those in active service and pensioners.

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at December 31, 2017 and 2016, the number of participants of the Fund was as follows:

	<u>2017</u>	<u>2016</u>
Employees in service <sup>(1)</sup>	4,789	5,103
Pensioners	1,123	1,092
Retirees and early retirees	5,561	5,358
	-----	-----
	11,473	11,553
	=====	=====

(1) Of whom 274 and 265 employees belong to the defined-contribution plan on December 31, 2017 and 2016, respectively.



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The main demographic changes during 2017 and 2016 were as follows:

	Assets		Retired staff and early retired staff	Pensioners
	Defined contribution plan	Defined benefit plan		
Total number at December 31, 2015	236	5,002	5,325	1,052
Leavers:				
Current employees	(16)	(37)	-	(28)
Due to mortality	-	-	(106)	-
Transfers	-	(127)	127	-
Joiners	45	-	12	68
Total number at December 31, 2016	265	4,838	5,358	1,092
Leavers:				
Current employees	(20)	(35)	-	(6)
Due to mortality	-	(3)	(101)	(29)
Transfers	-	(294)	294	-
Joiners	29	9	10	66
Total number at December 31, 2017	274	4,515	5,561	1,123

Movement under the BST Pension Fund during 2017 and 2016 was as follows:

Asset value as at December 31, 2015	914,204
Bank's contributions (cash)	37,706
Employee contributions	2,349
Net income of the Fund:	
Return on assets calculated with the discount rate	21,282
Income of the Fund below the discount rate	(2,050)
Amounts paid	(41,026)
Carrying amount as at December 31, 2016	932,465
Bank's contributions (cash)	55,879
Employee contributions	2,470
Net income of the Fund:	
Return on assets calculated with the discount rate	17,912
Return on assets calculated above the discount rate	32,933
Amounts paid	(44,873)
Carrying amount as at December 31, 2017	996,786

The rates of return of the Pension Fund in 2017 and 2016 amounted to 5.45% percent and 2.18%, respectively.

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

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

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

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

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As at December 31, 2017 and 2016, the composition of the BST Pension Fund was as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Debt instruments:		
. Rating A	22,113	21,014
. Rating BBB	313,459	235,590
. Rating BB	58,132	148,349
. Without rating to the issuance and issuer	104,686	10,496
Real estate funds	160,019	173,265
Mutual funds	186,024	173,956
Deposits	55,016	58,459
Real estate funds		
. Commercial spaces	22,059	51,239
. Land	863	863
Equity instruments:		
. Portuguese shares – listed	366	1,178
. Portuguese shares – not listed	-	112
. Foreign shares – listed	51,642	38,951
Derivative financial instruments		
. Options listed	771	(645)
Other	21,636	19,638
	<u>996,786</u>	<u>932,465</u>

As at December 31, 2017 & 2016, the method for the determination of the fair value of the assets and liabilities mentioned above adopted by the BST Pension Fund Management Company, as recommended in IFRS 13 (Note 49), was as follows:

	31-12-2017				31-12-2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	393,704	-	104,686	498,390	404,953	-	10,496	415,449
Investment Funds	155,688	-	190,355	346,043	147,217	-	200,004	347,221
Equity instruments	52,008	-	-	52,008	40,129	-	112	40,241
Derivative financial instruments	771	-	-	771	(645)	-	-	(645)
Real estate	-	-	22,922	22,922	-	-	52,102	52,102
	<u>602,171</u>	<u>-</u>	<u>317,963</u>	<u>920,134</u>	<u>591,654</u>	<u>-</u>	<u>262,714</u>	<u>854,368</u>

As at December 31, 2017 and 2016, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Rented properties	14,948	14,936
Securities (including units in funds managed)	151,199	160,779
	-----	-----
	<u>166,147</u>	<u>175,715</u>
	=====	=====

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430 thousand. In 2017 and 2016 the premium paid by the Bank amounted to €583 thousand and €580 thousand respectively (Note 41).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

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As at December 31, 2017 and 2016, 95 and 105 employees, respectively, were covered by this plan.

Defined benefit pension plan – London Branch

As at December 31, 2017 and 2016, the main assumptions used in the calculation of retirement pension liabilities covering the employees of BST's London Branch were as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	2.40%	2.60%
Salary growth rate	2.40%	3.60%
Pension growth rate	2.00%	2.10%
Inflation rate	2.40%	2.60%

As at December 31, 2017 and 2016, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Estimated liabilities for past-services	47,440	49,894
Coverage - Pension Fund asset value	40 711	37 501
	-----	-----
Amount not funded – London Branch	(6,729)	(12,393)
	=====	=====

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2017 and 2016 is as follows:

Liabilities as at December 31, 2015	44,559
Cost of current services	165
Interest cost	1,439
Actuarial losses	4,490
Amounts paid	(759)
	-----
Liabilities as at December 31, 2016	49,894
Cost of current services	240
Interest cost	1,245
Actuarial gains	(3,182)
Amounts paid	(757)
	-----
Liabilities as at December 31, 2017	47,440
	=====

Movement in the Pension Fund of the London Branch in 2017 and 2016 was as follows:

Book value as at December 31, 2015	40,125
Net income of the Fund:	
· Return on assets calculated with the discount rate	1,296
· Income of the Fund below the discount rate	(3,285)
Contribution of the Branch	124
Amounts paid	(759)
	-----
Book value as at December 31, 2016	37,501
Net income of the Fund:	
· Return on assets calculated with the discount rate	931
· Income of the Fund below the discount rate	(414)
Contribution of the Branch	3,450
Amounts paid	(757)
	-----
Book value as at December 31, 2017	40,711
	=====

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The breakdown of the costs of the defined-benefit plan of the London Branch in 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Cost of current services	240	165
Interest cost	1,245	1,439
Return on assets calculated with the discount rate	(931)	(1,296)
	-----	-----
	554	308
	===	===

Movement under actuarial deviations of the London Branch in 2017 and 2016 was as follows:

Balance at December 31, 2015	8,397
	-----
Actuarial losses with pensions	4,490
Financial losses with pensions	3,285
	-----
Balance as at December 31, 2016 (Note 27)	16,172
	-----
Actuarial gains with pensions	(3,180)
Financial losses with pensions	414
	-----
Balance as at December 31, 2017 (Note 27)	13,406

As at December 31, 2017 and 2016, the portfolio of the Pension Fund of the London Branch include the following assets:

	<u>31-12-2017</u>	<u>31-12-2016</u>
Debt instruments	22,332	31,868
Equity instruments	5,900	5,568
Other instruments	9,102	
Deposits	3,377	65
	-----	-----
Value of the Fund	40,711	37,501
	=====	=====

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.
- Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.
- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.
- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

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On December 31, 2017 and 2016, a sensitivity analysis performed on a variation of the main financial assumptions referred to those dates led to the following impacts on the current value of the Bank's past-service liabilities (excluding those associated with the London Branch):

	2017		2016	
	(Decrease) / Increase		(Decrease) / Increase	
	%	Amount	%	Amount
Change in discount rate:				
Increase of 0.5%	(6.9%)	(54,871)	(7,5%)	(69,209)
Decrease of 0.5%	7.7%	61,806	7.6%	69,750
Change in salary growth rate:				
Increase of 0.5%	5.9%	47,411	1.5%	13,755
Decrease of 0.5%	(4.8%)	(38,419)	(3,5%)	(31,857)
Change of pension growth rate:				
Increase of 0.5%	8.9%	71,401	7.7%	70,734
Decrease of 0.5%	(8.1%)	(64,842)	(7,9%)	(73,060)
Change in mortality rate table				
Over two years	(6.4%)	(51,438)	(7,1%)	(64,664)
Less than two years	6.5%	51,639	6.2%	56,856

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

Pension Fund – former Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to BST, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, retirees, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested of the Insurance and Pension Funds Supervisory Authority for the transfer to BST of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. In the first quarter of 2017 the parties involved reached agreement and legal procedures were in progress for the transfer of the liabilities with retired employees, retirees, pensioners and former participants with vested rights and the share of the Fund's assets.

Employees of the former Banif were covered by different types of pension plans:

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

The former Banif had two defined-contribution pension plans:

- c) Pension plan II – monthly contribution by the former Banif of 4.5% of the remuneration to which the

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plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by the former Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBKA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

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

BST assumed the former Banif liabilities in the three pension plans. As at December 31, 2017 and 2016, the population covered is as follows:

	31-12-2017			31-12-2016		
	Subpopulation former Banif	Subpopulation former BBKA	Total	Subpopulation former Banif	Subpopulation former BBKA	Total
Current employees	752	185	937	795	211	1,006
Retired staff and pensioners	94	156	250	91	128	219
Early retired staff	13	175	188	13	178	191
Former participants with vested rights	-	81	81	-	87	87
Retired of the defined contribution plan	162	-	162	153	-	153
<b>Total</b>	<b>1,021</b>	<b>597</b>	<b>1,618</b>	<b>1,052</b>	<b>604</b>	<b>1,656</b>

Defined contribution pension plan - employees covered

	31-12-2017	31-12-2016
Plan II	500	537
Plan III	272	289
<b>Total</b>	<b>772</b>	<b>826</b>

The breakdown of the estimated liabilities for past services as at December 31, 2017 and 2016, using the BST assumptions, is as follows for the defined-benefit pension plan (considering both the former Banif and the former BBKA subpopulations):

	31-12-2017				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	26,301	7,966	154	1,193	35,614
Retired staff and pensioners	75,104	7,187	183	-	82,474
Early retired staff	15,963	3,832	179	-	19,974
Former participants with vested rights	3,178	1,201	-	-	4,379
<b>Total liabilities for past services</b>	<b>120,546</b>	<b>20,186</b>	<b>516</b>	<b>1,193</b>	<b>142,441</b>
Book value of the pension fund					110,505
Insufficient fund					<b>(31,936)</b>
	31-12-2016				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	31,375	9,346	177	1,173	42,071
Retired staff and pensioners	66,529	5,279	333	-	72,141
Early retired staff	16,556	4,064	-	-	20,620
Former participants with vested rights	4,453	621	-	-	5,074
<b>Total liabilities for past services</b>	<b>118,913</b>	<b>19,310</b>	<b>510</b>	<b>1,173</b>	<b>139,906</b>
Book value of the pension fund					115,823
Insufficient fund					<b>(24,083)</b>

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As at December 31, 2017 and 2016, the portfolio of the former Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

Type of Asset	31-12-2017		31-12-2016	
	Total	Relative weight	Total	Relative weight
Debt instruments	63,879	53.94%	53,481	45.16%
Securities investment fund	22,015	18.59%	32,974	27.84%
Real estate fund	3,010	2.54%	3,189	2.69%
Real estate properties	14,680	12.40%	18,407	15.54%
Equity instruments	2,605	2.20%	851	0.72%
Deposits	5,426	4.58%	2,582	2.18%
Other	1,422	1.20%	6,948	5.87%
	<u>113,037</u>		<u>118,432</u>	
Assets to be transferred	(2,532)		(2,609)	
	<u>110,505</u>		<u>115,823</u>	

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

Pension Fund – BAPOP

Following the acquisition/merger of BAPOP on December 27, 2017, BST took over its Pension Fund in its entirety. The BAPOP pension plan is a defined-benefit plan that provides the benefits laid down in the CBA. The Fund also assumes the liabilities for past services of the former employees, in the proportion of the time they have been in the service of BAPOP. This plan also includes a pension plan for the executive members of the board of directors that ensures payment of old-age, disability and survivors' pensions.

As at December 31, 2017, the population covered is as follows:

Current employees	847
Retired staff and pensioners	133
Former employees (management)	2
Former employees	1,167
Total	<u>2,149</u>

The directors' plan does not have participants at this time, the 2 existing directors having left (one without vested rights and the other who became part of the population of former participants (Directors)).

The breakdown of the estimated liabilities for past services as at December 31, 2017, based on the BST assumptions, is as follows

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	Pensions	Healthcare systems (SAMS) and Death Subsidy	Total
Current employees	74,492	1,183	75,675
Retired staff and pensioners	54,728	186	54,914
Former employees (management)	2,720	5	2,725
Former employees	30,661	-	30,661
Total liabilities for past services	<u>162,601</u>	<u>1,374</u>	<u>163,975</u>
Book value of the pension fund			166,358
Over financing			<u>2,383</u>

As at December 31, 2017, the breakdown of the BAPOP Pension Fund's portfolio by asset type is as follows:

Assets	Total	Peso relativo
Debt instruments	87,653	52.69%
Participation units	65,178	39.18%
Deposits	13,527	8.13%
	<u>166,358</u>	

46. SECURITISATION OPERATIONSDescription of the operations

Between July 2003 and February 2011, BST securitised part of its mortgage-loan portfolio through twelve operations, the initial amount of which was €23,250,000 thousand. The loans were sold for their nominal (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by BST under the said agreements, while the Hipototta nº 4 and Hipototta nº 5 were maintained.

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

As a form of funding, Hipototta Funds issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta PLC delivered all amounts received from BST and from the Directorate General of the Treasury to Fundos Hipototta PLC, separating the instalments into principal and interest.

In December 2016, as contractually provided for, the clean-up call of the Hipototta nº 1 FTC was exercised, the Bank having acquired the respective residual assets. In accordance with the accounting policy described in Note 1.3, in the event of purchases of securities representing the Bank's liabilities, they cancelled in the consolidated liabilities and the difference between the purchase price and the respective carrying amount is recognised in profit or loss.

As a form of funding, Fundos Hipototta PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.



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As at December 31, 2017, the bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC								
Issue debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P				Up to early redemption date	After early redemption date
Class A	2,616,040	629,550	A		September 2048	December 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	22,903	A		September 2048	December 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	72,334	CCC		September 2048	December 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	<u>2,800,000</u>	<u>724,787</u>						
Class D	14,000	14,000	NR		September 2048	December 2014	Residual income of the securitized portfolio	
	<u>2,814,000</u>	<u>738,787</u>						

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	578,638	A-	A1	February 2060	February 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A-	Baa1	February 2060	February 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	BB+	Baa3	February 2060	February 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	BB+	Ba3	February 2060	February 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	BB-	B3	February 2060	February 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	<u>2,000,000</u>	<u>685,638</u>						
Class F	10,000	6,856	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>692,494</u>						

The bonds issued by Hipototta nº 4 PLC pay interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

BST has the option to early redeem the bonds, on the dates indicated above. For all Hipototta, BST has the possibility of repurchasing the loan portfolio at their nominal value when the outstanding loan portfolio is equal to or lower than 10% of the initial amount of the operations.

Additionally, up to 5 days before each quarterly payment date, the Hipototta have the option to make partial repayments of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

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

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

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodian fees and services fees charged by BST, and management fees, charged by the Funds);
- Interest on the other classes of bonds;
- Impairment losses.

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

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

#### Former Banif securitisation operations

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

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The securitisation operations acquired are detailed below:

Atlantes Mortgage nº 1

Operation implemented in February 2003, in which mortgage-loan contracts were ceded. The loans were sold to a credit securitisation fund called Atlantes Mortgage nº 1 FTC, which issued units subscribed by Atlantes Mortgage nº 1 PLC having its registered office in Ireland. To finance itself, the company Atlantes Mortgage nº 1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitisation operation is managed by Navigator.

Atlantes Mortgage nº 1 PLC						
Issue debt	Amount		Rating		Early redemption date	Remuneration Up to early redemption date
	Inicial	Current	S&P	Moody's		
Class A	462,500	28,602	A+	A1	January 2036	Euribor 3 months + 0,054%
Class B	22,500	22,500	B	A1	January 2036	Euribor 3 months + 1,3%
Class C	12,500	12,500	B-	Ba2	January 2036	Euribor 3 months + 2,6%
Class D	2,500	2,500	B-	B3	January 2036	Euribor 3 months + 4,75%
	<u>500,000</u>	<u>66,102</u>				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	<u>515,400</u>	<u>81,502</u>				

Azor Mortgage nº 1

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

Azor Mortgage nº 1						
Issue debt	Amount		Rating		Early redemption date	Remuneration Up to early redemption date
	Inicial	Current	S&P	Moody's		
Class A	253,000	6,747	A+	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	BBB	A1	September 2047	Euribor 3 monthss + 0,76%
Class C	9,000	9,000	B-	A3	September 2047	Euribor 3 monthss + 1,75%
	<u>281,000</u>	<u>34,747</u>				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	<u>291,000</u>	<u>44,747</u>				

Atlantes Mortgage nº 2

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

Atlantes Mortgage nº 2						
Issue debt	Amount		Rating		Early redemption date	Remuneration Up to early redemption date
	Inicial	Current	S&P	Moody's		
Class A	349,100	144,679	BBB+	A	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,817	BB+	BBB	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,632	B-	BB	September 2060	Euribor 3 months + 1,65%
	<u>375,000</u>	<u>164,128</u>				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	<u>391,125</u>	<u>180,253</u>				

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Azor Mortgage nº 2

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

Azor Mortgage nº 2						
Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody's		Up to early redemption date
Class A	253,500	114,870	A+	A	December 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,8%
	<u>300,000</u>	<u>157,950</u>				
Class D	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	<u>306,750</u>	<u>164,700</u>				

Atlantes Mortgage nº 3

Operation implemented in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3						
Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody's		Up to early redemption date
Class A	558,600	247,747	A	A+	August 2061	Euribor 3 months + 0,2%
Class B	41,400	34,221	NR	NR	August 2061	Euribor 3 months + 0,5%
	<u>600,000</u>	<u>281,968</u>				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	<u>657,668</u>	<u>339,636</u>				

Atlantes Mortgage nº 4

Operation implemented in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4						
Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody's		Up to early redemption date
Class A	514,250	282,811	A+	A+	December 2064	Euribor 3 months + 0,2%
Class B	35,750	31,145	NR	NR	December 2064	Euribor 3 months + 0,5%
	<u>550,000</u>	<u>313,956</u>				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	<u>624,250</u>	<u>388,206</u>				

Atlantes Mortgage nº 5

Operation implemented in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 5, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

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Atlantes Mortgage nº 5						
Issue debt	Amount		Rating		Early redemption date	Remuneration Up to early redemption date
	Inicial	Current	S&P	Moody's		
Classe A	455,000	232,370	A+	A+	November 2068	Euribor 3 months + 0,15%
Classe B	45,000	41,174	NR	NR	November 2068	Euribor 3 months + 0,3%
	<u>500,000</u>	<u>273,544</u>				
Classe C	66,250	66,250	NR	NR	November 2068	Residual income of the securitized portfolio
	<u>566,250</u>	<u>339,794</u>				

Atlantes Mortgage nº 7

Operation implemented in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 7, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7						
Dívida emitida	Montante		Rating		Data de reembolso antecipado	Remuneração Até ao reembolso antecipado
	Inicial	Atual	S&P	Moody's		
Classe A	357.300	181.834	A+	A+	agosto de 2066	Euribor 3 meses + 0,15%
Classe B	39.700	33.790	NR	NR	agosto de 2066	Euribor 3 meses + 0,3%
	<u>397.000</u>	<u>215.624</u>				
Classe C	63.550	63.550	NR	NR	agosto de 2066	Rendimento residual gerado pela carteira titularizada
	<u>460.550</u>	<u>279.174</u>				

During 2016 the Atlantes NPL nº 1 and Atlantes Mortgages nº 6 operations were wound up. During 2017 the Atlantes Finance nº 6, Atlantes SME nº 4 and Atlantes SME nº 5 operations were wound up.

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**47. RELATED ENTITIES DISCLOSURES**

The Bank's related entities with which it maintained balances or transactions in 2017 are as follows:

<u>Name of the related entity</u>	<u>Registered office</u>
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Primestar Servicing, S.A.	Portugal
Santotta Internacional, S.G.P.S, Sociedade Unipessoal, LDA	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
<b>Entities significantly influenced by the Group</b>	
Benim - Sociedade Imobiliária, SA	Portugal
Eurovida - Companhia de Seguros de Vida	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>	
Atlantes Mortgage 1 FTC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Operações de Securitização geridas pela GAMMA, STC	Portugal

Name of the related entity	Head office
<b><u>Entities under direct or indirect common control by the group</u></b>	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Investment Securities,Inc	EUA
Santander Investment, S.A.	Spain
Santander Issuances, SA	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Sovereign Bank	EUA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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The Bank's related entities with which it maintained balances or transactions in 2016 are as follows:

Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
Totta & Açores Financing, Ltd.	Cayman Islands
Serfin International Bank & Trust	Cayman Islands
Banif Internacional Bank, Ltd. (Bahamas)	Bahamas
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Porto Rico
Taxagest, SGPS, S.A.	Portugal
Gamma - Sociedade de Titularização de Créditos, S.A.	Portugal
Novimovest - Fundo de Inv. Imobiliario	Portugal
<b>Entities significantly influenced by the Group</b>	
Benim - Sociedade Imobiliária, S.A.	Portugal
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
Securitization Operations managed by Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
<b>Entities under direct or indirect common control by the group</b>	
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., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGEGR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Group Banesto	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
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A. SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Spain
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander Issuances, S.A.	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
Santander UK plc	United Kingdom
Santander, Asset Management, SGFIM, S.A.	Portugal
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários, S.A.	Spain



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As at December 31, 2017 and 2016, the balances and transactions maintained during these years with related parties were as follows:

	31-12-2017		
	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
<b>Assets:</b>			
Balances due from banks	29,109	-	43,726
Financial assets held for trading	209,479	-	5,710
Loans and advances to credit institutions	312,676	50,025	276,225
Loans and advances to customers	-	67,053	51,250
Hedging derivatives	14,755	-	-
Current Tax Assets	317	-	-
Other assets	4,227	3,920	15,673
<b>Liabilities:</b>			
Financial liabilities held for trading	1,461,194	-	27,266
Resources of other credit institutions	41,161	1,656	305,053
Resources of customers and other debts	153,550	491	830,580
Debt securities	97,727	-	310
Hedging derivatives	10,929	-	3,536
Subordinated liabilities	-	-	4,297
Current tax liabilities	71,725	-	-
Other liabilities	118	-	24,660
<b>Costs:</b>			
Interest and similar charges	227,673	-	22,770
Charges with services and commissions	3,829	-	2,001
Result of assets and liabilities at fair value through profit or loss	1,034,609	-	125,866
General administrative costs	3,133	-	42,460
Other operating results	12	-	-
	-	353	-
<b>Income:</b>			
Interest and similar income	216,349	1,004	2,520
Result of assets and liabilities at fair value through profit or loss	1,057,021	-	125,866
Income from services and commissions	427	393	56,797
Result of foreign exchange revaluation	1,774	-	-
Result from associates	-	6,226	-
Other operating results	-	-	229
<b>Off balance sheet items:</b>			
Guarantees provided and other contingent liabilities	54,830	26	101,586
Guarantees received	1	-	162
Commitments to third parties	150,000	52,000	139,842
Currency operations and derivatives	26,159,458	-	753,419
Responsibilities for services rendered	3,834,653	1,070	3,644,677

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	31-12-2016		
	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
<b>Assets:</b>			
Balances due from banks	43,983	-	2
Financial assets held for trading	317,457	-	701
Loans and advances to credit institutions	246,750	1	233,310
Loans and advances to customers	-	40,143	3,321
Hedging derivatives	30,649	-	-
Current Tax Assets	-	54,599	-
Other assets	6,284	16,089	16,304
<b>Liabilities:</b>			
Financial liabilities held for trading	1,710,300	-	2,812
Resources of other credit institutions	175,736	9,676	1,229
Resources of customers and other debts	-	862	744,785
Debt securities	61,398	-	16,965
Hedging derivatives	81,644	-	-
Subordinated liabilities	-	-	4,299
Other liabilities	364	-	659
<b>Costs:</b>			
Interest and similar charges	108,163	2	50,934
Charges with services and commissions	2,198	-	1,975
Result of assets and liabilities at fair value through profit or loss	996,042	-	80,870
General administrative costs	872	-	-
Other operating results	-	-	44,552
<b>Income:</b>			
Interest and similar income	142,480	1	3,002
Result of assets and liabilities at fair value through profit or loss	783,569	-	97,587
Income from services and commissions	423	473	98,298
Result of foreign exchange revaluation	473	-	-
Result from associates	-	13,226	-
Other operating results	-	-	207
<b>Off balance sheet items:</b>			
Guarantees provided and other contingent liabilities	25,710	-	9,322
Guarantees received	1	-	1,122
Commitments to third parties	134,045	2,000	134,729
Currency operations and derivatives	29,333,418	-	140,395
Responsibilities for services rendered	3,298,784	2,101	2,128,993

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**GOVERNING BODIES**Board of Directors

As at December 31, 2017 and 2016, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €481 thousand and €560 thousand respectively. As at December 31, 2017 & 2016, the fixed and variable remuneration totalled €9,231 thousand and €9,062 thousand respectively (Note 41).

In 2015 a new Long-term Individual Incentive Plan was approved within the framework of the multi-year remuneration, which is described in Note 48. For the members of the Board of Directors, the amount carried under Staff costs in 2017 and 2016 is presented below:

	<u>2017</u>	<u>2016</u>
Long-Term Individual Incentive Plan	131	131
	==	==

With regard to post-retirement benefits, the members of the Board of directors who have an employment tie with BST are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. m).

The General Meeting of BST shareholders on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former Totta Board of Directors who came to be executive members (executive committee) of the BST Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the remuneration committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years and 75% of the annual gross salary, for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at December 31, 2017 and 2016, liabilities with this plan amounted to €24,120 thousand and €23,667 thousand, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 23).

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

Statutory Audit Firm

The fees billed or to be billed by the audit firm and respective firms of the same network in 2017 and 2016, excluding value added tax, were as follows:

	2017			2016		
	Bank	Group	Total	Bank	Group	Total
Audit and legal account review <sup>(a)</sup>	1,712	83	1,795	1,107	172	1,279
Other services and assurance of reliability <sup>(a)</sup>	668	-	668	558	-	558
Other services <sup>(b)</sup>	111	-	111	95	-	95
	<u>2,491</u>	<u>83</u>	<u>2,574</u>	<u>1,760</u>	<u>172</u>	<u>1,932</u>

(a) Corresponds to the amounts contracted for the year, irrespective of their billing date.

(b) Corresponds to the amounts billed during the year.

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Other reliability assurance services include fees for the following services:

- (i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2013;
  - (ii) Review of the internal control system, as required by Bank of Portugal Notice nº 5/2008;
  - (iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2017) prepared for the purpose of consolidation of Banco Santander, SA;
  - (iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
  - (v) Verification of the covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
  - (vi) Verification of the information on monetary policy operations, as required Bank of Portugal Instruction nº 3/2015;
  - (vii) Verification of legal and regulatory requirements relating to the issue of the covered bonds programme;
  - (viii) Agreed procedures on the information of the loan portfolios included in a securitisation operation;
- and

Other services includes fees related to the following services:

- (i) Issuance of comfort letter for the update of the prospects regarding the covered bonds and EMTN programme;
- (ii) Revision of the materiality matrix and of the contents of the 2017 sustainability report; and
- (iii) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

48. INCENTIVE PLANS - SHARES

The Bank has an active Long-term Individual Incentive Plan forming part of the multi-year variable remuneration, for a restricted number of employees. Implementation of this plan is subject to meeting the following objectives:

- i) Growth of the consolidated earnings per share ("EPA") of Banco Santander in 2019 compared to 2016;
- ii) Behaviour of the Bank's total shareholder return ("TSR") in the 2017-2019 period in comparison with the weighted TSRs of a group of 17 reference entities (the "Reference Group"), attributing the appropriate TSR Coefficient in the light of the position of the Bank's TSR within the Reference Group;
- iii) Meeting the objective of fully-loaded common equity tier 1 or CET1 fixed for 2019, the goal being that on December 31, 2019, the fully-loaded consolidated CET1 index of the Santander Group will exceed 11.3%;

As described in Note 1.3 o), the accounting record of the share incentive plans is intended to recognise the right of the Bank's employees to these instruments in the income statement for the period, under Staff costs, to the extent that they correspond to a consideration for services rendered. The management, coverage and implementation of the plans was ensured by Banco Santander, SA, for all employees covered by the plan worldwide.

As at December 31, 2017 and 2016, the total cost of the Share Incentive Stock Plan for all employees of the Bank covered by it is as follows:

	<u>2017</u>	<u>2016</u>
Long-Term Individual Incentive Plan (Note 41)	291	293
	===	===

Availability of the shares is subject to continuation of the employees in the Santander Group.

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49. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS**BALANCE SHEET**Categories of financial instruments

As at December 31, 2017 and 2016, the carrying amount of financial instruments was as follows:

	31-12-2017				Net Value
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks	-	549,586	108,569	-	658,155
Financial assets held for trading	1,515,236	-	-	-	1,515,236
Available-for-sale financial assets	4,514,537	-	85,780	(63,174)	4,537,143
Loans and advances to credit institutions	-	826,367	-	-	826,367
Loans and advances to customers	2,985,884	38,388,193	-	(1,740,865)	39,633,212
Held-to-maturity investments	-	-	108,809	-	108,809
Hedging derivatives	15,349	-	-	-	15,349
	<u>9,031,006</u>	<u>40,515,498</u>	<u>591,360</u>	<u>(1,804,039)</u>	<u>48,333,825</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	1,533,760
Resources of other credit institutions	-	4,351,086	-	-	4,351,086
Resources of customers and other debts	1,366,902	30,666,320	104,246	-	32,137,468
Debt securities	-	4,569,205	-	-	4,569,205
Hedging derivatives	39,275	-	-	-	39,275
Subordinated liabilities	-	12,032	-	-	12,032
	<u>2,939,937</u>	<u>42,679,181</u>	<u>104,246</u>	<u>-</u>	<u>45,723,364</u>
<b><u>31-12-2016</u></b>					
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	653,758	224,159	-	877,917
Balances due from other banks	-	591,010	67,882	-	658,892
Financial assets held for trading	1,758,934	-	-	-	1,758,934
Available-for-sale financial assets	5,399,329	-	84,997	(61,370)	5,422,956
Loans and advances to credit institutions	-	563,924	-	-	563,924
Loans and advances to customers	664,358	32,450,781	-	(1,662,803)	31,452,336
Held-to-maturity investments	-	243,954	-	-	243,954
Hedging derivatives	32,700	-	-	-	32,700
	<u>7,855,321</u>	<u>34,503,427</u>	<u>377,038</u>	<u>(1,724,173)</u>	<u>41,011,613</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	1,766,765
Resources of other credit institutions	-	2,023,379	-	-	2,023,379
Resources of customers and other debts	2,083,896	26,320,588	108,994	-	28,513,478
Debt securities	16,332	3,909,070	-	-	3,925,402
Hedging derivatives	81,655	-	-	-	81,655
Subordinated liabilities	-	12,033	-	-	12,033
	<u>3,948,648</u>	<u>34,715,764</u>	<u>108,994</u>	<u>-</u>	<u>38,773,406</u>

During 2016 a set of securities of the Available-for-sale financial assets was reclassified to the Investments held to maturity portfolio. In 2017 there were no reclassifications of financial assets.

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

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**INCOME STATEMENT**

In the half years ended on December 31, 2017 and 2016, the breakdown of net gains and losses on financial instruments was as follows:

	31-12-2017					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,829,374	(1,841,109)	(11,735)	-	-	-
Available-for-sale financial assets	170,735	(464)	170,271	435,004	-	435,004
Balances in central banks and other credit institutions	11,808	-	11,808	-	-	-
Loans and advances to customers	1,832,715	(1,080,346)	752,369	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
Hedging derivatives	266,509	(268,148)	(1,639)	3,781	-	3,781
Resources in central banks and other credit institutions	-	(7,071)	(7,071)	-	-	-
Resources of customers and other debts	82,429	(65,360)	17,069	-	-	-
Debt securities	587	(47,767)	(47,180)	-	-	-
Subordinated liabilities	-	(634)	(634)	-	-	-
	<u>4,194,157</u>	<u>(3,310,899)</u>	<u>883,892</u>	<u>438,785</u>	<u>-</u>	<u>438,785</u>
Guarantees given	<u>23,892</u>	<u>(5,597)</u>	<u>18,295</u>			
Credit lines	<u>1,851</u>	<u>-</u>	<u>1,851</u>			
	31-12-2016					
	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	1,574,357	(1,611,988)	(37,631)	-	-	-
Available-for-sale financial assets	275,766	(9,323)	266,443	-	(297,261)	(297,261)
Balances in central banks and other credit institutions	20,763	-	20,763	-	-	-
Loans and advances to customers	2,457,273	(1,700,347)	756,926	-	-	-
Hedging derivatives	215,236	(209,309)	5,927	-	(17,226)	(17,226)
Resources in central banks and other credit institutions	-	(12,722)	(12,722)	-	-	-
Resources of customers and other debts	64,600	(132,119)	(67,519)	-	-	-
Debt securities	17,658	(57,811)	(40,153)	-	-	-
Subordinated liabilities	-	(251)	(251)	-	-	-
	<u>4,625,653</u>	<u>(3,733,870)</u>	<u>891,783</u>	<u>-</u>	<u>(314,487)</u>	<u>(314,487)</u>
Guarantees given	<u>22,796</u>	<u>(2,875)</u>	<u>19,921</u>			
Credit lines	<u>749</u>	<u>-</u>	<u>749</u>			

The amounts referred to above do not include gains and losses arising from foreign exchange revaluation of the respective financial instruments which, on December 31, 2017 and 2016, corresponded to net gains in the amounts of €8,377 thousand and €10,148 thousand, respectively (Note 38).

In 2016 and 2017, the breakdown of interest and commission income and expenses, determined in accordance with the effective interest-rate method, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	31-12-2017			31-12-2016		
	Income	Expense	Net	Income	Expense	Net
<b>Assets</b>						
Cash and deposits at central banks	-	-	-	27	-	27
Balances due from other banks	99	-	99	15	-	15
Available-for-sale financial assets	116,186	-	116,186	147,232	-	147,232
Loans and advances to credit institutions	11,709	-	11,709	20,721	-	20,721
Loans and advances to customers	692,185	(28)	692,157	743,129	(1,307)	741,822
Held-to-maturity investments	6,468	-	6,468	8,591	-	8,591
	<u>826,647</u>	<u>(28)</u>	<u>826,619</u>	<u>919,715</u>	<u>(1,307)</u>	<u>918,408</u>
<b>Liabilities</b>						
Resources of central banks	-	(4,744)	(4,744)	-	(5,041)	(5,041)
Resources of other credit institutions	-	(2,327)	(2,327)	-	(7,681)	(7,681)
Resources of customers and other debts	-	(61,671)	(61,671)	-	(115,174)	(115,174)
Debt securities	-	(47,767)	(47,767)	-	(57,811)	(57,811)
Subordinated liabilities	-	(634)	(634)	-	(251)	(251)
	<u>-</u>	<u>(117,143)</u>	<u>(117,143)</u>	<u>-</u>	<u>(185,958)</u>	<u>(185,958)</u>
Guarantees given	18,527	-	18,527	19,921	-	19,921
Credit Lines	1,851	-	1,851	749	-	749

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In 2016 and 2017, the breakdown of commission income and costs, not included in the calculation of the effective interest rate, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	2017			2016		
	Income	Expense	Net	Income	Expense	Net
<b>Assets</b>						
Loans and advances to customers	55,351	(10,873)	31,449	43,727	(12,278)	31,449
<b>Liabilities</b>						
Resources of customers and other debts	77,527	-	77,527	57,284	-	57,284

During 2017 and 2016 the Bank recognised financial income in respect of Interest and similar income of non-performing loans, or in situations of impairment, in the amounts of €10,909 thousand and €9,014 thousand, respectively (Note 31).

**OTHER DISCLOSURES****Hedge accounting**

As at December 31, 2017 and 2016, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2017					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	2,961,958	2,967,188	18,408	2,985,596	2,961,934	(26,116)
Available-for-sale financial assets	80,000	92,722	-	92,722	80,000	(3,536)
Resources of customers and other debts	(1,358,810)	(1,361,352)	(5,550)	(1,366,902)	1,003,563	7,913
Cash flow hedge:						
Resources of customers	523,771	523,771	-	523,771	523,771	(2,187)
	<u>2,206,919</u>	<u>2,222,329</u>	<u>12,858</u>	<u>2,235,187</u>	<u>4,569,268</u>	<u>(23,926)</u>
	31-12-2016					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	661,254	666,095	(1,971)	664,124	661,254	(3,453)
Available-for-sale financial assets	600,000	607,718	30,573	638,291	600,000	(61,691)
Resources of customers and other debts	(2,068,674)	(2,078,602)	(5,294)	(2,083,896)	1,720,799	16,293
Debt securities	(14,930)	(16,172)	(160)	(16,332)	14,930	1,400
Cash flow hedge:						
Loans and advances to customers	307,373	307,373	-	307,373	225,000	3,741
Resources of customers and other debts	521,671	521,671	-	521,671	521,671	(5,245)
	<u>6,694</u>	<u>8,083</u>	<u>23,148</u>	<u>31,231</u>	<u>3,743,654</u>	<u>(48,955)</u>

**Cash flow hedge**

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

	31-12-2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	-	-	(761)	(1,426)	-	(2,187)
	31-12-2016					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	2,077	1,417	(251)	(4,747)	-	(1,504)

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Gains and losses recognised in the income statements for the years ended December 31, 2017 and 2016, with fair-value hedge transactions, were as follows:

	2017			2016		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	20,379	(20,379)	-	(5,498)	5,498	-
Available-for-sale financial assets	(30,573)	30,573	-	9,812	(9,812)	-
Resources of customers and other debts	1,214	(1,292)	(78)	(9,629)	9,441	(188)
Debt securities	160	(160)	-	638	(638)	-
	<u>(8,820)</u>	<u>8,742</u>	<u>(78)</u>	<u>(4,677)</u>	<u>4,489</u>	<u>(188)</u>

Fair value of financial instruments

As at December 31, 2017 and 2016, the detail of the financial instruments was as follows:

	31-12-2017			31-12-2016		
	Measured at fair value	Not measured at fair value	Total	Measured at fair value	Not measured at fair value	Total
<b>Assets</b>						
Cash and deposits at central banks	-	1,039,554	1,039,554	-	877,917	877,917
Balances due from other banks	-	658,155	658,155	-	658,892	658,892
Financial assets held for trading	1,515,236	-	1,515,236	1,758,934	-	1,758,934
Available-for-sale financial assets	4,486,980	50,163	4,537,143	5,371,492	51,464	5,422,956
Loans and advances to credit institutions	-	826,367	826,367	-	563,924	563,924
Loans and advances to customers	2,985,596	36,647,616	39,633,212	664,124	30,788,212	31,452,336
Held-to-maturity investments	-	108,809	108,809	-	243,954	243,954
Hedging derivatives	15,349	-	15,349	32,700	-	32,700
	<u>9,003,161</u>	<u>39,330,664</u>	<u>48,333,825</u>	<u>7,827,250</u>	<u>33,184,363</u>	<u>41,011,613</u>
<b>Liabilities</b>						
Resources of central banks	-	3,080,538	3,080,538	-	2,450,694	2,450,694
Financial liabilities held for trading	1,533,760	-	1,533,760	1,766,765	-	1,766,765
Resources of other credit institutions	-	4,351,086	4,351,086	-	2,023,379	2,023,379
Resources of customers and other debts	1,366,902	30,770,566	32,137,468	2,083,896	26,429,582	28,513,478
Debt securities	-	4,569,205	4,569,205	16,332	3,909,070	3,925,402
Hedging derivatives	39,275	-	39,275	81,655	-	81,655
Subordinated liabilities	-	12,032	12,032	-	12,033	12,033
	<u>2,939,937</u>	<u>42,783,427</u>	<u>45,723,364</u>	<u>3,948,648</u>	<u>34,824,758</u>	<u>38,773,406</u>

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



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As at December 31, 2017 and 2016, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	31-12-2017					
	Acquisition cost	Accruals interest	Valuation	Value adjustments		Net book value
				due to hedging operations	Impairment	
<b>Assets</b>						
Financial assets held for trading	3,342	-	1,511,894	-	-	1,515,236
Available-for-sale financial assets	4,099,557	91,800	323,180	-	(27,557)	4,486,980
Loans and advances to customers	2,961,958	5,517	-	18,408	(287)	2,985,596
Hedging derivatives	-	-	15,349	-	-	15,349
	<u>7,064,857</u>	<u>97,317</u>	<u>1,850,423</u>	<u>18,408</u>	<u>(27,844)</u>	<u>9,003,161</u>
<b>Liabilities</b>						
Financial liabilities held for trading	-	-	1,533,760	-	-	1,533,760
Resources of customers and other debts	1,358,810	2,542	-	5,550	-	1,366,902
Hedging derivatives	-	-	39,275	-	-	39,275
	<u>1,358,810</u>	<u>2,542</u>	<u>1,573,035</u>	<u>5,550</u>	<u>-</u>	<u>2,939,937</u>
<b>31-12-2016</b>						
	Acquisition cost	Accruals interest	Valuation	Value adjustments		Net book value
				due to hedging operations	Impairment	
<b>Assets</b>						
Financial assets held for trading	4,212	-	1,754,722	-	-	1,758,934
Available-for-sale financial assets	5,363,475	116,263	(110,982)	30,573	(27,837)	5,371,492
Loans and advances to customers	661,254	5,075	-	(1,971)	(234)	664,124
Hedging derivatives	-	-	32,700	-	-	32,700
	<u>6,028,941</u>	<u>121,338</u>	<u>1,676,440</u>	<u>28,602</u>	<u>(28,071)</u>	<u>7,827,250</u>
<b>Liabilities</b>						
Financial liabilities held for trading	-	-	1,766,765	-	-	1,766,765
Resources of customers and other debts	2,068,674	9,928	-	5,294	-	2,083,896
Debt securities	14,930	1,242	-	160	-	16,332
Hedging derivatives	-	-	81,655	-	-	81,655
	<u>2,083,604</u>	<u>11,170</u>	<u>1,848,420</u>	<u>5,454</u>	<u>-</u>	<u>3,948,648</u>

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

As at December 31, 2017 and 2016, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by valuation methodology:

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	31-12-2017			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		Total
	(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>				
Financial assets held for trading	312	1,511,184	3,740	1,515,236
Available-for-sale financial assets	2,364,892	2,043,671	78,417	4,486,980
Loans and advances to customers	-	2,985,596	-	2,985,596
Hedging derivatives	-	15,349	-	15,349
	<u>2,365,204</u>	<u>6,555,800</u>	<u>82,157</u>	<u>9,003,161</u>
<b>Liabilities</b>				
Financial liabilities held for trading	-	1,533,760	-	1,533,760
Resources of customers and other debts	-	1,366,902	-	1,366,902
Hedging derivatives	-	39,275	-	39,275
	<u>-</u>	<u>2,939,937</u>	<u>-</u>	<u>2,939,937</u>
	31-12-2016			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		Total
	(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>				
Financial assets held for trading	-	1,755,759	3,175	1,758,934
Available-for-sale financial assets	3,559,291	1,779,603	32,598	5,371,492
Loans and advances to customers	-	664,124	-	664,124
Hedging derivatives	-	32,700	-	32,700
	<u>3,559,291</u>	<u>4,232,186</u>	<u>35,773</u>	<u>7,827,250</u>
<b>Liabilities</b>				
Financial liabilities held for trading	-	1,766,765	-	1,766,765
Resources of customers and other debts	-	2,083,896	-	2,083,896
Debt securities	-	16,332	-	16,332
Hedging derivatives	-	81,655	-	81,655
	<u>-</u>	<u>3,948,648</u>	<u>-</u>	<u>3,948,648</u>

The valuation at fair value of the Bank's financial assets and liabilities comprises three levels under the terms of IFRS 7 and IFRS 13:

- Level 1 – Financial instruments carried at fair value based on prices published in active markets, comprising mainly public debt, some private debt, open-end securities investment funds and equities.
- Level 2 – Financial instruments carried at fair value using internal valuation models which use as inputs significant observable market data. This category includes some securities of the available-for-sale financial assets portfolio valued using indicative bids provided by external counterparts and most of the hedge and trading derivative financial instruments. It should be pointed out that the internal valuation models used mainly involve future cash-flow updating models and valuation methods based on the Black-Scholes model for options and structured products. The future cash-flow updating models ("present value method") update the future contractual cash flows using the interest-rate curves of each currency observable on the market, increased by the credit spread of the issuer or of the entity with a similar rating.

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The main valuation techniques for derivative financial instruments, are provided hereunder:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

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

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

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

When the inputs used in the valuation of derivative financial instruments result from observable market data, the Bank classified its derivative financial instruments as Level 2. When this valuation resulted from internal information prepared by the Bank, it classifies those financial instruments as Level 3.

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

In 2017 and 2016, the movement under financial instruments classified as Level 3 was as follows:

	Financial assets held for trading		Available-for-sale financial assets	Total
	Securities	Derivatives		
December 31, 2015	3,096	115,388	154,989	273,473
Acquisitions	-	-	63	63
Liquidation	-	-	(1,028)	(1,028)
Reclassifications	-	(115,388)	(122,555)	(237,943)
Changes in fair value	79	-	1,129	1,208
December 31, 2016	3,175	-	32,598	35,773
Acquisitions	530	-	46,282	46,812
Liquidation	-	-	(354)	(354)
Changes in fair value	35	-	(109)	(74)
December 31, 2017	3,740	-	78,417	82,157

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The interest-rate curves for the most representative maturities and currencies used in the valuation of the financial instruments were as follows:

	31-12-2017		31-12-2016	
	EUR	USD	EUR	USD
Overnight	-0.28%	1.77%	-0.22%	1.00%
1 month	-0.28%	1.77%	-0.22%	1.00%
3 months	-0.27%	1.69%	-0.23%	1.00%
6 months	-0.27%	1.74%	-0.22%	1.03%
9 months	-0.26%	1.82%	-0.21%	1.10%
1 year	-0.25%	1.88%	-0.20%	1.17%
3 years	0.01%	2.15%	-0.10%	1.66%
5 years	0.32%	2.23%	0.08%	1.96%
7 years	0.57%	2.30%	0.32%	2.15%
10 years	0.89%	2.38%	0.67%	2.32%

As at December 31, 2017 and 2016, the carrying amount and fair value of the financial instruments measured at amortised cost or historical cost was as follows:

	31-12-2017		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	1,039,554	1,027,786	(11,768)
Balances due from other banks	658,155	658,155	-
Available-for-sale financial assets	50,163	50,163	-
Loans and advances to credit institutions	826,367	829,678	3,311
Loans and advances to customers	36,647,616	36,956,365	308,749
Investments held to maturity	108,809	114,936	6,127
	<u>39,330,664</u>	<u>39,637,083</u>	<u>306,419</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(3,080,538)	(3,083,784)	(3,246)
Resources of other credit institutions	(4,351,086)	(4,363,550)	(12,464)
Resources of customers and other debts	(30,770,566)	(30,779,154)	(8,588)
Debt securities	(4,569,205)	(4,856,194)	(286,989)
Subordinated liabilities	(12,032)	(13,064)	(1,032)
	<u>(42,783,427)</u>	<u>(43,095,746)</u>	<u>(312,319)</u>

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	31-12-2016		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	877,917	875,590	(2,327)
Balances due from other banks	658,892	658,892	-
Available-for-sale financial assets	51,464	51,464	-
Loans and advances to credit institutions	563,924	569,867	5,943
Loans and advances to customers	30,788,212	30,242,261	(545,951)
Investments held to maturity	243,954	238,428	(5,526)
	<u>33,184,363</u>	<u>32,636,502</u>	<u>(547,861)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(2,450,694)	(2,456,188)	(5,494)
Resources of other credit institutions	(2,023,379)	(2,032,065)	(8,686)
Resources of customers and other debts	(26,429,582)	(26,471,121)	(41,539)
Debt securities	(3,909,070)	(3,874,926)	34,144
Subordinated liabilities	(12,033)	(12,000)	33
	<u>(34,824,758)</u>	<u>(34,846,300)</u>	<u>(21,542)</u>

To determine the fair value of financial instruments carried at amortised cost or historical cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows. As at December 31, 2017 and 2016, details of the valuation methods used to determine the carrying amount of financial instruments measured at amortised cost or historical cost are as follows:

	31-12-2017			
	Listed in active markets (Level 1)	Methodology for determining fair value		Total
		Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	
<b><u>Assets</u></b>				
Cash and deposits at central banks	-	1,027,786	-	1,027,786
Balances due from other banks	-	658,155	-	658,155
Available-for-sale financial assets	-	-	50,163	50,163
Loans and advances to credit institutions	-	829,678	-	829,678
Loans and advances to customers	-	497,136	36,459,229	36,956,365
Held-to-maturity investments	9,364	-	105,572	114,936
	<u>9,364</u>	<u>3,012,755</u>	<u>36,614,964</u>	<u>39,637,083</u>
<b><u>Liabilities</u></b>				
Resources of central banks	-	(3,083,784)	-	(3,083,784)
Resources of other credit institutions	-	(4,363,550)	-	(4,363,550)
Resources of customers and other debts	-	-	(30,779,154)	(30,779,154)
Debt securities	-	(4,856,194)	-	(4,856,194)
Subordinated liabilities	-	(13,064)	-	(13,064)
	<u>-</u>	<u>(12,316,592)</u>	<u>(30,779,154)</u>	<u>(43,095,746)</u>

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	31-12-2016			Total
	Methodology for determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques		
	(Level 2)	(Level 3)		
<b>Assets</b>				
Cash and deposits at central banks	-	875,590	-	875,590
Balances due from other banks	-	658,892	-	658,892
Available-for-sale financial assets	-	-	51,464	51,464
Loans and advances to credit institutions	-	569,867	-	569,867
Loans and advances to customers	-	-	30,242,261	30,242,261
Held-to-maturity investments	9,646	122,426	106,356	238,428
	<u>9,646</u>	<u>2,226,775</u>	<u>30,400,081</u>	<u>32,636,502</u>
<b>Liabilities</b>				
Resources of central banks	-	(2,456,188)	-	(2,456,188)
Resources of other credit institutions	-	(2,032,065)	-	(2,032,065)
Resources of customers and other debts	-	-	(26,471,121)	(26,471,121)
Debt securities	-	(3,874,926)	-	(3,874,926)
Subordinated liabilities	-	(12,000)	-	(12,000)
	-	<u>(8,375,179)</u>	<u>(26,471,121)</u>	<u>(34,846,300)</u>

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;
- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted at a floating rate was determined taking into account the average spread of the production of the last quarter of the period. As for fixed-rate loans, future cash flows were discounted at the average rates charged by the Bank in the last quarter of the period;
- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last month of the period were used, taking into account the various types;
- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the yearend;
- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

**RISK MANAGEMENT****CREDIT RISK**

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

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

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity

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and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

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

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

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

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1 to 9, is underlaid by the degree of risk inherent in the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis. In concrete terms, the rating is determined by analysis of the following factors:

- . Demand/Market;
- . Partners/Management;
- . Access to credit;
- . Profitability;
- . Flow generation;
- . Solvency.

A rating of 1 (minimum) to 9 (maximum) is assigned to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Equity holders/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by the analysts, based on information provided by the customer, general information on the sector and external databases. The end rating by each partial valuation area is subsequently introduced into the Bank's computer system.

In this way, the Bank's internal rating system can be described as follows:

- Rating 1 – 3: High credit-risk customer;
- Rating 4 – 6: Moderate credit-risk customer;
- Rating 7 – 9: Low credit-risk customer;

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As at December 31, 2017 and 2016, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	31-12-2017		31-12-2016	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,039,554	1,039,554	877,917	877,917
Balances due from other banks	658,155	658,155	658,892	658,892
Financial assets held for trading	1,515,236	1,515,236	1,758,934	1,758,934
Available-for-sale financial assets	4,537,143	4,537,143	5,422,956	5,422,956
Loans and advances to credit institutions	826,367	826,367	563,924	563,924
Loans and advances to customers	39,633,212	46,178,338	31,452,336	36,581,223
Investments held to maturity	108,809	108,809	243,954	243,954
Hedging derivatives	15,349	15,349	32,700	32,700
Investments in associated companies	76,602	76,602	54,599	54,599
	<u>48,410,427</u>	<u>54,955,553</u>	<u>41,066,212</u>	<u>46,195,099</u>
Guarantees provided	<u>2,065,101</u>	<u>2,065,101</u>	<u>1,652,984</u>	<u>1,652,984</u>

The maximum exposure in Loans and advances to customers as at December 31, 2017, included €1,352,174 thousand and €5,192,952 thousand relating to irrevocable credit lines and revocable credit lines, respectively (€536,938 thousand and €4,591,949 thousand as at December 31, 2016, respectively).

In accordance with the requirements set out in Bank of Portugal Instruction nº 4/2018, the Bank began to publish the Non Performing Exposures and the Forborne Exposures.

In this sense, as at December 31, 2017 and 2016, the breakdown of performing and non-performing exposures was as follows:

	31-12-2017			31-12-2016		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,375,856	(246,286)	0.6%	28,932,794	(310,692)	1.1%
Non-performing exposures						
. Loans represented by securities	1,613	(318)	19.7%	11,415	(5,581)	48.9%
. Households	825,187	(310,259)	37.6%	800,877	(330,705)	41.3%
. Corporates	2,171,421	(1,184,002)	54.5%	1,707,250	(1,015,826)	59.5%
	<u>2,998,221</u>	<u>(1,494,579)</u>		<u>2,519,542</u>	<u>(1,352,111)</u>	
	<u>41,374,077</u>	<u>(1,740,865)</u>		<u>31,452,336</u>	<u>(1,662,803)</u>	

As at December 31, 2017 and 2016, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2017			31-12-2016		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
. Loans represented by securities	1,613	-	-	11,415	-	-
. Households	825,187	462,708	56.1%	800,877	424,282	53.0%
. Corporates	2,171,421	546,194	25.2%	1,707,250	384,822	22.5%
	<u>2,998,221</u>	<u>1,008,902</u>		<u>2,519,542</u>	<u>809,105</u>	

As at December 31, 2017, non-performing exposures include €1,032,910 thousand of the BAPOP portfolio.



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Forborne exposures

In accordance with Bank of Portugal Instruction nº 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at December 31, 2017 and 2016, the breakdown of forborne exposures was as follows:

	31-12-2017			31-12-2016		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	1,321,740	(83,046)	6.3%	1,665,813	(127,124)	7.6%
Non-performing exposures						
. Households	469,715	(143,945)	30.6%	383,151	(128,300)	33.5%
. Corporates	1,347,323	(771,626)	57.3%	932,546	(485,005)	52.0%
	1,817,037	(915,571)		1,315,697	(613,305)	
	3,138,777	(998,617)		2,981,510	(740,429)	

As at December 31, 2017, forborne exposures include €1,032,910 thousand of the BAPOP portfolio.

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

In accordance with the requirements set out in Banco de Portugal Instruction nº 28/2014, the Bank now provides information on the encumbered assets.

As at December 31, 2017 and 2016, the breakdown of encumbered and unencumbered assets is as follows:

	2017			
	Carrying amount of the encumbered assets	Fair value of unencumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets</b>				
Balances due at central banks and other credit institutions	-	-	1,697,710	-
Equity instruments	-	-	134,518	135,198
Debt securities	2,015,002	2,015,002	6,780,899	7,112,672
Loans and advances to customers and credit institutions	13,537,188	-	22,641,976	-
Other assets	-	-	3,834,741	-
	15,552,190	2,015,002	35,089,844	7,247,870

	2016			
	Carrying amount of the encumbered assets	Fair value of unencumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets</b>				
Balances due at central banks and other credit institutions	-	-	1,536,809	-
Equity instruments	-	-	89,181	89,337
Debt securities	4,709,344	4,709,344	5,072,935	4,961,796
Loans and advances to customers and credit institutions	12,444,643	-	15,370,375	-
Other assets	-	-	3,754,136	-
	17,153,987	4,709,344	25,823,436	5,051,133

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As at December 31, 2017 and 2016, liabilities associated with encumbered assets and with collateral received are as follows:

	2017	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bonds or ABS
Carrying amount of financial liabilities	7,709,673	4,001,027
Other	685,000	215,860
	<u>8,394,673</u>	<u>4,216,887</u>
	2016	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bonds or ABS
Carrying amount of financial liabilities	9,743,799	4,307,924
Other	665,563	296,753
	<u>10,409,361</u>	<u>4,604,676</u>

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As at December 31, 2017, the main headings of assets had the following breakdown by external rating (internal rating for credit extended), in keeping with the rating assigned by Standard & Poor's:

**Cash and deposits in Central Banks**

Rating S&P	
AAA+ /AAA /AAA-	751,352
No subject	<u>288,202</u>
	<u>1,039,554</u>

**Balances due from other banks**

Rating S&P	
AA+ /AA /AA-	246,901
A+ /A /A-	245,829
BBB+ / BBB / BBB-	32,574
Without external rating	24,353
No subject	<u>108,498</u>
	<u>658,155</u>

**Available-for-sale financial assets**

Rating S&P	
BBB+ / BBB / BBB-	4,405,888
Without external rating	<u>790</u>
	<u>4,406,678</u>

**Loans and advances to credit institutions**

Rating S&P	
A+ /A /A-	708,419
BBB+ / BBB / BBB-	40,073
BB+ / BB / BB-	5,710
Without external rating	<u>72,165</u>
	<u>826,367</u>

**Loans and advances to customers**

Internal Rating	
Reduced credit risk	19,716,867
Average credit risk	9,340,858
High credit risk	3,358,527
Loans - BAPOP	6,107,712
Without rating	<u>2,850,113</u>
	<u>41,374,077</u>

**Held to maturity investments**

Rating S&P	
BBB+ / BBB / BBB-	9,364
Without external rating	<u>99,444</u>
	<u>108,808</u>
	<u>48,413,639</u>

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

**LIQUIDITY RISK**

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

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

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

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

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

As at December 31, 2017 and 2016, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	31-12-2017							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b>Assets</b>								
Cash and deposits at central banks	288,202	-	-	-	750,711	-	-	1,038,913
Balances due from other banks	658,155	-	-	-	-	-	-	658,155
Financial assets held for trading	1,515,236	-	-	-	-	-	-	1,515,236
Available-for-sale financial assets	2	269,082	39,244	282,819	232,741	4,158,575	189,812	5,172,275
Loans and advances to credit institutions	121,812	20,161	171,647	477,281	-	-	-	790,901
Loans and advances to customers	290,673	2,929,461	4,626,212	8,740,195	6,557,776	22,344,748	-	45,489,065
Held-to-maturity investments	-	11,621	8,434	19,869	18,366	70,382	-	128,672
Hedging derivatives	15,349	-	-	-	-	-	-	15,349
Investments in associates	-	-	-	-	-	-	82,134	82,134
	<u>2,889,429</u>	<u>3,230,325</u>	<u>4,845,537</u>	<u>9,520,164</u>	<u>7,559,594</u>	<u>26,573,705</u>	<u>271,946</u>	<u>54,890,700</u>
<b>Liabilities</b>								
Resources of central banks	4,538	-	-	2,446,000	630,000	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	-	-	-	1,533,760
Resources of other credit institutions	431,699	1,494,882	1,274,616	1,478	550,751	600,000	-	4,353,426
Resources of customers and other debts	13,547,552	6,234,421	7,000,193	5,323,558	136,317	9,338	-	32,251,379
Debt securities	-	59,016	142,293	1,827,403	301,370	2,573,292	-	4,903,374
Hedging derivatives	39,275	-	-	-	-	-	-	39,275
Subordinated liabilities	-	32	601	1,268	1,266	16,575	-	19,742
	<u>15,556,824</u>	<u>7,788,351</u>	<u>8,417,703</u>	<u>9,599,707</u>	<u>1,619,704</u>	<u>3,199,205</u>	<u>-</u>	<u>46,181,494</u>
<b>31-12-2016</b>								
	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
<b>Assets</b>								
Cash and deposits at central banks	224,158	-	-	-	634,321	-	-	858,479
Balances due from other banks	658,892	-	-	-	-	-	-	658,892
Financial assets held for trading	1,758,934	-	-	-	-	-	-	1,758,934
Available-for-sale financial assets	2	67,413	195,212	1,573,300	821,623	3,817,360	143,755	6,618,665
Loans and advances to credit institutions	66,792	4,583	31,969	440,202	2,033	22,734	-	568,313
Loans and advances to customers	313,396	2,004,310	3,326,351	6,778,775	5,874,672	17,206,129	-	35,503,633
Held-to-maturity investments	-	3,082	134,874	31,032	18,664	84,776	-	272,428
Hedging derivatives	32,700	-	-	-	-	-	-	32,700
Investments in associates	-	-	-	-	-	-	55,248	55,248
	<u>3,054,874</u>	<u>2,079,388</u>	<u>3,688,406</u>	<u>8,823,309</u>	<u>7,351,313</u>	<u>21,131,000</u>	<u>199,003</u>	<u>46,327,292</u>
<b>Liabilities</b>								
Resources of central banks	4,694	-	-	-	-	2,446,000	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	-	-	-	1,766,765
Resources of other credit institutions	694,210	728,902	828	1,537	201,539	400,000	-	2,027,016
Resources of customers and other debts	11,850,970	4,382,514	5,890,485	6,245,952	299,834	17,201	-	28,686,956
Debt securities	160	31,437	1,082,987	939,612	873,962	1,185,176	-	4,113,334
Hedging derivatives	81,655	-	-	-	-	-	-	81,655
Subordinated liabilities	-	4,308	570	1,140	1,141	10,450	-	17,610
	<u>14,398,454</u>	<u>5,147,161</u>	<u>6,974,870</u>	<u>7,188,241</u>	<u>1,376,476</u>	<u>4,058,827</u>	<u>-</u>	<u>39,144,030</u>

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

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

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- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as available-for-sale financial assets, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as available-for-sale financial assets) and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of trading assets and liabilities as the transactional value payable on demand;
- Operations relating to credit lines with defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;
- The projected flows relating to current accounts have been considered as payable on demand.

### **MARKET RISK**

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

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

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

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

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

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

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

- Limits intended to control the volume of potential future losses (VaR, equivalent positions and sensitivities); and
- Limits intended to control the volume of effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

As regards the structural interest-rate risk, the model used in the analysis allows measurement and control of all the factors associated with the market risk of the balance sheet, particularly the risk directly originated by the movement of the yield curve, given the existing structure of indices and repricing, which determine the sensitivity of net interest income and the sensitivity of the asset value of the balance-sheet instruments.

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**Interest-rate risk**

As at December 31, 2017 and 2016, the breakdown of the financial instruments by exposure to the interest-rate risk was as follows:

	31-12-2017				
	Exposure to		Non remunerated	Derivatives	Total
	Fixed rate	Floating rate			
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks	-	-	658,155	-	658,155
Financial assets held for trading	-	-	4,053	1,511,183	1,515,236
Available-for-sale financial assets	3,992,470	192,867	351,806	-	4,537,143
Loans and advances to credit institutions	288,704	497,128	40,535	-	826,367
Loans and advances to customers	8,094,066	31,976,135	(436,989)	-	39,633,212
Held-to-maturity investments	9,057	99,173	579	-	108,809
Hedging derivatives	-	-	-	15,349	15,349
	<u>12,384,297</u>	<u>33,516,655</u>	<u>906,341</u>	<u>1,526,532</u>	<u>48,333,825</u>
<b><u>Liabilities</u></b>					
Resources of central banks	3,080,538	-	-	-	3,080,538
Financial liabilities held for trading	-	-	-	1,533,760	1,533,760
Resources of other credit institutions	124,560	4,225,795	731	-	4,351,086
Resources of customers and other debts	18,806,798	13,201,228	129,442	-	32,137,468
Debt securities	3,526,087	1,128,572	(85,454)	-	4,569,205
Hedging derivatives	-	-	-	39,275	39,275
Subordinated liabilities	7,599	4,275	158	-	12,032
	<u>25,545,582</u>	<u>18,559,870</u>	<u>44,877</u>	<u>1,573,035</u>	<u>45,723,364</u>
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	653,759	224,158	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,175	1,755,759	1,758,934
Available-for-sale financial assets	5,146,990	157,728	118,238	-	5,422,956
Loans and advances to credit institutions	206,791	353,935	3,198	-	563,924
Loans and advances to customers	4,301,244	27,465,307	(314,215)	-	31,452,336
Held-to-maturity investments	9,678	234,276	-	-	243,954
Hedging derivatives	-	-	-	32,700	32,700
	<u>9,664,703</u>	<u>28,865,005</u>	<u>693,446</u>	<u>1,788,459</u>	<u>41,011,613</u>
<b><u>Liabilities</u></b>					
Resources of central banks	2,446,000	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,766,765	1,766,765
Resources of other credit institutions	1,092,997	930,208	174	-	2,023,379
Resources of customers and other debts	17,091,245	11,264,603	157,630	-	28,513,478
Debt securities	2,544,483	1,448,057	(67,138)	-	3,925,402
Hedging derivatives	-	-	-	81,655	81,655
Subordinated liabilities	7,599	4,275	159	-	12,033
	<u>23,182,324</u>	<u>13,647,143</u>	<u>95,519</u>	<u>1,848,420</u>	<u>38,773,406</u>

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As at December 31, 2017, the breakdown of the financial instruments by exposure to the interest-rate risk, by rate intervals, was as follows:

	Range of interest rates					Non remunerated	Derivatives	Total
	[ <1% ]	[ 1%-3% ]	[ 3%-5% ]	[ 5%-10% ]	[ >10% ]			
<b>Assets</b>								
Cash and deposits at central banks	751,352	-	-	-	-	288,202	-	1,039,554
Balances due from other banks	-	-	-	-	-	658,155	-	658,155
Financial assets held for trading	-	-	-	-	-	4,053	1,511,183	1,515,236
Available-for-sale financial assets	1,509	1,318,074	2,964,994	33,448	-	219,118	-	4,537,143
Loans and advances to credit institutions	639,570	145,015	-	1,247	1	40,535	-	826,367
Loans and advances to customers	13,803,654	18,049,948	6,180,425	1,438,036	610,046	1,233,296	-	41,315,403
Held-to-maturity investments	2,879	90,552	14,799	-	-	579	-	108,809
Hedging derivatives	-	-	-	-	-	-	15,349	15,349
	<b>15,198,964</b>	<b>19,603,588</b>	<b>9,160,217</b>	<b>1,472,731</b>	<b>610,047</b>	<b>2,443,938</b>	<b>1,526,532</b>	<b>50,016,016</b>
<b>Liabilities</b>								
Resources of central banks	3,076,000	-	-	-	-	4,538	-	3,080,538
Financial liabilities held for trading	-	-	-	-	-	-	1,533,760	1,533,760
Resources of other credit institutions	4,302,827	47,528	-	-	-	731	-	4,351,086
Resources of customers and other debts	29,387,453	2,170,685	264,254	185,618	16	129,442	-	32,137,468
Debt securities	1,858,144	2,794,015	2,500	-	-	(85,454)	-	4,569,205
Hedging derivatives	-	-	-	-	-	-	39,275	39,275
Subordinated liabilities	-	4,275	-	7,599	-	158	-	12,032
	<b>38,624,424</b>	<b>5,016,502</b>	<b>266,754</b>	<b>193,217</b>	<b>16</b>	<b>49,415</b>	<b>1,573,035</b>	<b>45,723,363</b>

Financial Instruments – non-trading

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

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;
- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;
- For each aggregate defined above the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and
- For each interval total flows of assets and liabilities are calculated, by difference between them and the interest-rate risk gap of each interval.

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

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the Asset Value, interest-rate increases entail a decrease of value in the intervals with positive gaps and an increase of value in the negative gaps. Interest-rate reductions have an opposite effect.

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*General assumptions of this Interest-rate sensitivity analysis*

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered and used to simulate the spot curve of the date of analysis with the underlying forward curve; and
- Characteristics of New Business (term, repricing, volumes, spread, index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at December 31, 2017 and 2016, the sensitivity of the asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2017		31-12-2016	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
<b>Assets</b>				
Cash and deposits at central banks	395	30,772	188	15,473
Available-for-sale financial assets	(332,156)	355,694	(375,220)	342,242
Loans and advances to credit institutions	(1,430)	409	(2,352)	5,666
Loans and advances to customers	(627,248)	578,901	(219,760)	106,788
Held-to-maturity investments	(848)	2,588	(1,066)	2,768
	<u>(961,287)</u>	<u>968,364</u>	<u>(598,210)</u>	<u>472,937</u>
Hedging derivatives	<u>169,730</u>	<u>(199,282)</u>	<u>50,534</u>	<u>(52,569)</u>
<b>Liabilities</b>				
Resources of central banks	(80,016)	37,533	(83,865)	28,801
Resources of other credit institutions	(14,387)	24,449	(3,159)	12,467
Resources of customers and other debts	(750,746)	650,832	(685,831)	377,920
Debt securities	(188,416)	185,303	(52,935)	25,754
Other subordinated liabilities	(841)	866	(953)	937
	<u>(1,034,406)</u>	<u>898,983</u>	<u>(826,743)</u>	<u>445,879</u>

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day;
- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution);
- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The decrease factor applied is determined periodically using the market-risk method;



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The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and
- Market date time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all interactions between the market factors, their volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using revaluation forms, nonlinear implicit effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the values of the VaR.

As at December 31, 2017 and 2016, the VaR associated with the interest-rate risk corresponded to:

	31-12-2017	31-12-2016
VaR Percentil 99%	(1)	(7)
VaR Weighted Percentil 99%	(1)	(3)

### Exchange-rate Risk

The profile defined for the exchange-risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury Area, so that the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.

As at December 31, 2017 and 2016, the detail of the financial instruments per currency was as follows:

	31-12-2017			Total
	Euros	US Dollars	Other currencies	
<b>Assets</b>				
Cash and deposits at central banks	1,033,618	1,960	3,976	1,039,554
Balances due from other banks	373,489	163,024	121,642	658,155
Financial assets held for trading	1,512,930	2,103	203	1,515,236
Available-for-sale financial assets	4,537,143	-	-	4,537,143
Loans and advances to credit institutions	726,613	78,897	20,857	826,367
Loans and advances to customers	39,184,885	41,745	406,582	39,633,212
Held-to-maturity investments	108,809	-	-	108,809
Hedging derivatives	10,995	4,354	-	15,349
Investments in associates	76,602	-	-	76,602
	<u>47,565,084</u>	<u>292,083</u>	<u>553,260</u>	<u>48,410,427</u>
<b>Liabilities</b>				
Resources of central banks	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,531,476	2,094	190	1,533,760
Resources of other credit institutions	4,271,833	29,603	49,650	4,351,086
Resources of customers and other debts	30,685,451	419,792	1,032,225	32,137,468
Debt securities	4,544,190	-	25,015	4,569,205
Hedging derivatives	37,495	1,765	15	39,275
Subordinated liabilities	12,032	-	-	12,032
	<u>44,163,015</u>	<u>453,254</u>	<u>1,107,095</u>	<u>45,723,364</u>

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	31-12-2016			Total
	Euros	US Dollars	Other currencies	
<b>Assets</b>				
Cash and deposits at central banks	867,703	3,834	6,380	877,917
Balances due from other banks	547,731	83,967	27,195	658,892
Financial assets held for trading	1,754,614	4,245	75	1,758,934
Available-for-sale financial assets	5,422,956	-	-	5,422,956
Loans and advances to credit institutions	518,610	6,964	38,350	563,924
Loans and advances to customers	30,941,773	469,867	40,695	31,452,336
Held-to-maturity investments	243,954	-	-	243,954
Hedging derivatives	27,800	4,900	-	32,700
Investments in associates	54,599	-	-	54,599
	<u>40,379,740</u>	<u>573,777</u>	<u>112,695</u>	<u>41,066,212</u>
<b>Liabilities</b>				
Resources of central banks	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,762,481	4,211	73	1,766,765
Resources of other credit institutions	1,993,737	23,499	6,143	2,023,379
Resources of customers and other debts	27,180,238	1,095,787	237,453	28,513,478
Debt securities	3,895,849	28,460	1,093	3,925,402
Hedging derivatives	79,551	2,104	-	81,655
Subordinated liabilities	12,033	-	-	12,033
	<u>37,374,583</u>	<u>1,154,061</u>	<u>244,762</u>	<u>38,773,406</u>

As at December 31, 2017 and 2016, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2017	31-12-2016
VaR Percentil 99%	(7)	(6)
VaR Weighted Percentil 99%	(4)	(3)

**Asset price risk****Financial Instruments – trading**

As at December 31, 2017 and 2016, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

**Offsetting financial assets and liabilities**

As at December 31, 2017 & 2016, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

Counter part	2017			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		Net Value
		Financial instrument	Collateral in cash received as collateral	
Financial institution	600	-	(620)	(20)
Group Companies	(1,279,832)	-	296,570	(983,262)
	<u>(1,279,232)</u>	<u>-</u>	<u>295,950</u>	<u>(983,282)</u>

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Counter part	2016			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		Net Value
		Financial instrument	Collateral in cash received as collateral	
Financial institution	2,060	-	(2,200)	(140)
Group Companies	(1,487,320)	-	200,000	(1,287,320)
	<u>(1,485,260)</u>	<u>-</u>	<u>197,800</u>	<u>(1,287,460)</u>

As at December 31, 2017 and 2016, the value repo transactions, by type of counterparty, is as follows:

Counter part	2017			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		Net Value
		Financial instrument	Collateral in cash received as collateral	
Financial institution	(2,710,621)	2,710,598	24,402	24,379
	<u>(2,710,621)</u>	<u>2,710,598</u>	<u>24,402</u>	<u>24,379</u>

Counter part	2016			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		Net Value
		Financial instrument	Collateral in cash received as collateral	
Financial institutions	(1,078,940)	1,078,980	37,734	37,774
	<u>(1,078,940)</u>	<u>1,078,980</u>	<u>37,734</u>	<u>37,774</u>

## 50. CAPITAL MANAGEMENT

BST seeks high financial solidity embodied in the maintenance of an own funds adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets – of more than 8%, corresponding to the statutory minimum established in Directive 2013/36/EU (CRD IV) and in Regulation (EU) n° 575/2013 (CRR), both of the European Parliament and of the Council of June 26, 2013 and framed in a new Basel Accord (BIS III).

The profit distribution policy is conditional on the maintenance of capital levels that allow the Bank to sustain the performance of its operations within its risk policy.

BST uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for leasing, factoring, manual operations and the portfolio of the former Banif and the BAPOP portfolio.

In December 2010, BST began to use the mixed method for the market risk, in particular internal models for the majority of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

(Translation of notes originally issued in Portuguese – Note 54)

(Amounts expressed in thousands of euros, unless otherwise expressly indicated)

In June 2012 BST began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

From January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier I CET1), in particular through additional deductions of higher weighting in the calculation of weighted-risk assets (or positions at risk).

The following table summarises the composition of BST's regulatory capital and capital ratios at consolidated level in December 2017 and 2016:

Amounts in millions of euros		
	Dec 17	Dec 16
	BIS III Phasing In	BIS III Phasing In
<b>A - BASE OWN FUNDS (TIER I)</b>	3,104	3,111
Share Capital	1,541	1,541
Reserves and Retained earnings (excluding Non-controlling interests)	1,694	1,634
Non-controlling interests	-	-
Deduction to base own funds	(131)	(64)
<b>B - COMPLEMENTARY OWN FUNDS (TIER II)</b>	12	0
Perpetual subordinated liabilities	12	12
Non-controlling interests	0	0
Other elements/deductions to complementary own funds	0	-12
<b>C-DEDUCTIONS TO OWN FUNDS</b>	0	0
<b>D - TOTAL OWN FUNDS (A+B+C)</b>	3,116	3,112
<b>E- ASSETS WEIGHTED BY RISK</b>	21,858	17,972
<b>CAPITAL RATIOS</b>	<b>dez 17</b>	<b>dez 16</b>
<b>TIER I (A/E)</b>	14.2%	17.3%
CORE CAPITAL	14.3%	17.3%
<b>TIER II (B/E)</b>	0.1%	0.0%
<b>CAPITAL ADEQUACY RATIO (D/E)</b>	14.3%	17.3%

51. RESOLUTION FUND

As part of its responsibility as supervision and resolution entity of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under article 145-G(5) of the General Credit Institutions and Financial Companies Regime ("RGICSF"), which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose. In accordance with Community rules, the capitalisation of Novo Banco was assured by the Resolution Fund, created by Decree-Law 31/2012, of February 10.

To pay up the Novo banco share capital, the Resolution Fund provided €4,900 million. Of this amount €365 million correspond to the own financial resources of the Resolution Fund. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a loan granted by the Portuguese State.

In December 2015, the Portuguese authorities decided to sell the greater part of the assets and liabilities associated with business of Banif – Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, SA, for €150 million, also within the framework of application of a resolution measure. This transaction involved public support estimated at €2,255 million that aimed to cover future contingencies, €489 million financed by the Resolution Fund and €1,766 million directly by the Portuguese State, as a result of the options agreed between the Portuguese authorities, the European institutions and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold. Within the context of this resolution measure, the Banif assets identified as problematic were transferred to an asset-management vehicle created for the purpose – Oitante, SA, the Resolution Fund being the sole holder of its share capital, through the issue of bonds representing the debt of the vehicle, in the amount of €746 million, with the guarantee of the Resolution Fund and counter guarantee of the Portuguese State.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

(Translation of notes originally issued in Portuguese – Note 54)

(Amounts expressed in thousands of euros, unless otherwise expressly indicated)

The resolution measures applied to BES in 2014 (process that gave rise to the creation of Novo Banco) and in 2015 to Banif created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as the risk of a possible insufficiency of resources to ensure that the liabilities would be met, in particular repayment of the short-term loans contracted.

It is against this background that, in the second half of 2016, the Portuguese government reached agreement with the European Commission for the alteration of the conditions of the funding granted by the Portuguese State and the participating banks to the Resolution Fund in order to preserve financial stability, by ensuring the conditions that give predictability and stability to the contributory effort made to the Resolution Fund. To this end, an addendum the Resolution Fund funding agreements was formalised, which introduces a number of amendments on repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that full payment of the Resolution Fund's liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Also on March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. The Lone Star Fund now holds 75% of the Novo Banco share capital, the remaining 25% being held by the Resolution Fund. Additionally, the approved conditions include a contingent capitalisation mechanism, pursuant to which the Resolution Fund, as shareholder, may be called upon to make payments in the event of materialisation of certain cumulative conditions related to: (i) the performance of a restricted set of Novo Banco assets and (ii) the evolution of the bank's capitalisation levels. Possible capital injections to be undertaken under this terms of this contingent mechanism are subject to an absolute ceiling of €3,890 million over a period of 8 years.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used.

In this connection, based on the information currently available, the understanding of the Board of Directors is that there is little risk that additional charges will arise for the Bank regarding the set of liabilities detailed above that are for the account of the Resolution Fund.

## 52. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on April 24, 2018.

## 53. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there was no event subsequent to December 31, 2017, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the reporting period.

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000 thousand, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

BANCO SANTANDER TOTTA, SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

(Translation of notes originally issued in Portuguese – Note 54)

(Amounts expressed in thousands of euros, unless otherwise expressly indicated)

54. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

## BANCO SANTANDER TOTTA, S.A.

## DEBT SECURITIES ISSUED AT DECEMBER 31, 2017 (NOTE 22)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet							
<b>Bonds issued</b>											
Popular 425 Europa Low-Vol	EUR	1,072	0	1,072	29	-	1,101	4.25%	13-May-2016	16-May-2019	Share price index
		<b>1,072</b>	<b>-</b>	<b>1,072</b>	<b>29</b>	<b>-</b>	<b>1,101</b>				
<b>Covered Bonds</b>											
Hipotecária XIII - 1ª	EUR	750,000	-	750,000	(2,695)	-	747,305	1.63%	11-Jun-2014	11-Jun-2019	Fixed interest rate
Hipotecária XIV	EUR	750,000	750,000	-	-	-	-	0.75%	04-Mar-2015	04-Mar-2022	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	467	-	750,467	0.88%	27-Oct-2015	27-Oct-2020	Fixed interest rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	-	0.84%	24-Feb-2016	24-Feb-2022	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	-	0.90%	15-Apr-2016	15-Apr-2023	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	-	0.65%	26-Jul-2016	26-Jul-2023	Fixed interest rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	-	-	-	1.20%	07-Dec-2017	07-Dec-2027	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	-	1.48%	10-Apr-2017	10-Apr-2027	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(3,753)	-	996,247	0.88%	25-Apr-2017	25-Apr-2024	Fixed interest rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(8,156)	-	991,844	1.25%	26-Sep-2017	26-Sep-2027	Fixed interest rate
		<b>7,700,000</b>	<b>4,200,000</b>	<b>3,500,000</b>	<b>(14,137)</b>	<b>-</b>	<b>3,485,863</b>				
<b>Bonds issued on securitization operations</b>											
Hipototta 4 - Classe A - Notes	EUR	629,550	404,148	225,402	(583)	-	224,820	Floating	09-Dec-2005	30-Dec-2048	Euribor 3m+0,12% (until early reimbursement in december 2014); Euribor 3m+0,24% (after early reimbursement date)
Hipototta 4 - Classe B - Notes	EUR	22,903	22,903	-	-	-	-	Floating	09-Dec-2005	30-Dec-2048	Euribor 3m+0,19% (until early reimbursement in december 2014); Euribor 3m+0,40% (after early reimbursement date)
Hipototta 4 - Classe C - Notes	EUR	72,334	38,683	33,651	1	-	33,652	Floating	09-Dec-2005	30-Dec-2048	Euribor 3m+0,29% (until early reimbursement in december 2014); Euribor 3m+0,58% (after early reimbursement date)
Hipototta 4 - Classe D - Notes	EUR	14,000	14,000	-	-	-	-	Floating	09-Dec-2005	30-Dec-2048	Residual return generated by securitized portfolio
Hipototta 5 - Classe A2 - Notes	EUR	578,638	399,681	178,957	(223)	-	178,735	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0,13% (until early reimbursement in february 2014); Euribor 3m+0,26% (after early reimbursement date)
Hipototta 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0,17% (until early reimbursement in february 2014); Euribor 3m+0,34% (after early reimbursement date)
Hipototta 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-Mar-2007	28-Feb-2060	Euribor 3m+0,24% (until early reimbursement in february 2014); Euribor 3m+0,48% (after early reimbursement date)
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0,50% (until early reimbursement in february 2014); Euribor 3m+1,00% (after early reimbursement date)
Hipototta 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+1,75% (until early reimbursement in february 2014); Euribor 3m+3,50% (after early reimbursement date)
Hipototta 5 - Classe F - Notes	EUR	6,856	6,856	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Residual return generated by securitized portfolio

## BANCO SANTANDER TOTTA, S.A.

## DEBT SECURITIES ISSUED AT DECEMBER 31, 2017 (NOTE 22)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet							
Atlantes Mortgage PLC - classe A	EUR	28,602	4,688	23,914	11	-	23,925	Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+0,54%;
Atlantes Mortgage PLC - classe B	EUR	22,500	-	22,500	46	-	22,546	Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+1,30%;
Atlantes Mortgage PLC - classe C	EUR	12,500	-	12,500	60	-	12,560	Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+2,60%;
Atlantes Mortgage PLC - classe D	EUR	2,500	-	2,500	23	-	2,523	Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+4,75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	-	Floating	13-Feb-2003	17-Jan-2036	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	6,747	1,387	5,360	-	-	5,360	Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 0,30%
Azor Mortgage PLC classe B	EUR	19,000	500	18,500	0	-	18,500	Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 0,76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	1	-	6,501	Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 1,75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	-	Floating	25-Nov-2004	20-Sep-2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	144,679	-	144,679	(19,032)	-	125,647	Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	-	Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	-	Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	-	Floating	05-Mar-2008	18-Sep-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	114,870	114,870	-	-	-	-	Floating	24-Jul-2008	14-Dec-2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	-	Floating	24-Jul-2008	14-Dec-2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	-	Floating	24-Jul-2008	14-Dec-2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	247,747	77,214	170,533	(13,396)	-	157,138	Floating	30-Oct-2008	20-Aug-2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	34,221	34,221	-	-	-	-	Floating	30-Oct-2008	20-Aug-2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	-	Floating	30-Oct-2008	20-Aug-2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	282,811	-	282,811	(38,444)	-	244,367	Floating	16-Feb-2009	30-Dec-2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	31,145	31,145	-	-	-	-	Floating	16-Feb-2009	30-Dec-2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	-	Floating	16-Feb-2009	30-Dec-2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	232,370	232,370	-	-	-	-	Floating	21-Dec-2009	23-Nov-2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	41,174	41,174	-	-	-	-	Floating	21-Dec-2009	23-Nov-2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	66,250	66,250	-	-	-	-	Floating	21-Dec-2009	23-Nov-2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	181,833	181,833	-	-	-	-	Floating	19-Nov-2010	23-Aug-2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	33,790	33,790	-	-	-	-	Floating	19-Nov-2010	23-Aug-2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	63,550	63,550	-	-	-	-	Floating	19-Nov-2010	23-Aug-2066	Residual return generated by securitized portfolio
		<b>3,249,292</b>	<b>2,121,485</b>	<b>1,127,808</b>	<b>(71,535)</b>	-	<b>1,056,273</b>				
<b>Other</b>											
Banif Senior Tx Fixa 2015/2018	USD	25,015	-	25,015	222	-	25,237	2.50%	26-Feb-2015	26-Feb-2018	Fixed interest rate
Euro medium Term Note-37 <sup>a</sup>	EUR	212	-	212	1	-	213	0.75%	09-Aug-2016	09-Aug-2019	Fixed interest rate
Euro medium Term Note-38 <sup>a</sup>	EUR	517	-	517	1	-	518	0.75%	29-Sep-2016	29-Sep-2019	Fixed interest rate
		<b>25,744</b>	-	<b>25,744</b>	<b>224</b>	-	<b>25,968</b>				
		<b>10,976,108</b>	<b>6,321,485</b>	<b>4,654,624</b>	<b>(85,419)</b>	-	<b>4,569,205</b>				



BANCO SANTANDER TOTTA, S.A.SUBORDINATED LIABILITIES AT DECEMBER 31, 2017 (Note 25)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual			Total	Interest Rate	Maturity	Early repayment as from:
		Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Consolidated Balance sheet			
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	270,447	-	109	109	-	-	2.14%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	73	73	-	-	1.48%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	-	4,275	23	-	23	4,298	1.48%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5%	EUR	7,599	-	7,599	135	-	135	7,734	7.50%	Perpetual	October 6, 2026
		<b>296,139</b>	<b>284,265</b>	<b>11,874</b>	<b>340</b>	<b>182</b>	<b>158</b>	<b>12,032</b>			





## ***Statutory Audit Report and Auditors' Report***

***(Free translation from the original in Portuguese)***

### ***Report on the audit of the consolidated financial statements***

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Banco Santander Totta, S.A. ("Group" or "Bank"), which comprise the consolidated balance sheet as at 31 December 2017 (which shows total assets of Euro 50.642.034 thousand and total shareholders' equity of Euro 3.661.546 thousand including a net profit of Euro 421.157 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A. as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Emphasis***

On 20 December 2015, the Board of Directors of Bank of Portugal (BdP) deliberated to approve, under articles 145<sup>o</sup>-M and following and 145<sup>o</sup>-S and following, of the Regime Geral das Instituições de Crédito e Sociedades Financeiras ("RGICSF"), the application of a resolution measure in the form of partial sale of activity, transferring to Bank Santander Totta, S.A. all rights and obligations related with assets, liabilities, off-balance elements and assets under management of Banif – Banco Internacional do Funchal, SA ("Banif"), identified in annex 3 of referred resolution ("transaction"). For the preparation of the consolidated financial statements of the Group on 31 December 2017, the Board of Directors took in consideration the above mentioned resolution, as well as the understandings and additional information, which were communicated by Bank of Portugal and reflected on their deliberation on 4 January 2017. In this respect, as mentioned in Notes 1.3 n) and 17 of the Annex to the consolidated financial statements, the Bank did not recognize in its consolidated financial statements

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the deferred tax asset relating to tax losses of Banif transferred to the Bank under by virtue of the fact that up to this date the conditions necessary for the recognition of this asset have not been fully assured.

Our opinion is not modified in respect of this matter.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key Audit Matter</b>	<b>Summary of the Audit Approach</b>
<p><b>Impairment losses on loans and other accounts receivable</b></p> <p><b>Measurement and disclosures related to impairment losses on loans and other accounts receivable presented in the annex notes 1.3 c), 2, 10, 23 and 49 of the consolidated financial statements</b></p> <p>The significant amounts of loans and other accounts receivable, as well as the impairment losses, which calculation requires the application of a set of complex assumptions and judgments on the part of the Bank's Management regarding the identification of both the moment of recognition and the corresponding amount, justify that it has constituted a key audit matter for the purposes of our audit. On 31 December 2017, the gross amount of these items amounted to Euro 41.374.077 thousand and the impairment losses, recorded at that date amounted to Euro 1.740.865 thousand.</p> <p>Impairment losses are determined by the Bank's management on an individual basis, through an individual analysis of a significant part of the total loan portfolio and other accounts receivable. For the remaining portfolio, impairment is determined through collective analysis. This process is summarized as follows:</p> <ul style="list-style-type: none"><li>• For the corporate credit segment, the Bank develops a process of individual analysis of clients that present more significant exposure, assessed in terms of the amount of their liabilities, the existence of signs of default and their risk classification under the terms established by the Bank. In these cases, impairment is</li></ul>	<p>The audit procedures we developed include the understanding and review of processes and controls established by the Bank for approval, registration and monitoring of loans and advances to customers and other receivables, as well as the evaluation of methodologies, data and assumptions adopted by management in calculating the corresponding impairment losses. These procedures included, among others, detailed testing of key controls and credit risk management procedures by the Bank, with particular emphasis on underlying internal controls in a timely identification, recording and correct measurement of impairment losses.</p> <p>In this context, we have tested the design and operational effectiveness of key controls instituted by the Bank to identify clients with signs of impairment or in default and to determine the corresponding impairment losses. The key procedures and controls tested include those related to: (i) timely identification of customers with signs of impairment or in default; (ii) the conversion of data from the basic IT systems to the models for calculating impairment and results from these for the Bank's consolidated financial statements; (iii) the actual recalculation of the model of impairment defined by the Bank, including inputs and assumptions of management; (iv) the estimate of the recoverable value of the collaterals; and (v) the internal governance associated with the process of calculating and approving impairment losses.</p>

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**Key Audit Matter**

determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimate of cash flows that may in the future be generated by the client for the fulfillment of the responsibilities; (ii) the valuation of the collateral received for the credit concession, whenever anticipation of its recovery through the delivery / execution of these collaterals.

- For the remaining segments of the loan portfolio, and for exposures not covered by the individual analysis, the Bank developed and applied a collective analysis model to determine impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of that group are estimated based on the contractual flows of these assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions.

- For credits that default occurred before the end of the year, but not yet identified by the Bank ("incurred but not reported"), impairment losses are recognized using models based on probabilities of default and loss, considering an emergent period (6 months in the case of the Bank) between the date of occurrence of the default event and its identification under analysis.

With the entry into force of IFRS 9 - Financial instruments, for the years beginning on or after 1 January 2018, the Bank initiated during 2017 a detailed plan for the implementation of this new standard, bearing in mind that the new rules are applicable retrospectively as of that date, although their comparative balances are not restated. The implementation of IFRS 9 introduces a set of new requirements and it is expected that most of its impacts will be derived from the measurement and recognition of impairment of financial assets to be determined through an expected loss model to the detriment of the model of incurred losses underlying the IAS 39.

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**Summary of the Audit Approach**

Additionally, on a sample basis, we analyzed a number of clients (including some that were not identified by Management as having signs of impairment and / or being in default), with the objective of obtaining our own judgment on the existence of evidence regarding impairment losses, and to assess how impairment losses were identified and recognized by management in a timely manner.

Regarding the clients individually analyzed by the Bank, for a representative sample of the customer loan portfolio as of 31 December 2017, the procedures developed consist of: (i) reviewing the documentation associated with the credit concession process; (ii) analyze the contractual support and the most relevant collaterals, and confirm the registration of these collaterals in favor of the Bank; (iii) question the evaluations of collateral that were available; (iv) assess the evolution of exposures; And (v) understand the views of Bank managers regarding the economic and financial situation of the clients and the predictability of expected cash flows of the clients' business, as well as the prospects of collectability of credits. Whenever we conclude from the need to review some input or assumption used by Management, we proceeded to a new calculation of the amount of impairment and compared the results in order to assess the existence of any discrepancies.

For the portfolio whose impairment is assessed through the collective analysis model, we tested a sample of inputs from the model implemented by the Bank and evaluated the calculation methodology itself. To this end, we have developed a set of specific procedures to evaluate how the assumptions considered by management include all of the risk variables by comparison to the performance history and recoveries of the Bank's loan portfolio, macroeconomic conditions to which each client is exposed.

In this context, we have developed the following procedures: (i) to assess the information contained in the loan portfolio 31 December 2017 and the historical data considered in the model; (ii) review and test the segmentation and classification of the credits as to the existence of signs of impairment or non-compliance; (iii) review and test the risk parameters used in the calculation of impairment, estimated by the Bank for each segment; (iv) analyze the main assumptions and sources of information used in future recoveries incorporated in the determination of the risk

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**Key Audit Matter**

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**Summary of the Audit Approach**

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parameters (by sampling); (v) review and test the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) review and analyze if the results of calibration tests performed by the Bank are adequate.

With regard to the implementation of IFRS 9 - Financial instruments, we have followed and challenged the Bank's action plan, with a focus on measuring and recognizing credit impairment. In this sense, we have developed, among others, the following procedures:

- Regular meetings with Management and with those responsible for the implementation plan to understand and monitor the timing, scope and depth of the work planned and the progress already achieved;
- Understanding the areas where a greater impact from implementation will be expected on 1 January 2018, bearing in mind the accumulated knowledge we have of the Bank's activities and practices;
- Reading and analyzing the methodological documents for adoption of IFRS 9 prepared by the Bank, its adherence to the principles of said standard and preliminary assessment of the estimated impacts.

Our auditing procedures also included a review of the disclosures on impairment of customer credit and other receivables as well as on the implementation of IFRS 9 in the explanatory notes, taking into account the applicable accounting standards.

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**Provisions and contingent liabilities****Measurement and disclosures related to provisions and contingent liabilities presented in the annex notes 1.3 1), 2 and 23 of the consolidated financial statements**

On 31 December 2017, the balance of Provisions amounted to Euro 167.550 thousand, and is intended to cover liabilities, in particular to the post-employment benefits specific to some members of the Bank's Board of Directors, restructuring plans, tax contingencies, legal proceedings in progress and other specific risks arising from the Bank's activities, as well as situations associated with the acquisition of a significant part of Banif's activity in 2015. The determination of these provisions implies that the Bank's Management has to make complex estimates

The audit procedures for this matter included the understanding and evaluation of the processes and key controls established by the Bank with regard to the approval, registration and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted by the Administration in the assessment and quantification of contingencies and in the eventual recognition of provisions.

In this context, we have tested the design and operational effectiveness of key controls established by the Bank to enable proper identification, evaluation, provisioning and disclosure of these matters. In view of the relevance of the judgments required of Management, we examined in detail the

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***Key Audit Matter***

and judgments about the likelihood of materialization and quantification of the amounts of liabilities that may result from the litigation and contingencies to which the Bank is a party and to that extent this was a matter considered relevant for the purposes of our audit.

***Summary of the Audit Approach***

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ongoing litigation. In that respect we have confirmed the existence of the litigation and its processual status with the Bank's external lawyers, we reviewed the most significant provisions and, where necessary, sought additional audit evidence when deemed necessary.

We appreciated the Bank's assessment of the nature and status of existing litigation proceedings and the corresponding provisions, where applicable, and discussed with the Bank's legal counsel the bases and grounds for setting the most significant provisions. For some of these situations, we have also confirmed the information gathered with the Bank's external counsel who accompany each case.

We have also analyzed the information available on the developments that occurred after 31 December 2017 on the most relevant litigation.

Our audit procedures have also included the revision of the disclosures on provisions and contingent liabilities in the explanatory notes, taking into account the applicable accounting standards.

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***Financing of the Resolution Fund*****Disclosures related to the Resolution Fund presented in the annex notes 40 and 51 to the consolidated financial statements**

The resolution measures applied in 2014 to Banco Espírito Santo, SA (process that led to the creation of Novo Banco, S.A. ("Novo Banco")) and in 2015, regarding to Banif, created uncertainties related to the possible insufficiency of resources of the Resolution Fund ("Fund") in order to ensure the fulfillment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the litigation arising from these settlement measures and the recent developments associated with the process of selling Novo Banco to the Lone Star Fund, namely the contingent capitalization mechanism associated with the sale operation, under which the Resolution Fund, as a shareholder of Novo Banco, may be called upon to make capital injections in the event of certain cumulative conditions, related to: (i) the performance of a restricted set of assets of Novo Banco; and (ii) the evolution of its capitalization levels.

The audit procedures include:

- Understanding and reviewing the contributions that may be required from participating banks, in light of Decree-Law no. 24/2013, of 19 February, and the clarifications provided by the entities involved;
  - Consideration of the impact of the restructuring of the financing granted by the Portuguese State and the participating banks to the Resolution Fund, specifically in the debt service by the Resolution Fund, considering for this purpose the significant extension of the maturity periods established in restructuring;
  - Analysis of the various public announcements made by the Resolution Fund and the Office of the Minister of Finance related to the Resolution Fund and the resolution measures, as well as the process of selling Novo Banco;
  - Analysis of the evolution of the Bank's exposures to the Resolution Fund as well as an understanding of the Bank's views on the Fund's economic and financial situation and the predictability of expected cash flows from its regular revenues; and
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**Key Audit Matter**

At the beginning of 2017, the Resolution Fund publicly communicated the contractual review of the financing it contracted with the Portuguese State and the participating banks to adjust and match the terms and conditions associated with such financing, in particular the extension of the repayment term, to ability of the Resolution Fund to fully meet its obligations on the basis of its regular revenues, i.e. without charge, to the banks participating in the Resolution Fund, of special contributions or any other extraordinary contribution. The evaluation of this capacity and consequently of the risk of impairment of the Bank's financing to the Fund was based on a set of assumptions and estimates whose future evolution requires continuous monitoring.

In the context of the review of financing contracted with the Portuguese State and the participating banks, the *pari passu* treatment of the Resolution Fund's obligations arising from these loans was also ensured.

In March 2018, Novo Banco informed that the contingent capital mechanism associated with the sale transaction to the Lone Star Fund was activated, which implies an injection by the Resolution Fund of Euro 791.7 million, in order to ensure that Novo Banco remains adequately capitalized.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate in which the Bank is included, and the public notices made by the Resolution and by the Office of the Minister of Finance which state that this possibility will not be used, the consolidated financial statements as of 31 December 2017 reflect Management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank to finance the resolution measures applied to BES and Banif, as well as the contingent capitalization mechanism associated with the sale of Novo Banco to the Lone Star Fund.

In these circumstances, the possibility that banks participating in the Resolution Fund will be called upon to make extraordinary contributions to the Fund is a concern for the Bank and for the banking sector in general, and to that extent the future evolution of this issue requires close monitoring on our part so that

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**Summary of the Audit Approach**

- Holding meetings with the Bank's Management to monitor available information on (i) the outcome of legal actions in progress related to said resolution measures; and (ii) the contingent capitalization mechanism associated with the sale of Novo Banco to the Lone Star Fund and the liabilities assumed by the Resolution Fund under this transaction.

Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, specifically on the financing of the Resolution Fund, included in the explanatory notes, taking into account the applicable accounting standards.



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**Key Audit Matter****Summary of the Audit Approach**

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this was a material considered relevant for the purposes of our audit.

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**Employees' post-employment benefits****Measurement and disclosures related to employees' post-employment benefits presented in annex notes 1.3 m), 2 and 45 of the consolidated financial statements**

On 31 December 2017, the Bank's liabilities related with employees' post-employment benefits plan amounted to Euro 1.313.225 thousand, mainly covering pension and retirement benefits, health care and death benefits, among others in the Acordo Coletivo de Trabalho ("ACT") for the banking sector.

These liabilities are estimated based on actuarial valuations performed by an external actuary certified by the Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF"). These evaluations incorporate a set of financial and actuarial assumptions, namely the discount rate, inflation rate, mortality tables, pension and wages growth rates, among others, which correspond to the characteristics of the employees' benefits, and current and future behavior of these variables. In the specific case of the discount rate used in actuarial studies, it is determined based on the market rates for bonds of entities with high credit risk denominated in the currency in which the benefits will be paid (euros) with maturity similar to the date of expiration regarding the payment of the benefits within the plan.

In this context, future changes in the financial and actuarial assumptions used may give rise to material impacts on the net liabilities and assets associated with these benefits, and this issue was considered a material matter for the purposes of our audit.

The audit procedures include the identification and appraisal of the processes and key controls established by the Bank to ensure the information collected and provided to the independent actuary is correct and complete to calculate the liabilities and financing needs of the plan. In this context, we also tested the key controls instituted by the Bank to ensure that the process of assessing the fair value of the fund assets, actuarial assumptions and evaluation is adequate.

Our work included meetings with management and independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. In view of the relevance of the judgments required of Management, we proceeded to evaluate the reasonableness of the main assumptions by comparing them with the data that, independently, we were able to obtain.

Also in this scope, we review the compliance (i) of information history of employees used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or settlements, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating it, whenever possible, independently for a sample of assets.

Finally, we evaluated the existence of potential new benefits granted to employees that could classify as long-term post-employment benefits.

Our audit procedures also included the review of the disclosures on employees' post-employment benefits included in the explanatory notes, taking into account the applicable accounting standards.

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**Fair value of financial instruments not quoted on an active market****Measurement and disclosures related to the fair value of financial instruments not quoted on an active market presented in annex notes 1.3 f) and g), 2, 7, 8, 12 and 49 of the consolidated financial statements**

The audit procedures include the identification and evaluation of the processes and key controls established by the Group to identify, quantify and monitor market risk, as well as evaluation of the methodologies, data and assumptions used to

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**Key Audit Matter**

Due to its relevance in the context of the Bank's consolidated financial statements and the associated level of judgment, the fair value measurement of financial instruments not quoted in an active market was a relevant matter for the purposes of our audit.

These instruments include securities classified as financial assets held for trading and available for sale, derivatives classified as hedging and trading instruments, assets and liabilities subject to value adjustments for hedge accounting, namely client loan portfolio, deposits and other loans and liabilities represented by securities. On 31 December 2017, the balances in the financial instruments related with levels 2 and 3 of the fair value hierarchy or subject to value adjustments related with hedge accounting amount to Euro 6.637.957 thousand of assets and Euro 2.939.937 thousand of liabilities.

When observable market data is not available, fair value determination is made using estimates (levels 2 and 3 of the fair value hierarchy), in particular through the use of discounted cash flow models, which usually involve a high degree of judgment of the Management in the definition of the assumptions and inputs to be used.

In addition, the Bank recognizes adjustments to own credit risk and counterparties in the measurement of derivatives not fully collateralized ("DVA - Debit Value Adjustments" and "CVA - Credit Value Adjustments"), which are estimated based on projections of potential exposures or on the amount which would be received or paid to settle the contract on the date of analysis, considering the current market conditions, as well as the credit quality of the participants, which is estimated based on quotations published in active markets when available, or, in their absence, calculated internally by the Bank through its internal risk rating model.

In this context, changes in the assumptions used in the measurement techniques used by Management may give rise to material impacts on the determination of the fair value of the instruments recognized in the consolidated financial statements.

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**Business acquisition – acquisition and merger of Banco Popular Portugal S.A.****Measurement and disclosures related to the impact of the acquisition of Banco Popular**

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**Summary of the Audit Approach**

determine fair value. In this context, the processes and key controls tested include (i) the conversion of data from the basic IT systems to the fair value measurement models and their results into the Bank's consolidated financial statements; (ii) recalculation of the fair value measurement models implemented by the Bank, including the inputs and assumptions of Management; and (iii) internal governance practices in the approval and fair value determination process.

For a sample of instruments whose measurement consisted substantially of unobservable data, our procedures also included the evaluation if the models developed by the Bank and the data and assumptions used are adequate, having for that purpose compared the data observable with the information collected from external and independent sources, whenever available.

We also evaluated the methodology and data used by Management to determine the adjustments to own credit risk and counterparty risk recorded for the not fully collateralized derivatives operations, and compared the amounts calculated with current market practices also taking into account our experience of the best market practices in this area.

Our audit procedures have also included the review of the fair value disclosures of financial instruments not quoted on an active market in the explanatory notes, taking into account the applicable accounting standards.

The audit procedures we have carried out included: (i) the evaluation and critical analysis of the judgments,

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**Key Audit Matter****Summary of the Audit Approach**

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**Portugal S.A. to Banco Popular Español S.A. and subsequent merger with Banco Santander Totta S.A., in annex notes 1.4 and 27 of the consolidated financial statements**

Following the acquisition of Banco Popular Español, SA by Banco Santander, SA, on 7 June 2017, resulting from the application of a resolution measure approved by the Single Resolution Mechanism, the Bank concluded, on 27 December 2017, the acquisition of Banco Popular Portugal SA ("Banco Popular Portugal") to Banco Popular Español SA.

Subsequently, and with reference to the same date, the Bank proceeded with the merger by incorporation, under which Banco Popular Portugal was legally incorporated, including all its assets and liabilities. Both operations were, in accounting terms, reflected in the Bank's consolidated financial statements as of 31 December 2017.

The purchase price allocation was prepared internally based on the information obtained by the Bank's Management up to the date of approval of its consolidated financial statements. Under IFRS 3 - Business combinations, the Bank made a definitive allocation of the purchase price based on the fair value of the assets and liabilities reported at the date of acquisition.

The process of allocating the purchase price required a set of judgments, assumptions and estimates from Management and to that extent was a key matter for the purposes of our audit.

assumptions and estimates assumed by the Bank's management in the allocation of the purchase price, as provided for in IFRS 3; (ii) assessing the adequacy of the models used to determine the fair value of assets and liabilities, including the inputs and assumptions used; and (iii) the revision of the main adjustments made to the value of assets acquired and liabilities assumed on 27 December 2017.

In this context, we met with the Bank's Management to evaluate the options considered in defining the assumptions relevant to the calculation of the fair value of the assets acquired and liabilities assumed by the Bank and, given the relevance of the judgments required of Management, comparing them with the market information collected from external and independent sources that we were able to obtain.

Our audit procedures also included the review of the disclosures on the acquisition and merger of Banco Popular Portugal, S.A., included in the Notes to the financial statements, taking into account the applicable accounting standards.

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**Responsibilities of management and supervisory board for the consolidated financial statements**

Management is responsible for:

- a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
- b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria; and
- e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;
- g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and
- i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

### ***Report on other legal and regulatory requirements***

#### ***Director's report***

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

#### ***Non-financial information set forth in article No. 508-G of the Portuguese Company Law***

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity stated in its Director's report that it will prepare a separate report of the Director's report that will include the non-financial information set forth in article No. 66-B of the Portuguese Company Law, which should be published on its website until the legal deadline.

### **Corporate governance report**

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

### **Additional information required in article No. 10 of the Regulation (EU) 537/2014**

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

- a) We were first appointed auditors of Banco Santander Totta, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018.
- b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.
- c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 27 April 2018.
- d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

27 April 2018

PricewaterhouseCoopers & Associados  
- Sociedade de Revisores Oficiais de Contas, Lda.  
represented by:

Aurélio Adriano Rangel Amado, R.O.C.