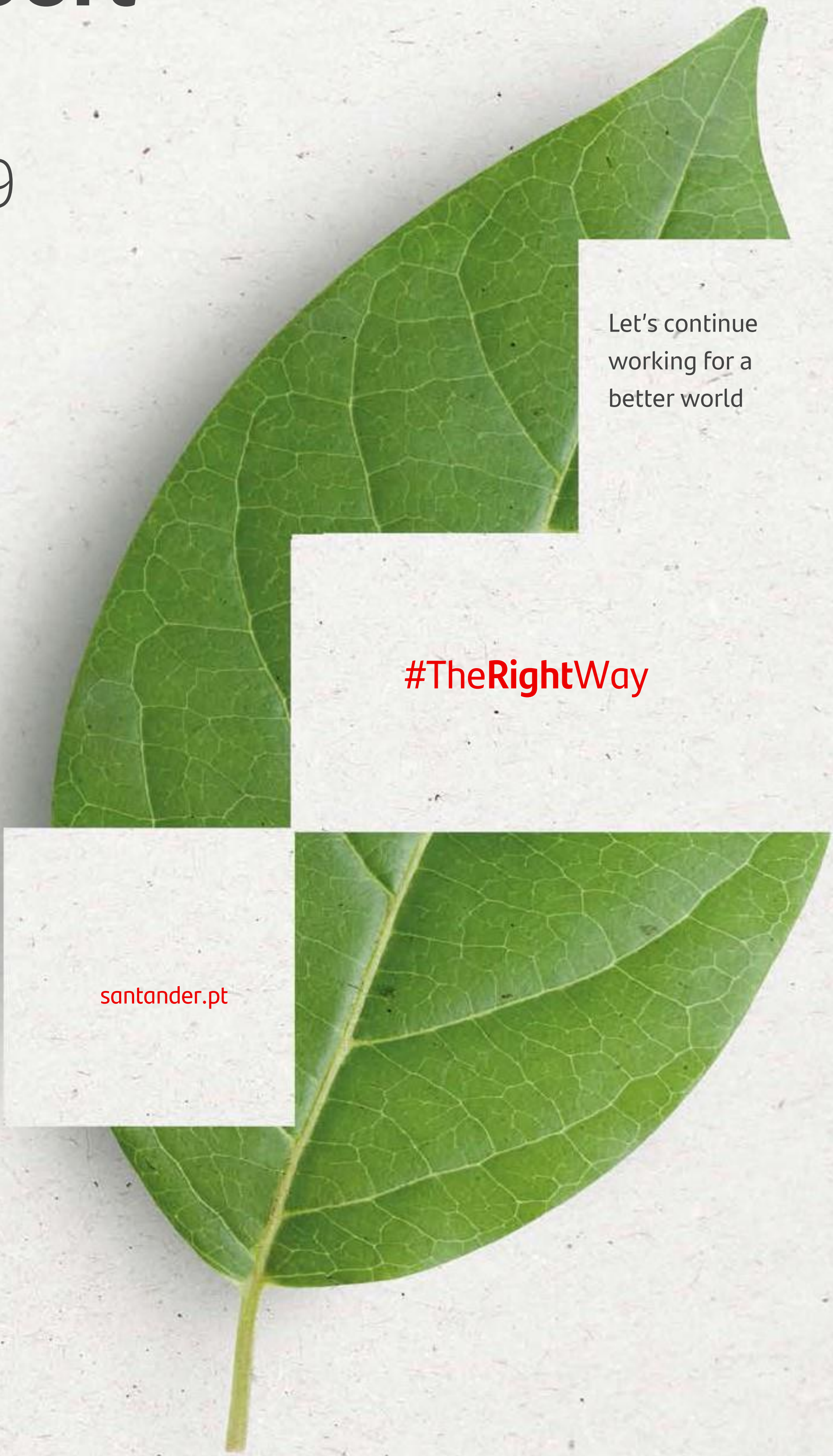
Proposal

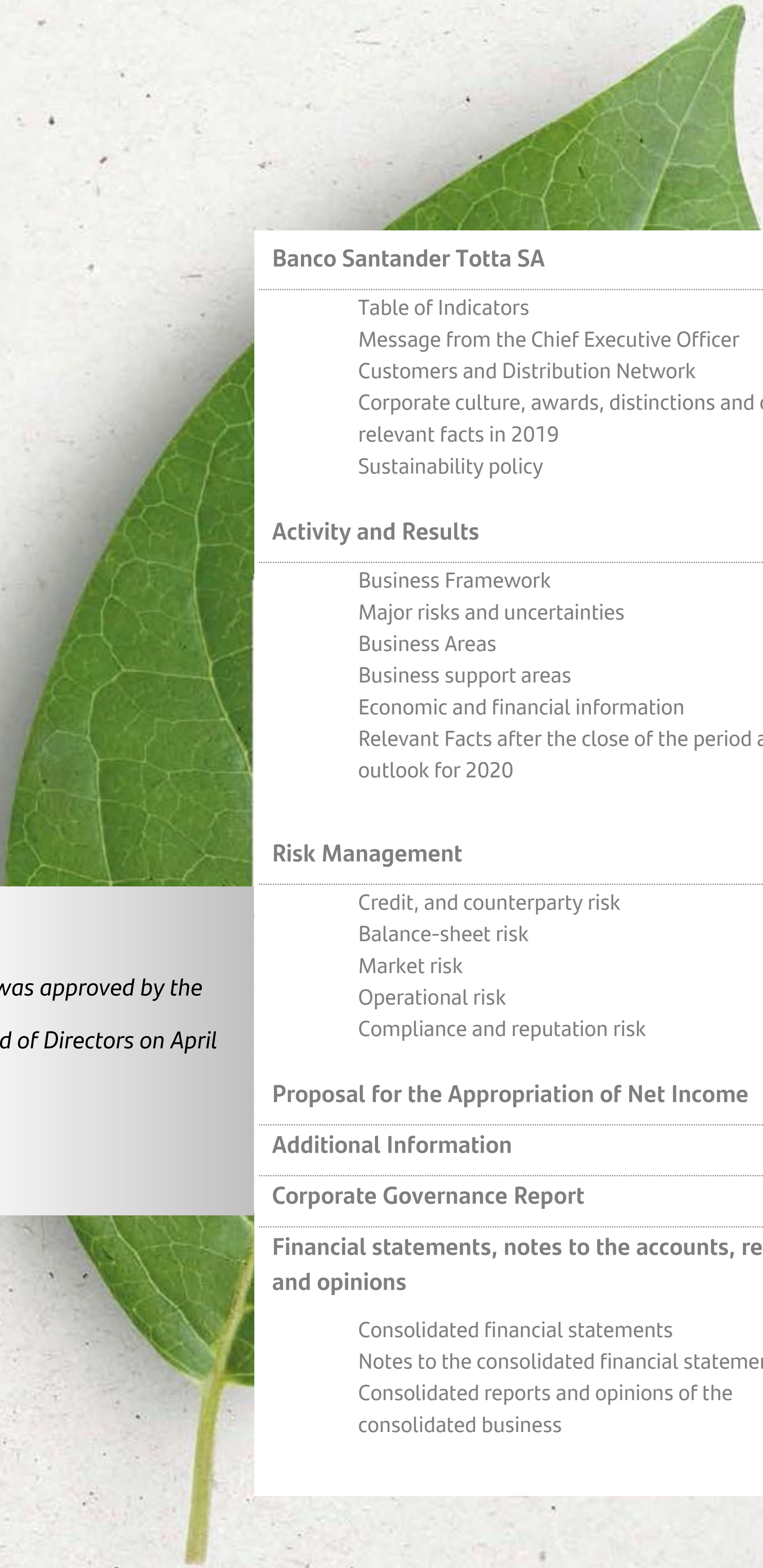
Annual Report

2019



Banco Santander Totta SA

Santander



Banco Santander Totta SA

This report was approved by the Bank's Board of Directors on April 21, 2020

Banco Santander Totta, SA
Rua do Ouro, 88 – 1100-063 Lisbon
Share Capital: €1,256,723,284
Registered at the Lisbon Registry of Companies under number single registration and VAT number 507 096 851
LEI: 549300URJH9VSI58CS32

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	2019	2018	Var.
Total Net Assets	52,305	51,281	+2.0%
Loans and advances to customers (net) [1]	39,340	39,629	-0.7%
Customers' Resources	43,174	40,538	+6.5%
Total shareholders' equity	3,635	3,552	+2.3%
Net Interest Income	854.5	866.7	-1.4%
Net Fees and other operating results	362.6	359.1	+1.0%
Net Income from Banking Activities	1,293.1	1,217.0	+6.3%
Net Operating Income	698.4	602.2	+16.0%
Income before taxes and non-controlling interests*	698.2	642.2	+8.7%
Consolidated net income attributable to the shareholders of BST	489.5	470.0	+4.1%

RATIOS	2019	2018	Var.
ROE	13.8%	12.8%	+1.0 p.p.
ROA	0.9%	0.9%	+0.0 p.p.
Efficiency ratio	46.0%	50.5%	-4.5 p.p.
CET I ratio** (phasing-in)	15.1%	13.6%	+1.5 p.p.
Tier I** ratio	15.1%	13.6%	+1.5 p.p.
Capital** ratio	17.3%	13.7%	+3.6 p.p.
Non-Performing Exposure Ratio	3.3%	4.2%	-0.9 p.p.
Non-Performing Exposure coverage ratio	53.1%	51.0%	+2.1 p.p.
Cost of credit	(0.02%)	0.01%	-0.02 p.p.
Loans-to-deposits ratio (transformation ratio)	109.8%	116.9%	-7.1 p.p.

RATING	2019	2018
FitchRatings	BBB+	BBB+
Moody´s	Baa3	Baa3
Standard & Poor´s	BBB	BBB-
DBRS	A	A

Other Data	2019	2018	Var.
Employees	6,183	6,416	-233
Employees in Portugal	6,145	6,377	-232
Branches	542	572	-30
Total Branches and Corporate Centers in Portugal	532	562	-30

* Excludes non-recurrent results

** Fully implemented with results net of payout

*** *Headcount criteria*

[1] Includes other balances receivable at amortised cost

Note: For the purposes of greater comparability of the information, at 2018 values, a reallocation of the corrections of assets and liabilities included in hedging operations that affected some balance sheet items, namely credit and total assets and liabilities, was made. Likewise, some accounting concepts were relocated between different items in the 2018 profit and loss account, for greater comparability with the 2019 accounts, which is shown in the table "Impact, by concept, of the reclassifications in 2018", in the " Economic and financial information "(p. 35).

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholders,

Banco Santander Portugal ended 2019 with a net income of €489.5 million. Net income from banking activities grew by 6%, efficiency ratio amounted to 46%, and the cost of risk was very subdued.

We supported the development of Portuguese households and companies: we have a 19% market share of new mortgage-loan production and of loans to businesses (average for the year) and, on a daily basis, we have developed technological solutions to provide our customers with faster, intuitive and simple access to our services.

We offer our employees the best working conditions, because we know that our team comprises the best professionals of the sector. We again obtained confirmation by *Great Place to Work* that we are the best bank to work for in Portugal.

We have invested over €7 million in our Community. We support 330 associations connected with education, protection of minors, financial literacy, health, disability, social inclusion and care for the elderly, with a direct impact on more than 28,000 beneficiaries.

We ensured our sustainability, delivering value to our shareholders, with a RoE of 13.8%, above the cost of capital.

The quality and strength of our Bank are recognized. We received the distinction as "Best Bank in Portugal" by *Euromoney*, *The Banker* and *Global Finance*. We were considered the "Bank with Best Reputation" by *Marktest*, *OnStrategy* and *Merco*. We have the best ratings of Portuguese banking, often better than those of the Portuguese Republic.

This is our permanent commitment, we want to do things the right way, always acting in a Simple, Personal and Fair way.

For all this we are proud of belonging to Santander Portugal.

Postscript

The beginning of 2020 was unexpectedly marked by the calamity caused by the Covid-19 disease, which caused an emergency in public health and in the Portuguese and international economy.

In this connection, in March we suffered the loss of António Vieira Monteiro (Chairman of the Board of Directors), who was decisive for the success of Banco Santander in Portugal and left us a legacy of competence, rigour and independence.

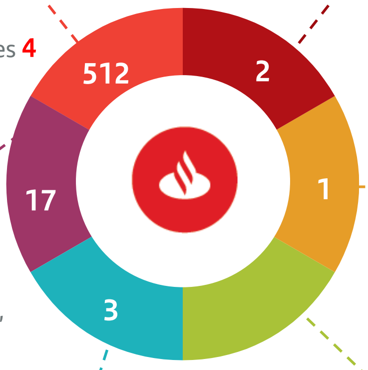
Santander Portugal will rise to any challenge brought by 2020. And our determination will also be our tribute to António Vieira Monteiro.

Pedro Castro e Almeida

CUSTOMERS AND DISTRIBUTION NETWORK

Conventional Netwo

- Individuals & Business Branches **475**
- Private Centres: **8**
- Business centres: **22**
- Large Corporate and Institutional: Centres **4**



Work Cafe

- In Lisbon, Coimbra and Espinho
- Focus on customer service
- Cafeteria, reading and co-work area
- Support rooms

Smart Red

- Areas differentiated by segment: *Full Concept, Agile and Basic*
- Focus on customer service: self-banking, multi-channel, availability

Money Club

- Nova SBE University
- Space 100% dedicated to students

Channels

- *NetBanco* (Individuals and Companies)
- ATM Park **2.100**
- Available Apps **4**

"Próximo" Branch

- **100%** digital
- Monitoring by remote/digital manager

Customer Centre

- Several areas of analysis indicated by customers
- 10 projects through various analysis methods
- More than 100 participants, including customers, non-customers and employees

Differentiated products and **focus on customer experience** as customer-base growth factors

Active Customers	Main Bank Customers	Digital Customers
1,709k	778k	775k
+1.0%	+2.6%	+5.6%

Ongoing Digital transformation, focusing on simplification and provision of digital solutions

45% of digital customers

35% of sales via digital channels

4.5 million transactions via digital channels (monthly average).

Optimization of work methods and simplification of internal processes, allowing better customer experience.

Process Simplification

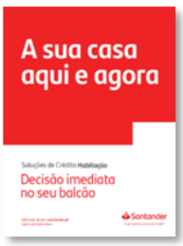
Agile workplace – New physical work spaces, aiming to enhance the collaborative capabilities through a methodology of interdisciplinary work teams.

RPA (Robotic Process Automation) – Task automation using robotics as leverage.

- 35 processes automated via robotics
- 7,500 more daily tasks with great impact on the improvement of processes, operational risk reduction and operational control.

Mortgage Loan Platform – Mortgage loan contracting process integrated with all those involved:

- Reduction of the average contracting time using the App by about 50%.
- Opening of the platform to Tied Credit Intermediaries (ICV), with road shows in the country.
- Improvement of customer satisfaction levels (NPS of 63%).[1]



Mais Simples   Mais Rápido e Próximo   Mais Eficiente   Mais Transparente

1- *Net Promoter Score Metric* (9 +10 - ≤5 classifications)

Products and Services

CrediSimples – On-line contracting of personal loans accounted for 21% of total credit granted.

CrediSimples Business – Immediate contracting of loans through *NetBanco Empresas* involved 3,500 transactions in 2019.

Santander Wallet – Functionality that allows payments to be made around the world, using the Bank's App through a QR Code or contactless technology.

One Pay FX – Service that allows instantaneous international transfers to be made in an easy, fast, secure manner at no cost.

Open Banking – Possibility of consulting balances and movements of accounts with other banks and making SEPA transfers from those accounts.

'Dedicated' IBAN for Companies – Solution allowing precise identification of who makes the transfers, enabling automatic reconciliation.

CORPORATE CULTURE, AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN 2019

Corporate culture, business model and strategy

Our purpose

To help people and businesses prosper

Our aim as a bank

To be the best open financial-services platform, by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities.

Our how

Everything we do should be

Simple I Personal I Fair

The **SCF culture** is based on our eight **corporate behaviours**...

Show respect

Trully listen

Talk straight

Keep promisses

Actively collaborate

Bring passion

Support people

Embrace change

... and a strong risk culture

risk pro

Everyone's business

Our approach

"By delivering on our purpose, and helping people and businesses prosper, we grow as a business and we can help society address its challenges too. Economic progress and social progress go together. The value created by our business is shared - to the benefit of all. Communities are best served by corporations that have aligned their goals to serve the long term goals of society."

Ana Botín

By being responsible we build loyalty

Our corporate culture: Santander Way

Santander Way reflects our mission, our vision and our way of working. It is the basis on which we are building a more responsible bank.

To be a responsible bank, we need a solid corporate culture

Our corporate culture is essential to the creation of banking that is more responsible. By fulfilling our mission of contributing to the development of people and businesses, we not only grow as a business, but also help society to face its main global challenges.

Economic development and social development go hand in hand.

The value that our business creates is shared for the benefit of all.

To live the Santander Way, and to be a Simple, Personal and Fair Bank (SPF) in everything we do, we defined eight corporate behaviours in 2016.

We have embedded these behaviours in each stage of the employees' life cycle, ensuring that they are present in everything we do: from recruitment and hiring, training, career development, remuneration, recognition, etc.

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

Ana Botín

Leadership Commitments

Leadership is critical to accelerating corporate and cultural transformation. Therefore, in 2019, we launched our Leadership Commitments. They were defined by more than 300 employees and 28 different units of the various countries where the Group is present.

To incorporate the commitments into all our operations, a major in-house communication campaign was drawn up and they were included in our leadership programmes and specific training courses. Additionally, our Global Engagement Survey incorporated four questions, which reflect the Leadership Commitments and complete our evaluation system, the *MyContribution*.

Also, we changed our Corporate Culture Policy to reflect the Leadership Commitments as common minimum standard (mandatory) at all units of the Santander Group.

Best Bank in Portugal	Santander in Portugal was distinguished by **Euromoney** magazine with the "**Best Bank in Portugal 2019**" award within the scope of the *Awards for Excellence 2019*, which took place in London with the presence of more than 500 bankers from around the world. The prizes distinguish those institutions that provided the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate. This is now the 17th time that Santander's activity is distinguished in Portugal.
Bank of the Year in Portugal	Santander was awarded the **"Bank of the Year" in Portugal** award by ***The Banker*** magazine of the **Financial Times** Group, within the scope of the The Banker Awards 2019. The publication highlights "the position of leadership assumed by Santander in the Portuguese banking sector in recent years, describing its history of growth as a result of the customer-centred strategy and of the commitment to digital innovation".
Best Bank in Portugal	The North American **Global Finance** magazine elected Santander in Portugal as the **"Best Bank in Portugal**", within the scope of the "*World's Best Banks 2020*". To elect the winners, objective criteria were taken into account, such as profitability, evolution of assets, geographic scope, development of new business and product innovation.
Most Reputed Banking Brand	Santander is the **brand with banking' best reputation in Portugal**, according to the ***Marktest Reputation Index (***MRI) in 2019. The Bank obtained the highest ratings of the sector in the Admiration, Confidence, Image and word-of-mouth (WOM) attributes. This year Santander rose to 1st place of the sector, standing out in the four criteria referred to above. In Familiarity it came second *ex-aequo*.
Most Reputed Banking Brand	Santander was also the **brand with banking's best reputation** in Portugal, according to the ***Global Pulse RepScore* 2020 study**, conducted by consultant **On Strategy**. It is the fourth consecutive time that Santander occupies this position, leading in the two dimensions, rational and emotional that form the analysis.

Company with Best Corporate Reputation	Santander was considered the **Company with the best corporate reputation in Portugal**, on taking 1st place in the sector **in the 2019 Merco Companies** ranking. It is also the best positioned bank in the general ranking of the Most Responsible Companies having best Corporate Governance. The analysis was conducted in Portugal for the first time, the methodology of which analysed 1,200 interviews of 12 different stakeholders.
Best Trade Finance	Santander was distinguished by **Euromoney** magazine as the **"Best Trade Finance Bank"** in Portugal, coming first in the "**Market leader**" and "**Best Service**" categories. The magazine highlights the partnership that Santander has established with Portuguese companies, providing efficient, fast and secure services in foreign trade, as well as support provided to their internationalization in foreign markets.
Best Private Banking Services Overall	Santander won the *"Best Private Banking Services Overall"* in Portugal prize, awarded by ***Euromoney*** magazine. This is the ninth consecutive time that Bank receives this award. Santander also received the Award as Best Private Banking in the ESG (environmental, social and corporate governance) category and for its technological development.
Best Private Bank	Santander in Portugal's Private Banking was elected by ***Global Finance*** magazine as the **"Best in Portugal"**, within the scope of The World's Best Private Banks Awards for 2020, which distinguish the world's best private-banking business models. This is now the fifth consecutive distinction.
Best Retail Bank	Santander was distinguished as **Best Retail Bank in Portugal"** by the British magazine **World Finance**, in the annual awards of this publication. The entity highlighted the Bank's leadership, based on the profitability and sustainability of the business model.
Best Bank to Work For	Santander was considered the **"Best Bank to Work For in Portugal"**. And 2nd best company (in the size of more than 1,000 employees) to work, within the scope of the **Great Place to Work**, which included the opinion of the Bank's employees.

Other awards and distinctions:

Best Private Banking in the service categories, *Euromoney*

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

Best Contact Centre in the Banking sector 2019, *Portuguese Contact Centres Association*

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

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

No. 1 Corporate Bond House Award, *Euronext*

Distinguishes the financial intermediary with the largest volume of placement of bonds on the Portuguese Stock Exchange, listed in the Euronext regulated market segment.

Relevant Facts of the year

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

Santander continued to develop new digital solutions, such as the Wallet in the App to send money and pay for purchases, and the Open Banking. The CrediSimples Business and the World 1|2|3 Businesses were also at the forefront.

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Santander aims to be an increasingly responsible Bank, having signed the Letter of Commitment to Sustainable Financing in Portugal. The launch of the “Mais Perto” Scholarships, for student access to university residences at affordable prices, was one of the novelties of the year. During this period, the Bank invested €7.2 million in support to the community.

The emblematic “Edifício dos Leões” opened to the public. Santander transformed its headquarters into a cultural space where you can get to know learn the history of the Bank, the works of art of its collection and visit temporary exhibitions. The first was "Home Sweet Home" by Joana Vasconcelos.

SUSTAINABILITY POLICY

- Being responsible is the basis of trust, and only acting in a **Simple, Personal and Fair** manner can we maintain the loyalty of our customers and of all the stakeholders with whom we relate.
- We seek to ensure that, in the course of our current business, we foster sustainable and inclusive growth of society, reducing social and economic inequalities of the population and, at the same time, we support the development of the communities where we are present.
- Besides the investment in the community, the Bank also acts in the areas of financial inclusion, climate finance and reduction of consumption and emissions.

Main areas of activity as part of the sustainability policy

- Higher Education
- Social Well-being
- Financial Literacy
- Environment
- Entrepreneurship and job creation
- Culture

Main Sustainable Development Goals (SDG) where Banco Santander's business activities and community investments have the most weight

4 QUALITY EDUCATION	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	13 CLIMATE ACTION
Boosts Higher Education to help the development of the communities where it operates	Promotes an attitude open to diversity, as a way to increase their human capital.	Aims to attract and retain the best talent and that their professionals will be motivated, committed and rewarded	Analyses the social and environmental risks of their operations and boost funding for renewable energy projects to support the fight against climate change

We invested €**7.2 million** in community-support projects, through sustainability actions and Santander Universities.

The Santander Group was awarded first place in the 2019 ranking of the **Dow Jones Sustainability Index (DJSI)** as the **world's most sustainable Bank**.

The Santander Group is a **founder member of the UN Principles for Responsible Banking** signed in September.
Santander joined 30 other signatory banks of the Principles to announce a **Collective Action for the Climate Commitment** in order to take tangible steps in the implementation of commitment entered into.

Support for the environment: At the COP 25, Banco Santander announced its **commitment to be carbon neutral in 2020** by offsetting all emissions it generates in its day-to-day activity. The Bank's aim is also **total elimination of single use plastics at its facilities** and the **purchase of 100% of energy from renewable sources** at its premises.

Commercial offer of sustainable products: The Santander Sustainable Fund, for socially responsible investment; Renewable Energies Loan for investment in alternative energies; Credit Line for Decarbonization and Circular Economy.

The *Great Place to Work Institute* recognized Santander as **one of the World's 25 best companies to work for**. In Portugal, Santander is the first bank and the 2nd large company of the ranking.

Financial culture and financial literacy initiatives **and support for people in poor socio-economic situations: 135,000 people supported**.
375 volunteers and 3,895 hours of volunteering with emphasis in the entrepreneurship programmes of the Junior Achievement

50 Protocols with Universities and Polytechnic Institutes.
1,700 scholarships involving social support, international mobility, entrepreneurship and employability.
Realization of the largest edition of the European Innovation Academy – accelerator of start-ups of a university digital base;
Launch of the "Closer" grants for affordable accommodation for university students;

28,000 people helped in the local community.
330 Associations supported.
Santander is committed to the **inclusion and employment qualification of the disabled**.

Banco Santander leads the Bloomberg 2020 Gender Equality Index

Banco Santander's score was the highest in Bloomberg's 2020 Gender Equality Index (***Bloomberg Gender-Equality Index, GEI***). Inclusion in the Bloomberg index has become the mark of excellence for companies around the world that publicize their commitment to equality and advancement of women in the labour market through the implementation of policies, representation and transparency

For the preparation of the index an evaluation was performed of 6,000 companies of 84 countries, and 322 companies were finally included in it. Companies that have revealed their data on gender represent a combined market capitalization of over US$ 14 billion. The 2020 evaluation included 75 metrics in five areas: dimension of female talent and leadership; equality and equal gender pay; policies to combat sexual harassment; inclusive brand; and in favour of women. In total, Santander earned a score of 429 out of a maximum of 500.

Fostering an inclusive and diverse workplace is a key element of Santander's culture and values. In 2019, the Bank set principles of diversity and inclusion establishing the minimum standards in Santander's markets, which are embedded in the culture policy approved by the entity's board of directors. The standards aim to achieve impartial and inclusive processes, systems, tools and policies, talent management and equal pay. Santander is committed to publicly increasing the percentage of women in senior management positions by up to 30% and to eliminate the wage gap between men and women in 2025. It is still implementing initiatives to support diversity in companies, including funds to support SMEs managed by women, training and networking opportunities, marketing campaigns and support for entrepreneurs. In 2019, Santander was also recognized as the world's most sustainable bank in the Dow Jones Sustainability Index, having adhered to the UN's Women's Empowerment Principles.

Banco Santander is committed to society and to its mission to help businesses and families to thrive, changing people's lives and contributing to a greener future. In this connection Santander announced **ten Responsible Banking goals** that reflect its commitment to contribute to the **United Nations Sustainable Development Goals** and ensure that it carries on its business in a responsible manner:

	2018 2019 2020 2021 2022 2023 2024 2025
To be among the ten best companies to work for (major geographies)	4 ----------------------> 6
Women on the Board of Directors	33% ------------------> 40% - 60%
Women in senior leadership positions	20% --> 30%
Equal pay gap	3% ---> 0%
Financially empowered people	-- 10mn
Green financing	--120bn
Electricity used obtained from renewable sources	43% 60%------------------------> 100%
Elimination of single-use plastic at the central services and branches	-------------------------> 0 tonnes
Scholarships, internships and entrepreneurship programmes	------------------------- 200k
People supported through our programmes of investment in the community	------------------------- 4mn

----------> accumulated goal -------------- From ... to ...

BUSINESS FRAMEWORK

International Economy

In 2019, economic growth globally was the weakest since the great recession, at just 2.9%, according to the latest IMF projections.

This slowdown was the result of the materialization of various latent risks such as the trade "wars", geopolitical uncertainty, specific factors in some emerging economies, and climate events, with repercussions on the manufacturing sector and on trade.

The slowdown was widespread among the developed and emerging economies, but more pronounced in the former. The effects of the trade "wars" between the US and China had clear effects of contagion to Europe, amplifying the adverse impacts on developed economies.

The materialization of the aforesaid risks affected the confidence of economic agents and, consequently, investment, increasing the slowdown in activity globally.

World Economic Growth

	2017	2018	2019
World	3.8	3.6	2.9
Advanced Economies	2.5	2.2	1.7
USA	2.4	2.9	2.3
Euro Area	2.5	1.9	1.2
United Kingdom	1.8	1.3	1.3
Japan	1.9	0.3	1.0
Developing Countries	4.8	4.5	3.7
Africa	3.0	3.2	3.3
Asia	6.6	6.4	5.6
China	6.8	6.6	6.1
Central and Eastern Europe	3.9	3.1	1.8
Middle East	2.3	1.9	0.8
Latin America	1.2	1.1	0.1
Brazil	1.1	1.3	1.2

Source: IMF (January 2020)

The trade "wars" between the US and China, with bilateral imposition of tariffs between the two countries, played a clear role in the reduction of international trade between the two economies, and with contagion to other trade flows. In 2019, the volume of world trade declined for the first time since the Great Recession in 2008, due largely to this factor.

In 2019, **China** grew by 6.1%, thus prolonging the secular trend of slowdown, to which must be added the said effects of the trade "wars" and the effects of measures to curb the over-indebtedness of the economy, in particular of the "*shadow banking system*". In August, the North American Administration accused China of manipulating the exchange rate, after the Chinese currency depreciated to over 7 renminbi per dollar for the first time since 2008.

The **US** also decelerated, partly through the exhaustion of the positive effects of the fiscal shock adopted in early 2018, but above all by the effects of the trade "wars", which spread to exports and investment. Private consumption continued to be supported, benefiting from the low unemployment levels, which dropped to 3.5% at the end of the year, clearly revealing a situation of full employment. However, this cycle was also marked by moderate salary increases and, consequently, the absence of major inflationary pressures.

The current US economic cycle is already one of the longest in history, moving into its 11th year. However, the average growth rates are lower than in previous cycles (2.3% in the current cycle, compared with 3.3% in the 1990 to 2000 cycle).

The absence of inflationary pressures and the risks that were producing throughout the year and also influenced the financial markets, led to a change of attitude and action by the US Federal Reserve. Its orientation, communicated at the beginning of the year, that the reference interest rates could rise in 2019, gave way to three downward movements, each of 25b.p. in August, September and October, in what were the first rate reductions since 2008, and leading the fed funds reference rate the range of 1.5% to -1.75%

In the **Eurozone**, growth slowed significantly, with the GDP growing just 1.2% in 2019, compared with 1.9% the previous year. This slowdown, though widespread, was not uniform among the various member states, and was especially pronounced in the central countries, such as Germany, France and also Italy, albeit for different reasons.

The trade "wars" had clear contagion effects on the Eurozone, in that **Germany** is an important trading partner of China, and the transmission channels affected industrial production in this country, where effects of the energy transition and adaptation to the new greenhouse-gas emissions regulation were felt in the car sector. The year under review proved to be a year of transition, in which the leading German manufacturers are preparing for the electrification of its offer as from 2020. GDP in Germany grew by 0.6% in 2019. The budgetary room for manoeuvre created by the decrease of the burden of debt service charges was not used to stimulate the economy, rather resulting in a larger budget surplus.

In **France**, activity also slowed, with the GDP growing by 1.2%, largely influenced by the constant protests that marked the political scene. The movement of the "yellow jackets" lost some strength, but came to be supplemented/replaced by the protests against the reform of the pension system. The automotive sector, relevant in France too, was also affected.

In **Italy**, it was the political environment that constrained economic development, with GDP growing just 0.2% (and with a contraction in the fourth quarter). The permanent tensions in the coalition government between the League and the 5 Star Movement led the former to abandon the government. However, a scenario of early elections in 2019 was avoided.

In **Spain**, the political environment did not seem to have had an impact on the economic dynamic, with the economy slowing, but still growing 2.0%. Two general elections were held in April and November, the latter resulting in a coalition government between the PSOE and Unidas Podemos, formed in January 2020.

Already formally outside the European Union, as from February 1, 2020, the **United Kingdom** grew 1.3% in 2019, unchanged from the previous year. The evolution of the activity was conditioned by the political process surrounding Brexit. In October, Boris Johnson took over the of office of prime minister, replacing Theresa May, but was initially unable to unlock the process, even with surgical alterations to the agreement in order to eliminate the so-called Irish "backstop ", under which a border would be created between Great Britain and Northern Ireland. In December, general elections were held, which gave a clear majority to Johnson, who pushed through the exit agreement and implemented Brexit at the end of January.

	GDP	Inflation
Euro Area	1.2	1.2
Germany	0.6	1.4
France	1.2	1.3
Spain	2.0	0.8
Italy	0.2	0.6

Source: EC (February 2020)

Throughout the year, the European Central Bank also incorporated the various risk factors in its growth and inflation forecasts, which were revised downwards, and consequently reversed its message of "normalisation" of monetary policy and reinforced the "forward guidance" regards the expansionist nature of the policy.

Initially, it announced new long-term lending (TLTRO III) operations starting in September 2019, extended until June 2020 the period in which interest rates could remain at minimum levels, and left open the possibility of new measures at the end of the summer.

In September, it announced another package of stimulus measures. The deposit rate was reduced by 10b.p. to -0.5%, the interest rate would be kept to a minimum until inflation converged to 2% (replacing the previous fixed time horizon), a new acquisition of financial assets programme was launched, to the tune of €20 billion per month, and the TLTRO III rules were changed to have more favourable conditions

To mitigate the adverse effects of the negative interest rates on the banking sector a tiering system was adopted for excess reserves, which are exempt from the application of the negative deposit rate of application up to an amount of 6 times the minimum mandatory reserves.

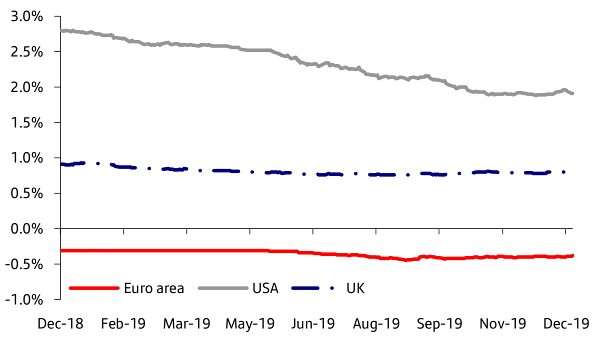
In the **emerging economies**, the slowdown of growth was particularly marked in the first half of the year, later corrected, but always implying a moderation of growth over the previous year. In **India**, annual growth was 4.8% (2pp less than in 2018), the result of disruptions in the automotive and real estate sectors.

In **Latin America**, economic activity virtually stalled, largely due to the evolution of the Mexican economy, which stagnated as a result of conditioning policies after the presidential election of 2018, and effects related to the trade relationship with the US (for example, trade agreements and migration). **Brazil** grew by 1.2%, in line with the dynamics of the previous year, despite a clearly weaker start to the year.

As mentioned, in the major economies, monetary policy took up once again (in the US) or strengthened (in the Eurozone) a clear expansionary stance with reference interest rate decreases and/or recuperation of the quantitative easing programmes. This was reflected over the entire yield curve, with a general decline of interest rates.

Short-term interest rates fell, in this way, in the US and in the Eurozone, while in the United Kingdom, despite the uncertainty associated with the Brexit process, the three-month interest rates were almost unchanged.

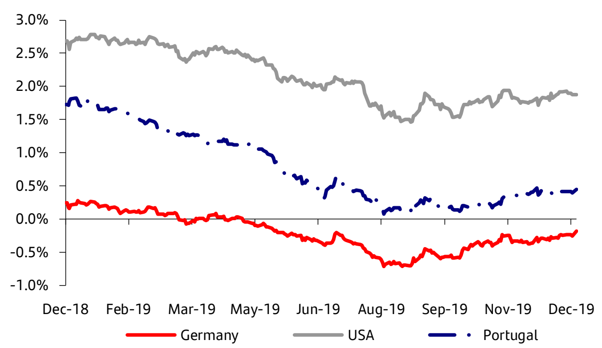
3-Months Interest Rates



Source: Bloomberg

In long-term interest rates, movement between the main countries occurred in tandem with a general downward trend of the yields, in line with the signs of slowdown of activity and/or materialization of the risk factors. The lowest point was observed during August, in anticipation of intervention by the central banks, correcting later. In the US, the 10-year interest rate fell by about 80b.p. and in Germany it resumed negative levels, with a decline of 40b.p. compared to the levels of the beginning of the year.

10 Year Bond Yields

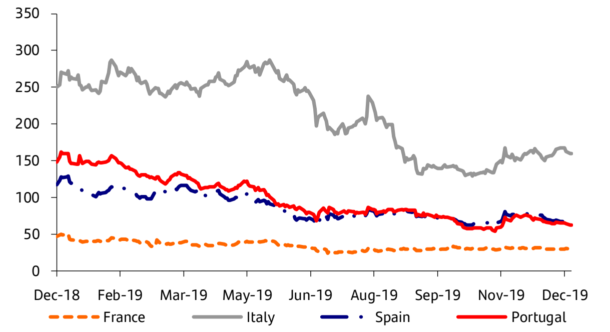


Source: Bloomberg

Credit spreads fell continuously throughout the year, with a differentiated analysis of the risk profiles. For example, the end of the coalition in Italy was received with a reduction of the spread against Germany of about 100b.p. to levels around 150b.p..

In Portugal, the 10-year spread against Germany declined to around 60b.p., and in the second half of the year it even registered levels below those of Spain, which was conditioned by the political environment. This dynamic was also influenced by the improvement of the Republic's risk ratings, by S&P Global, in March, to BBB, and, in October, by DBRS, to BBB (high). S&P and Moody's maintain a positive outlook for the rating of the Republic, indicating a possible upward revision of the risk notation, should the economic and financial variables continue to develop favourably.

10 Year Bond Yield Spreads (vs Bund) (bp)

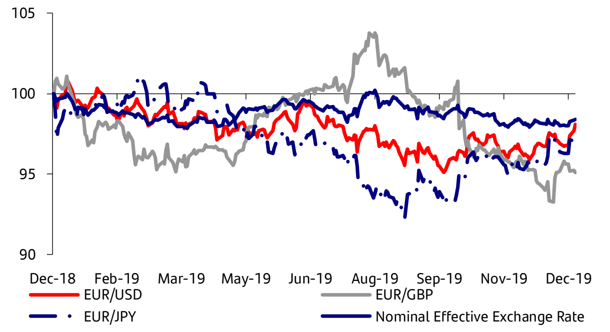


Source: Bloomberg

In the **foreign exchange market**, the euro was characterized by a trend of depreciation against the major currencies, in which the uncertainties as to the dynamics of the European economy dominated the evolution. Against the dollar, the euro ended the year at around €1.12, a depreciation of about 2%, while against the yen the depreciation was about 3%.

The evolution of sterling was dependent on the Brexit process, showing greater volatility throughout the year due to the advances and setbacks in the process. At the end of the year, with the elections and the approval of the withdrawal agreement, the pound recovered to around 85 pence per euro.

Main Exchange Rates (Dec-2018 = 100)



Source: BCE

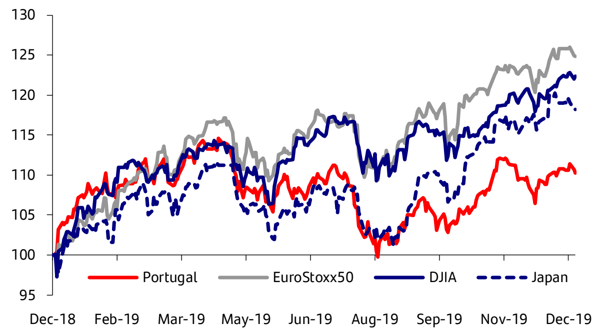
The **equity markets** showed a continuous upward trend, recording, in some cases, absolute historical maximums.

Despite the uncertainties about the evolution of economic activity and the potential impacts of the trade "wars", the scenario of low interest rates over the entire yield curve continued to lend support to the equity markets.

In the US, the major equity indices closed at absolute historical maximums. In Europe, the trend was also of appreciation, despite the less favourable evolution of the banking sector, performance of which is still conditioned by the prospects of evolution of short-term interest rates.

Portugal accompanied the global trend, but more modestly, with the PSI-20 rising by 10%, with emphasis on the behaviour of sectors such as retail and energy. Banking followed the European trend, with a devaluation.

Equity Markets (Dec-2018 = 100)

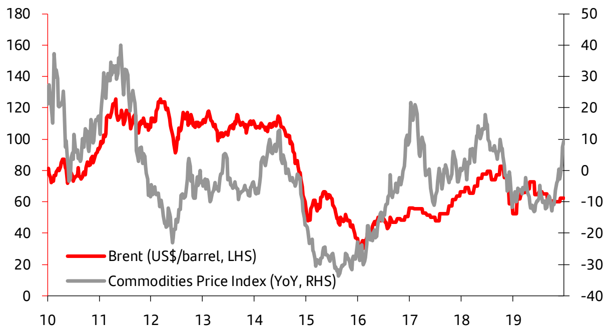


Source: Bloomberg

The volatility and uncertainty were transmitted to the raw-materials markets, with some volatility during the year, but ending with a trend of appreciation. **Oil** rose by 6%, to 62 dollars per barrel, but below the year's maximums (of about 72 dollars observed in May). The other raw materials also appreciated, by about 10%.

Gold maintained its safe haven status, appreciating 18% during 2019 to 1,517 US dollars per ounce.

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



Source: Bloomberg

Observation:

In March 2020 a pandemic situation was declared due to the outbreak of Covid-19, with an aggressive response by the health authorities of each country, significantly altering the environment and the economic outlook, as we shall analyse in chapters on the risks and uncertainties, and prospects for 2020.

Portuguese Economy

In 2019, the Portuguese economy continued the expansion cycle started in 2013, though continuing the trend of moderate growth. Despite accompanying the European trend, Portugal continued to be characterized by growth rates above the long-term trend.

Macroeconomic Data

	2017	2018	2019
GDP	3.5	2.6	2.2
Private Consumption	2.1	2.9	2.3
Public Consumption	0.2	0.9	0.8
Investment	11.9	6.2	6.5
Exports	8.4	4.5	3.7
Imports	8.1	5.7	5.2
Inflation (average)	1.4	1.0	0.3
Unemployment	8.9	7.0	6.5
Fiscal Balance (% GDP)	-3.0	-0.4	0.2
Public Debt (% GDP)	126.1	122.0	117.7
Current Account Balance (% GDP)	2.2	1.4	0.9

Source: INE, Banco de Portugal, Ministério das Finanças

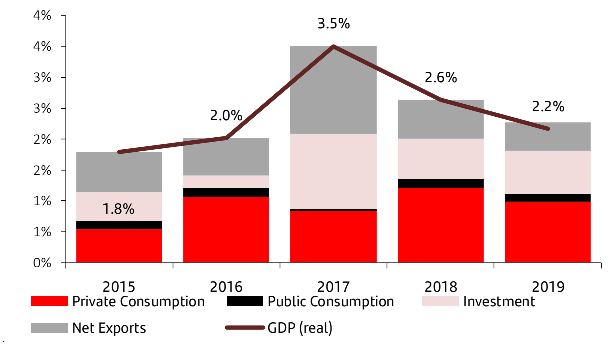
GDP, in Portugal, grew by 2.2% in 2019, still above the long-term trend (estimated at 1.6%), but with a slight deceleration compared to the 2.6% recorded in 2018. This evolution reflects a slowdown of private consumption and exports, while investment accelerated.

Private consumption, despite a slowdown compared to 2018, remained dynamic, with a growth of 2.3%, higher than that of disposable income, largely supported by the reduction of unemployment to 6.5%. By consumption components, the highest growth occurred at the level of discretionary spending on non-food goods and services, consistent with a strengthening of the confidence of the economic agents. Spending on durable goods slowed, in that car purchases had been brought forward in 2018.

At the level of **investment**, there was an acceleration, particularly felt in the first half of the year, associated with the recovery of capital spending on construction. Indeed, 2019 marks a change in the composition of investment, with a greater recovery of construction, whereas in previous years the largest contribution to capital expenditure came from the machinery and equipment and transport material segments. Strong demand for housing, following several years in which construction activity was very limited, is already reflected in an increase in building permits, as well as of homes completed.

Also, the approaching end of the Portugal 2020 Programme is being reflected on an acceleration of investment, for completion of the financed projects.

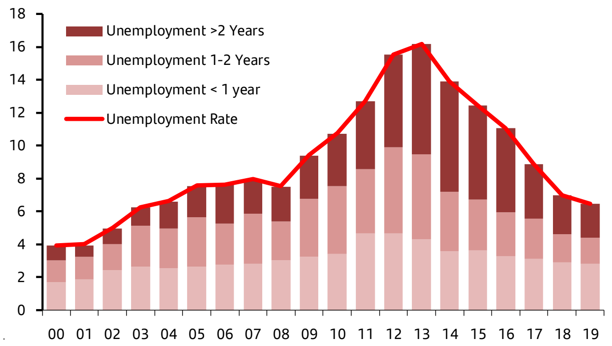
Contributions to GDP Growth (YoY)



Source: INE

The labour market continued to perform positively, with the creation of 25,000 jobs in 2019 and the decline of the unemployment rate to 6.5%, closely aligned with the natural unemployment rate. As the GDP growth rate converges to the long-term trend, the pace of job creation also moderates.

Unemployment Rate



Source: INE

The good times of the labour market, with job creation and moderate wage increases, combined with the appreciation of the real-estate market, might be an explanatory factor for the low household savings level. The saving rate in 2019 amounted to 6.2%, in line with the lowest levels seen since 2016.

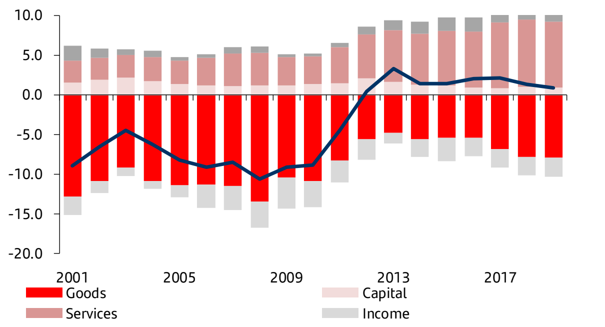
In 2019, investment by households (including house purchases) increased by about 10%, extending the strong dynamism seen since 2017. In 2019, new mortgage-loan production amounted to €10.6 billion (an increase of 8% compared to 2018).

Exports slowed, though maintaining a sustained growth rate, prolonging the trend of recent years. Portuguese exports were also influenced by the trade "wars", due to the interconnection in the global value chains, European in particular, but also by the ongoing transformation in the automotive sector. Exports of services also performed well, but with a visible slowdown in the number of tourists, which was offset by the growth of average revenue.

Imports, in turn, slowed more moderately than exports in 2019, partly due to the increase of investment, in that the greatest growth occurred in terms of capital goods and transport equipment. However, the dynamism of private consumption, associated with tourism, is reflected in a growth of imports of consumer goods, which had not occurred since the crisis period.

Despite the worsening of the trade deficit, the current and capital account maintained a surplus, benefiting from the positive balance of services, at 8.2% of the GDP. However, the overall surplus is smaller than that of the recent past, standing at 0.9% of the GDP.

Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

The economy continued the process of correction of the major macroeconomic imbalances. In this sense, the overall debt continued to be decline, across the board, between the private and public sectors, but in particular in the former. The indebtedness of the private sector decreased to 190% of the GDP, which amounts to a reduction 73pp compared to the highs of 2012. The reduction was more pronounced for companies (down 46pp, to 124%) than for individuals (down 27pp to 66% of the GDP). However, it is still high, thus constituting a potential focus of risk.

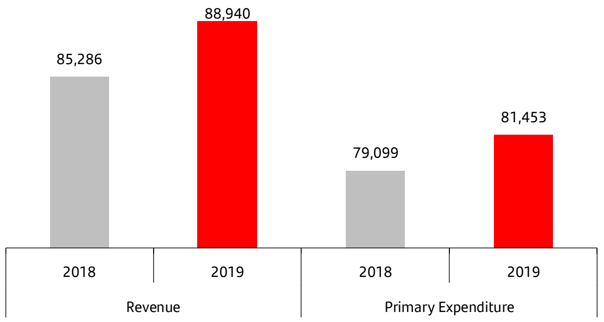
Public debt also followed a downward trend, standing at 118% at the end of 2019, compared to 122% at the end of 2018.

In 2019, budgetary policy continued its path towards budgetary balance, generating a surplus of 0.2% of the GDP, for the first time since the early 1970s.

The information, from a cash standpoint, shows that the better performance was the result of a revenue growth at around 4.3% (evolution identical as regards tax revenues), greater than the growth of the actual expense (+2.3%).

Current Revenue and Primary Expenditure

(€ mn)

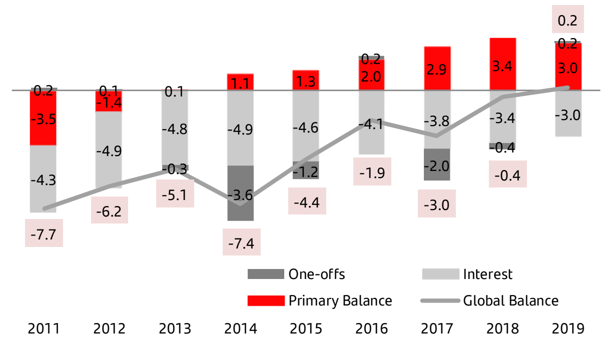


Source: Ministério das Finanças

The consistency of the budgetary policy, with reduction of the budget deficit and generation of a primary surplus, which allows a reduction of the public debt ratio, continues to support the better evaluation of the risk by the rating agencies. In 2019, the Republic's credit risk notation was raised to BBB in March, by S&P, with positive outlook, and to BBB (high) by DBRS, with stable outlook, in October. The 10-year yield at the at the end of January 2020 stood around 0.3%, a differential of about 70p.b. against Germany, fully in line with Spain's spread against Germany.

Fiscal Balance

(% GDP)



Source: Ministério das Finanças

The Treasury continued its deadlines and cost of debt management strategy, taking advantage of the lower interest rates on the global markets to finance the longer maturities, and also to implement debt-swap programmes, replacing those with shorter maturities with longer maturity debt. In 2019 the Treasury brought forward payment of €2 billion to the EFSF.

From the standpoint of placing savings products for the retail market, in 2019 the Treasury focused only on Treasury certificates, but with an increase of the stock of just €631 million (throughout the year, the maturities of certificates issued in 2015 were significant, revealing a greater gross placement of almost €4 billion).

This tapping of household savings had no visible impact on the volume of deposits of individuals with the national financial system, which, in 2019, increased by nearly €6 billion.

Within the framework of the correction of the imbalances, in 2019 the Portuguese banking sector continued the process of cleaning its balance sheet and reduction of non-productive exposures (NPE).

In 2019 the stock of NPEs was reduced by about €8.7 billion, leading to a reduction of the NPE ratio to 6.1%, but still above the European average.

As in previous years, the process of managing non-productive exposures was one of the main determinants of the evolution of the credit aggregates, which fell for yet another year. Over the year as whole, the stock of loans to companies fell by 4% (with a reduction of about 43% in loans overdue more than 90 days), while the mortgage-loan portfolio decreased by around 1%. This dynamic occurred at the same time as a further increase of the volumes of new loan production: new loans to companies increased 3.8% compared to 2018, to €32.8 billion and new mortgage loans rose 8.1% to €10.6 billion (but still short of the volumes recorded between 2003 and 2008).

Note: Text written with the information available up to March 31, 2020.

Major risks and uncertainties for 2020

To date (March 31, 2020), the uncertainties for the current year are extremely high within the framework of the global pandemic associated with Covid-19.

A first wave of effects on the Portuguese economy, similarly to other economies, stems from disruptions to the supply chains, with the temporary closure of activity in China and possible disruptions of goods.

A second channel has to do with the imposition of containment measures, such as remote work, temporary closures of activities, border closure the and, more recently, limitations travel by the population, of which, in Portugal, an example is the decree of a state of emergency since March 19.

The third transmission channel results from the transverse nature of the contagion and of the measures at European and global level, which will amplify the adverse effects on the activity.

It can therefore be expected that economic activity is set to be strongly negatively affected, and may induce a recession in the world economy and, consequently, in Portugal. Its overall size, however, cannot be fully quantified, given the early stage of imposition of containment measures and the uncertainty as to its duration.

Still, the context in which Banco Santander in Portugal will operate during the year will be very different from what had been expected before the outbreak of COVID-19, in a particular adversity framework.

On the one hand, business volumes may be lower than expected, with a postponement of investment decisions by the economic agents, including the purchase of homes. Also, the evolution of resources, deposits in particular, may be affected by the need for liquidity felt by the economic agents.

On the other hand, interest rates may fall even further as a result of the monetary policy decisions taken by the central banks, including the European Central Bank.

In March, the ECB took a number of measures to mitigate the adverse effects of the pandemic, including long-term liquidity-providing operations until June, alteration of the conditions of the TLTRO III, including the 0.25% interest rate cut, and a strengthening of the financial assets purchase programme (in the additional amount of €870 billion, including the Pandemic Emergency Purchase Programme – PEPP, in the amount of €750 billion).

The central banks as a whole also adopted stimulus measures, including lowering the key interest rates to near zero, as was the case of the US Federal Reserve and of the Bank of England. Additionally, new acquisition of financial assets programmes were implemented, including corporate debt and ETFs.

National governments also adopted stimulus measures, although with different characteristics and dimensions. In the US, the CARES Act, economic aid programme, amounts to US$ 2 trillion, including direct assistance to families, in cash. In most European countries, the support announced includes guarantees on lines supporting the liquidity of companies and employment support programmes, with funding of temporary lay-off in order to reduce the overheads of companies during the pandemic period. Portugal had a similar plan, with guaranteed credit lines of €3 billion (which may be enlarged) and support for the temporary lay-off covering 70% of the resultant costs.

There are risks, in terms of additional impacts, arising from the shock waves of the pandemic. A widespread deterioration of loan quality may generate additional shock waves in the financial markets in the event of downward revisions of debt risk notations, primarily of companies (particularly in the US) but also of sovereign debt. These may delay the recovery of activity globally and, consequently, in Portugal.

BUSINESS AREAS

Individuals and Businesses

In 2019 the Bank lent continuity to the strategy of improvement of the business model through the development and implementation of new digital solutions and process simplification. A new branch concept was adopted, called the Work Café, which consists of a space "open" to society and to the market, which enhances the relationship of the customers both with the Bank and among themselves. In 2019, two spaces were inaugurated, one in Lisbon and one in Coimbra and, in January 2020, a third was opened in Espinho.

With regard to the customer base, in 2019 there was an increase of 17,400 new loyal customers, with a major contribution by university-segment customers. With regard to the number of digital customers, users of the Santander App and/or NetBanco, the increase of 38,000 led to a total of more than 775,000 customers, or 45% of the main bank customer base in 2019.

Also to be highlighted is the ongoing positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), now standing at 272,400 customers, an increase of 29,000 over the year, Mundo 123 is a multi-product solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

A strategy underpinned by the soundness of the Bank and the trust of the customers, responding to need of development and support in the achievement of their projects that has resulted in an increase in loan production, with a positive impact of €276 million on the loan portfolio.

In 2019, there was a growth of the rate of mortgage loan production over the year, amounting to about €2 billion, equivalent to a 20% market share in the period from January to November. Personal-loan production, in turn, amounted to 529 million, with emphasis on the "CrediSimples" online solution, which accounted for 21% of production.

With regard to resources, the evolution was very positive, with a sustained increase, especially associated with the diversification in favour of off-balance sheet resources (mostly in investment funds), compared to the amount observed at the end of 2018. As a result, this strategy of diversification of resources, emphasis is given to the growth of the number of customers with retirement savings products, up by 33,300. In turn, in terms of autonomous protection insurance, there was an increase of 43,400 policies, an increase of 8% over the same period last year.

The Business segment continues to be of significant strategic importance for the Bank, which resulted in a set of actions aimed at providing customers with a high value-added offer, in which digitization and customer experience are of particular relevance. An example of this was the launch, in March, of the new "CrediSIMPLES Business" digital offering, a solution that allows customers to contract loans online via NetBanco Empresas, through which around 3,500 operations were realized, also contributing to the annual growth of production by 27% to €2.65 billion. In October, Mundo 123 was extended to the Business segment, with a modular solution for cash management of the customers in this segment, in which customers can combine the Conta 123 Negócios with credit card, current account and/or POS in keeping with their needs. The segment's turnover grew by 7.6% compared to 2018.

Companies and Institutionals

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

The Santander Empresas Non-Financial Solutions are a differentiating offering that is outstanding in the marketplace, at the disposal of companies and entrepreneurs, allowing the ongoing training of their staff and employees, support to internationalisation and strengthening presence in the digital area. They also promote among young people their employability through an internship scholarship programme.

Under the internship scholarship programme 209 internships were awarded over the year under review, in a business environment, making this programme a true platform for access to the employment market for the final-year university students, more than 35% of the youths involved in the programme having maintained their connection with the company with which they carried out their internship, reflecting their suitability to meet the needs of the companies.

In relation to classroom training, the offer was extended and also directed to the Agribusiness, Tourism and Social Economy business segments. Thus, by the end of 2019, in addition to the Business Management programme, 9 sectoral-management programmes were organised, three linked to the social economy sector (Lisbon and Porto), three to the Agro sector (Lisbon, the Azores and Mirandela) and three to the Tourism sector (Madeira, Algarve and Porto), involving more than 330 companies and institutions, contributing to strengthening their competitiveness by improving the skills of their staff and employees.

The continuity of the offer of online training, in partnership with two certified entities of not in the market, allows free access to more than 15 courses in five different areas. The Bank provided a total of 101 licences through these platforms throughout 2019.

Consolidating the Bank's policy of proximity with companies, organizations, local associations and universities through the exchange of experiences, opinions and knowledge sharing with all participants, Santander Companies BOX events were held, one in Leiria and the other, for the first time, in Madeira.

The positioning and focus the Bank's support for companies is also to be seen in the number of transactions and amounts falling within the scope of the Mutual Guarantee Societies, to support investment projects or financing cash, in the most varied economic sectors, conferring leadership on Santander during several months in 2019.

Through the IFRRU 2020 line, in which Santander manages the market's biggest line, support has been maintained for the development of several urban rehabilitation projects promoted by companies and individuals.

Support for customer internationalization warrants a reference, and to this end it has with specific tools to support international business, such as Santander Trade portal and the International Desk. During 2019, Santander Totta was the international business partner of more than 7,000 companies on a monthly basis, an increase of 18% compared to 2018. The Bank achieved a market share of 18% in import trade, maintaining the sustained and permanent growth seen over the past 5 years.

The Bank continues to support the cash management of companies through factoring and confirming products for both the largest Portuguese companies and also for small and medium-sized enterprises, accompanying customers with solutions tailored to their business and to support the opening of new markets in a context of increasingly demanding requests by companies, providing via the NetBanco Empresas platform a generalist offering covering the entire range of sub-products existing in the market.

In the Institutional Customers segment, Santander in Portugal maintained its commitment to the customers of this segment, both with regard to public entities, with a strong presence in the Azores and Madeira Regions and with the Municipalities, as well to private entities, with a special focus Religious Institutions and on the Social Economy, designing tailored solutions for these institutions in order to meet their needs. As a result, the segment performed well, especially in attracting Resources, with an increase of 13.1% compared to 2018.

Investment funds and insurance marketed

The year under review was marked by the general appreciation of the financial markets, Santander Asset Management (SAM) having sought to manage its mutual funds (FIM) actively, with the goal of maximising the return for their participants. SAM closed the year with a market share of 17.9%, an increase of 0.8pp YoY. Real-estate investment funds totalled about €421 million at the end of 2019.

In the financial insurance area, the focus was maintained on active management of open financial insurance, which recorded a net change of more than €160 million.

During 2019, the Protection Insurance area continued its strategic priority of providing customers, in the various channels, diverse and comprehensive solutions that contribute to their personal, family and corporate safety. Noteworthy is the launch of new products within the scope of health protection for individual customers (Safe Care Health, Live Longer Health), designed taking into consideration the growing concerns of the population in this area. Online contracting of protection insurance continued its growth tendency, accounting for about one third of the year's subscriptions.

"Safer every day" was the signature of the advertising campaign on television, in the press and on the digital channels, characterized by a message associated with customers' need for protection and that of their families, 365 days a year. Within the scope of this concept, throughout the year preferential conditions were granted on the acquisition of new protection insurance, directed at customers who already have at least one of these solutions.

Corporate and Investment Banking

In an adverse situation of continuation of negative interest rates and high pressure on spreads, the Corporate and Investment banking area strengthened its commitment to customers, exploring new investment opportunities. The new digital foreign-exchange contracting platform (via NetBanco Empresas) reveals the Bank's focus on innovation and digital transformation.

The loan portfolio decreased by 6.8% compared to the homologous period, largely due to management of the balance sheet for a very small number of customers, further compounded the scheduled repayments of structured transactions. Revenues, in the same period, increased 3.5%, and the negative impact on net interest income was offset by the increase in revenues on non-recurring operations, with emphasis on the strengthening of financial advisory operations and on fixed-interest loans.

In the Global Debt Financing area, the year under review was marked by the conclusion of the first private issuance of debt in Portugal under the Project Finance regime, Santander having structured and placed a €270 million issue for Indaqua Feira. Several major financing operations were also concluded during the first half, involving a broad range of industries such as chemicals, transport, logistics and energy, with emphasis on the participation in financing the Finerge group in an amount in excess of €950 million, now considered the largest ever Portfolio Finance in the onshore renewables sector in Portugal. In the Asset Finance area, too, Santander structured and financed the acquisition of an Airbus A330 Neo aircraft for TAP, contributing to the companies' objectives of reduction of carbon emissions.

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

In the bond markets, emphasis is given to the Bank's participation, as bookrunner, in the only issue of the year, for EDP, with a hybrid bond with a maturity of 60 years and an amount of €1 billion, and to the participation in the placement of the first rated bond issue for Saudaçor, with the guarantee of the Azores Autonomous Region.

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

In Treasury, the activity of the Corporate and Commercial Banking area increased substantially, underpinned by sustained growth in interest-rate risk hedging and by enlargement of the offer of foreign-exchange operations contracting alternatives.

In the matter of interest-rate risk management there was strong growth in fixed-rate operations, by volume of loans and by number of transactions. The negative interest-rate levels in the euro area favoured the adoption, by customers, of risk-reduction strategies to hedge potential future increases of financial charges, the Bank having presented alternatives for informed decision-making as to the best strategy in the interest-rate risk management policy.

In the foreign exchange area, 2019 showed a strong commitment to the improvement of the digital channels available for customers, the offer of which contributed to the significant growth seen in the currency area, in terms of number of transactions, trading volume and the number of active customers. Noteworthy is the release in January of a new foreign-exchange transactions contracting platform, which at the yearend already accounted for over 20% of the total number of foreign exchange spot transactions contracted in the Companies segment.

Foreign Customers and Residents Abroad

The main function of the Foreigners and Resident Abroad area is to support the Bank's individuals & businesses commercial networks in the creation of strong commercial and proximity ties with the communities of Portuguese and Portuguese descendants living abroad, through its representation office network in 6 countries (South Africa, Germany, France, United Kingdom, Switzerland and Venezuela), as well in as in promoting and attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.

Acknowledging the growing interest of foreigners in living and/or investing in Portugal, Banco Santander in Portugal has paid special attention to this cluster, giving rise to the capillarity of the Santander Group as a Global Bank, streamlining processes and creating conditions to meet the specific needs of these customers, as well as the development of financial product and service solutions allowing the Bank to support foreign customers who invest in Portugal.

In 2019, the Foreigners and Residents Abroad area strongly intensified its work to raise customer awareness of the importance of their accession to the Bank's digital channels (NetBanco and Mobile), thereby gaining access, simply and quickly, to the offer created specifically to meet their needs.

Maintaining its strategy of closeness and strong connection with the Portuguese communities and with the official entities in the various countries where it has representative offices, Banco Santander in Portugal has strengthened its position in this segment and is recognised by its customers as a safe and reliable bank, a fact that it is reflected in the 4% increase of remittances received from abroad (which, at the end of 2019, amounted to €1.16 billion), as well as in their retention, thus contributing to the €43.7 million increase in resources, when compared to the same period last year.

Digital Transformation

During 2019, Banco Santander continued its digital transformation plan, the aim being to be closer to its customers and to simplify processes. This strategy allowed us to maintain the trend of growth in the number of digital customers, with an increase, during the period, of more than 41,000 users of the App and/or NetBanco.

At the end of 2019, the number of digital customers exceeded 775,000, or 45% of active customers. Considering this basis, 36% are exclusive users of the App, 39% exclusive users of NetBanco and 25% use both channels.

This growth was reflected in increased sales via the digital channels, which in December 2019, accounted for about 1 in 3 sales of eligible products (35% penetration).

Individuals Channels

During the year 2019, functions were developed associated with the "CrediSimples" grant of personal loans. Currently, through the App or NetBanco a Santander customer can: (1) simulate in a simpler manner; (2) immediately contract the loan (if eligible); and (3) take out the respective insurance associated during the process.

To ensure that the activity via the digital channels meets all rules of the Payment Services Directive - PSD2, new rules to apply to the processing of transfers and payments were implemented. These new developments aim to increase customer safety in the use of electronic banking.

Additionally, new benefits were introduced to the Mundo 1|2|3 offering and monthly packages of instant transfers were created.

In the NetBanco Particulares area, new functions were implemented features within the scope of Open Banking. Customers can now add accounts from other banks to consult balances and movements or even make transfers from those accounts, and is also possible to request and receive a new PIN of the Santander cards by SMS or to issue proof of the IBAN of their accounts.

With regard to the App Particulares the Santander Wallet was launched, which has the MBWay functions to make P2P transfers through the telephone contact and to make payments via QR Code and NFC (contactless), the latter option still exclusive for mobile phones with the Android operating system.

Also implemented was the App access solution for minors. The planned functions allow youths aged between 12 and 18 to consult balances and movements and "ask their parents for money" directly via the App.

In order to collect user feedback, "Rate App" function was made available. This function allows customers to evaluate and submit recommendations regarding the App. Based on the information gathered, the Bank will be in a better position to improve the user experience of its digital platforms, as well as to prioritize development efforts.

Companies Channels

The year under review was marked by the launch of the functions required to ensure compliance with the rules of the Payment Services Directive - PSD2, including migration of the Matrix for SMS within the scope of the authentication of operations.

NetBanco Empresas launched the "CrediSimples Business", through which instant credit is granted up to €50,000 to companies that meet certain conditions. During 2019, more than 3,500 loans were formalized in this way, involving a total amount of €62.5 million.

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

Also, at NetBanco Empresas, new functions have been included leveraged on the Open Banking ecosystem, allowing customers to add other bank accounts to consult balances and movements or even to make transfers from those accounts.

In the App Empresas the possibility was introduced of signature of applications for import documentary credits, differentiating the services provided to customers. Additionally, other features were also launched, such as consultation, use and repayment of escrow accounts and scheduling of immediate transfers, contracting immediate-transfer packages. In 2019, it also came to be possible to alter the email and the telephone number on the App, fundamental data for the authentication process in the Companies channels.

Regarding process simplification, the onboarding process in the Companies channels was revised, making it faster, increasing the autonomy of the branches and freeing the Contract Centre for higher value-added tasks. Through the "NetBanco Empresas Manager", the possibility was added of creating contracts, with a total of 5,300 new contracts subscribing to NetBanco Empresas in 2019, representing 97% of all new contracts.

Digital Marketing

In order to address the need to improve the information and its customers' experience of interaction with the digital services, the Bank has established a competence centre dedicated to Digital Marketing.

In this connection, activities were implemented fundamental to the materialization of the Bank's digital transformation plan, notably those related with analytics and dashboards and campaigns to attract and acquire users.

With regard to digital campaigns, we highlight those of personal loans, with the launch of several campaigns during the year, such as the pastime with Vila Gale vouchers, cross-selling with Mundo 1|2|3 (doubling reimbursements) and sales during thematic periods (Internet Shopping Day, Black Friday and Christmas).

Also to be noted is the innovative initiative that took place at Christmastime. A pastime was introduced in which Santander offered gifts to its digital customers every day. From December 1 to 24, the "24 days of Christmas" pastime was available via the Santander App and NetBanco, and rewarded the fastest answer obtained in a memory game. Within the scope of this pastime there were nearly 200 thousand participants and more than 45 prizes were delivered.

Contact Centre

The Contact Centre is the main point of support for digital activity, providing clarification of doubts about and use of the App and of NetBanco.

In November 2019, and for the second consecutive year, it was considered the "Best Contact Centre of up to 150 workstations", in the Global Contact Centre (annual conference organized by the IFE).

During 2019, there were more than 150,000 contacts with customers and about 2.7 million contacts were received, of which 77% with the use of human attendance, 11% with automatic attendance (IVR) and the remaining 12% via digital contact (email, chat and the Bank's social networks).

Also implemented were several initiatives focused on improving customer experience at the level of processes, training of assistants and replacement of the entire supporting technology, with emphasis on the following initiatives: support for the Open House digital platform, sale of insurance, implementation of PSD2 Directive, creation of a personal loan team and the systematic of contact with confirming suppliers.

These initiatives allowed average NPS (Net Promoter Score) of over 80% to be obtained for most services, which represents a high level of satisfaction with the attendance provided.

BUSINESS SUPPORT AREAS

Quality / Customer experience

During 2019, the Banco Santander **Customer Centre** was inaugurated in Lisbon, a pioneering and unique initiative in Portugal consisting of the creation and availability of a "laboratory" that, using the most modern sound-and image-capture and viewing technologies, allows tests to be performed and experiences with customers and other players with regard to concepts, products and services being thought up or in production. This organic unit was provided with all the necessary specialized resources, including customer research technicians, and it its fully up and running and is an indispensable tool for the purpose of "knowing your customer".

Indeed, the Customer Centre is the materialization of the concept that customer perception is the reality" in order to engage them in the process of creation of the products, services and channels that the Bank provides, thus constituting an excellent tool in this co-creation.

In Santander's vision, as or more important than the results that are obtained is how those results are obtained. The Bank give pride of place to the ethics of the action and it is therefore very demanding as to the quality of service and the exceptionalness of the customer experience it wants to provide.

On the other hand, the Bank supports and develops a culture where the performance and results are measured through rigorous and certified, fair and transparent methodologies, so that everyone knows at every moment the assessment customers and other stakeholders make of the Bank and of the performance of each one of us.

In this context of subjection to the verdict of the public evaluation, the Customer Experience area, aligned with the NPS (Net Promoter Score) evaluation methodology, with a rating scale of 0 to 10, launched a vocational training and cultural development programme under the "Being 10, Having 10" signature, the intention being to always place the customer first, as the nuclear centre of the activity and business. The programme's success will result in the trust and loyalty of the customers, thus fulfilling our vision to be the best commercial bank and our mission to contribute to the development of people and businesses.

With regard to the positioning compared to the competition, as measured by the annual satisfaction poll of the individual customers segment, Santander is the most stable bank in terms of the classification of the attributes that make up the study. The Bank is in the TOP 3 in terms of overall classification, which falls within the corporate objective, showing, over the years, a trend of stability.

In 2019, the classification model of the business units was maintained (the Stars System, inspired by the hotel system, assigning to the business units 2 to 5 stars), but with a greater requirement. Over 60% of branches and more than 80% of the Company Divisions obtained a rating of *Excellence*, in line with the Bank's goals.

Also within the scope of the "Star System" and through the special programme of monitoring those branches classified as 2-star, we were able to recoup 62% of the branches having that negative rating.

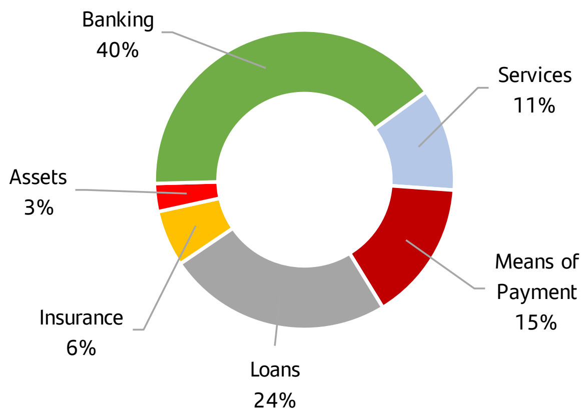
Fundamental to the involvement of all areas and cornerstone of the Quality Management System is the certification process in accordance with the IS0 9001-2015 reference standard which, since 2001, maintains a monitoring system with a focus on ongoing improvement. In 2019, the Bank was audited and was in compliance with this standard, which reflects the best quality management practices.

With regard to the overall volume of complaints, 2019 showed a certain stability compared to the figures recorded in the previous two years.

The Bank's site has strengthened the focus on customer service, with a special space that discloses the Bank's various contact channels to make it easier for customers to submit their suggestions and grievances that are always taken into account in a perspective of customer experience, knowledge, training and prevention of dissatisfaction.

The matters subject to a greater number of complaints remain the same as in previous years and are common to the entire banking system, particularly current accounts to (closure and commissions), loans, cards, with a prevalence of criticism of the pricing changes that occurred throughout the year.

TYPOLOGY OF COMPLAINTS



Technology and Operations

Bearing in mind that Banco Santander is one of the leading organizations in the banking sector in Portugal and operates in a context of increasing complexity and integration of systems, the **Cybersecurity** area strengthened its team by hiring more staff and created specialized areas of work.

To this end, considering the recent threats and tendency of fraud on the Internet and the convergence with cybercrime, a fraud management and prevention area was created.

Technologically secure applications and systems were developed, with incorporation of best practices and tools for the development of a secure code.

In an increasingly global economy, interdependencies in which the organization is a participant constantly challenge the definition of cybersecurity. This reality introduces new challenges that promote integration and collaborative work. In this sense, Cybersecurity area was an active member of the national CSIRT (Computer Security Incident Response Team) network, having hosted the last meeting of this organization at the Bank's premises. Banco Santander once again took part in *Cyber Perseus*, a national exercise involving a broad range of events leading to an escalation to a crisis in cyberspace and tested the management and response to cyber-attacks by the entire organization.

As regards cybersecurity conferences, the area took part in several landmark events at the national level, with emphasis on the *C-Days* and the *BSides Lisbon*, for they made a major contribution to the progress and development of a cybersecurity culture in Portugal.

Continuity was also lent to the mission of promoting a culture of cybersecurity among all the Bank's employees, focusing on training and conducting various awareness activities throughout the year.

The **Operations** areas were reorganized under a single leadership, with the aim of establishing an organizational model focused on efficient use of resources, but equally on evolving in the context of the transformation and modernization of their activities. This transformation plan, complete and transversal to all units of the Operations area, was set in motion in its various aspects, drawing on the experience of other units of the Santander Group.

The Bank centred its activity on the customer experience in an E2E view of each operation rather than each micro-task, raising the overall quality of service. The implementation of a culture of perfection in implementing, supporting and facilitating the activity of the commercial teams in the development of the business and changing the sourcing to improve operational efficiency, led to the need to move towards an operational model more agile and efficient, functionally segmented, personalized "outward" but industrialized "inside", supported by a front-back-front applicational request management system enabling the management of the operative and acceleration of the automation.

The ongoing implementation of advanced Business Process Management (BPM) technologies will unify the tasks arising from multiple input channels in operations in a single platform, which will provide an overview of the tasks in real time, and ensure faster and more effective management of the capacity and distribution of tasks, and control of the KPI's and SLA's of the entire operation, contributing to the overall improvement of quality of service. A second expansion phase to the commercial front, with optimization on input based on standardized forms and review of processes will allow a higher level of efficiency, speed and delivery of quality as a result of the increased capacity to robotize standardized tasks and the possibility of integration with other applications for process automation.

This operations unit, which includes the customers and transactionality, credit, operative centre, banking services, production and investments support and planning and control areas, will lead to process and cost optimization and efficiency, ready to support the Bank's growth in all channels and business segments. With ability to adapt to alterations of strategy and to scalability of the commercial activity.

The **Technology** area, in alignment with the business and digital transformation areas, implemented various initiatives designed to make available to the Bank and the customers, new processes/ features and products or make existing processes more efficient and robust, using the latest technological resources. Within the company, emphasis is given to the implementation of the solution for the mortgage loan process that provides a new form of contracting, using the new technologies, the evolution of the use and maturity of the data lake in processing information. Externally, the emphasis is on the implementation of major improvements to the solutions provided via the Internet and mobile channels with the introduction of new features and graphics modernization to simplify and improve the experience of our digital customers and the launch of a transfers App supported by blockchain technology. Within the context of the digital channels, initiatives associated with Open Banking were also implemented and PSD2 directive was complied with. With regard to development methodologies and process during 2019, the adoption of the Agile/ Scrum methodologies was further strengthened, with extension to more teams and with increased maturity in the teams already using these approaches. Additionally, the Technology area has implemented initiatives to ensure compliance with the requirements of a legal or regulatory nature, as well as implementation of the recommendations arising from internal and external audits and of projects of a corporate nature sponsored by the parent company.

End-user equipment was subject to technological renovation and the communications network equipment was renewed.

The year under review was a decisive year for the Bank in the adoption of Cloud, over half of its services having been migrated to this new technology.

People Management

Introduction

The pursuit of Santander's digital transformation policy must necessarily have been reflected in the way in which the Bank manages its employees, that is, how their skills and talents can be transformed and aligned with the needs that will arise immediately and in the coming years.

As leverage of the promotion of this digital transformation a new brand was created: #OEfeitoSantander. This brand replaces the previous one – Somos Santander – and is intended to tell a single story, in all geographies, demonstrating, internally and externally, how small gestures can generate great effects.

In order to improve the Bank's overall performance, the leadership was identified as a strategic axis of action, in that this factor has impacts at the level of employee engagement. Leadership commitments were therefore created to be used by the Bank's senior staff, with a focus on the following areas of action: (1) being open and inclusive; (2) inspiring and implementing the transformation; (3) leading by example; and (4) supporting the progress of the team.

To be the best company to work for is also one of Santander's key corporate objectives in the various geographies where it is present and, for this reason, it has been consolidating the work done in previous years, notably improving processes that simplify the employee's experience. There are more than 60 measures available to employees. Their constant follow-up and monitoring, besides allowing their degree of accession to be assessed, also permits detection of their level of acceptance.

StarmeUp

One of the aims of the activity of the People Management area is to promote, encourage and consolidate the elements of the Santander culture and support the process of cultural and digital transformation. One of them is of recognition, a corporate digital platform that allows each employee to distinguish colleagues of all geographies where Santander is present.

StarmeUp is **Simple**, employees can assign stars on their mobile phone or on the website; it is **Personal** in that one can freely choose whom they want to distinguish regardless of the country of the addressees; and it is **Fair** because it recognises those who stand out for their actions that coincide with the values of the Bank.

Monthly, each employee may assign 10 stars representing the eight conducts of Santander's culture: "Actively collaborate", "Bring Passion," "Embrace Change," "Keep promises," "Show Respect", "Support People", "Talk Straight" and "Truly Listen."

2019 Santander Week

Every year in June, the Santander Group, in all countries where it operates, carries out what is known as "Santander Week", aimed at employees, within the scope of which numerous activities and events take place. The intention is to strengthen the relationship between the teams, hierarchies, employees and customers.

In short, there were masterclasses, workshops, award of 105 watches at a commemorative ceremony for employees who have completed 30 years of seniority at the Bank and an exhibition of paintings of an employee was organised.

BeHealthy Programme

Santander has a corporate programme that aims to promote and create healthy lifestyles for its employees based on four development pillars:

- Know Your Numbers: Provision of means to get to know health indicators, score improvement targets and prevent health risks;
- Eat: Raise awareness of the benefits of eating healthily and combating excess weight;
- Be Balanced: Help manage balance at work, promoting ways to improve output, in particular through Mindfulness;
- Move: Promote physical exercise and fitness at work. Monitor progress and inspire a healthy lifestyle.

In Portugal, in 2019, the concept of health and wellness was allied to the topic of sustainability and so, every day of the week, a topic was assigned that combined activities of both areas:

- Positive energy day (advice on reducing electricity consumption);
- Paperless day (suggestions for reducing paper consumption);
- Plastic-free day (recycle and contribute to a planet with less waste);
- Emissions-free day (environmental impact);
- *BeHealthy* day (encouraged the use of Flex Friday).

Additionally, and in order to encourage employee participation in the common goal of achieving a plastic-free bank, personalized glass bottles (engraved with the name of each employee) were distributed to all employees to replace the bottled water in disposable plastic.

Also in this connection, and once again, Santander signed up for the WWF initiative (World Wide Fund for Nature) "Earth Hour", celebrated on March 30, turning off the lights at the Santander Centre in Lisbon during two hours.

Junior Achievement

The aim of JA – Junior Achievement, is to inspire future generations, promoting entrepreneurship amongst the young, through volunteers whose action take place at schools.

The collaboration of Santander with JA Portugal started in 2006 and since then it has already impacted on more than 11,500 students, involving a total of more than 8,100 volunteer hours. "One is not born an entrepreneur, it is learned!" is the motto that has motivated the participation of the Santander volunteers.

Excellence Award

It is the Bank's recognition of the children of employees who complete secondary schooling with an average of 16 or more marks. This measure also arose to reward what is considered to be a reflection of the merit of the parents who encourage meritocracy and transmit to their children the importance of doing well.

The prizes awarded in 2019 have been adjusted to something that the Bank considers very relevant to the stage of life at which these young talents are, leading to the grant of a gift card of an amount equivalent to three years, two years and one year of university fees, involving a total investment of more than €77 thousand euros by the Bank. These prizes were awarded on October 23 at the Auditorium of the Santander Centre, in Lisbon, at a ceremony attended by the Chairman of the Bank's Executive Committee, by the person responsible for the People Management Area and by the winners and their families.

Development

The total number of employees included in training courses - face-to-face and e-learning, totalling 381 training courses was 6,300, and 87% was in the form of e-learning. In 2019, a total of 239,161 training hours were provided, corresponding to 38 hours per employee. Investment in training in 2019 amounted to €2.15 million euros.

Additionally, and to support digital transformation and promote the development of each employee, the following initiatives were also promoted.

Creation of the Training Academy

A new training space was inaugurated, comprising nine rooms specially conceived for the various types of learning, with rooms for coaching or mentoring, for more technical or behavioural training, which are easily adaptable to accommodate large or small training courses.

Culture and Digital School

The Culture and Digital School aims to be a space for sharing and knowledge to support employees in the process of cultural and digital transformation. It uses a participatory and collaborative approach in the search for new ideas and solutions.

To date, 19 master classes have been held, involving a total of 3,500 attendees. "Going Digital", "Fintech Revolution", "Creativity Tools", "Innovation and Entrepreneurism" were some of the topics addressed in partnership with the Universidade Nova de Lisboa SBE. The balance is very positive, attested through good levels of participation.

Parental Coaching

As from October 2019, to help employees in the balance between personal and professional life, the Bank has provided parental coaching sessions for those whom who have become mother or father, recently returned to the workplace or still on parental leave.

The sessions are an opportunity to create and implement a change management plan, with a close, personalized monitoring by experts in parental coaching.

The sessions can be attended remotely by WhatsApp, Facetime, Skype, phone, or in person in Lisbon and Porto at the Santander premises. They last an hour and are scheduled in keeping with the availability of both parties.

Unique Christmas Tree in 2019

In 2019, the Christmas tree of the Santander Centre brought together the Christmas season and the concept of sustainability and good environmental practices. And for that reason the Christmas decorations consisted of 2,400 trees, including cork oaks, cedars, oaks, chestnut, pine which, in January 2020, were planted by a group of volunteers in the Buçaco woods. This initiative, falling within the scope of the Santander environmental sustainability policy, also aims to raise awareness of good environmental practices.

Indicators

% employees (female)	45%
% employees (male)	55%
% directors and managers (female) / total	34%
% employees with higher education	56%
Average age (years)	45.8

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of December 2019, Banco Santander Totta returned a consolidated net income attributable to the shareholders of BST of €489.5 million, a growth of 4.1%.

The return on equity (ROE) stood at 13.8% and the efficiency ratio was 46.0%, with an improvement of 4,5pp compared to December 2018, resulting from the 6.3% increase of operating income and the 3.3% decrease of operating costs.

Loans and advances to customers (gross) amounted to €40.3 billion, a decrease of 1.2% compared with the same period last year, influenced by the sale of non-productive portfolios. Loans to individuals grew by 0.7% and loans to corporates fell by 3.0%.

The Non-Performing Exposure amounted to 3.3%, down 0.9pp, compared to the 4.2% reported the previous year, with a coverage by provisions of 53.1%.

Customers' resources amounted to €43.2 billion, up 6.5% compared to 2018, with a 5.7% increase of deposits and a 10.6% increase of off-balance sheet resources.

The fully loaded Common Equity Tier 1 ratio stood at 15.1%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process, an increase of 1.5pp compared to the end of 2018.

The reserve of assets available to immediately obtain liquidity totalled €11.6 billion at the end of 2019.

The funding obtained from the Eurosystem remained stable at €3.1 billion, based on medium-term instruments contracted within the context of European monetary policy measures (TLTRO). Net exposure to the European Central Bank (borrowings net of investments with this institution) stood at €0.3 billion. Short-term funding achieved through repos amounted to €1.7 billion.

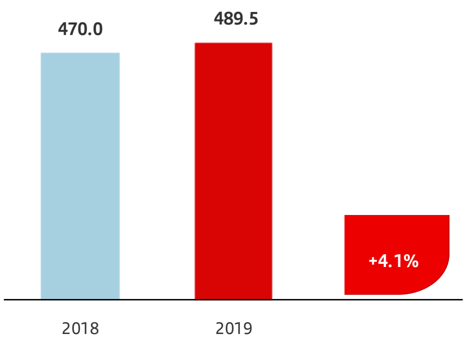
Funding through covered bonds fell, after maturity, by €0.75 billion euros in the first half of 2019, and it was not necessary to renew it.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the EBA, rules, stood at 134%, meeting the regulatory requirement.

Santander in Portugal has the sector's best financial ratings. In March 2019 Standard & Poor's raised the Bank's rating to BBB in long-term debt. The Bank's current long-term debt risk ratings in comparison with those of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa3 (Portugal – Baa3); Standard & Poor's – BBB (Portugal – BBB); and DBRS – A (Portugal – BBB high).

CONSOLIDATED NET INCOME
ATTRIBUTABLE TO THE SHAREHOLDERS OF BST

million euro



CONSOLIDATED INCOME STATEMENTS (million euro)	2019	2018 (1)	Var.
Net interest income	**854.5**	**866.7**	**-1.4%**
Income from equity instruments	1.8	1.6	+11.7%
Results from associates	2.5	7.2	-64.6%
Net fees	384.9	370.2	+4.0%
Other operating results	(22.2)	(11.1)	+100.5%
Commercial revenue	**1,221.4**	**1,234.6**	**-1.1%**
Gain/losses on financial assets	71.7	(17.7)	-
Net income from banking activities	**1,293.1**	**1,217.0**	**+6.3%**
Operating costs	(594.7)	(614.7)	-3.3%
Staff Costs	(342.3)	(354.6)	-3.5%
General Administrative Costs	(203.2)	(218.9)	-7.2%
Depreciation in the year	(49.3)	(41.3)	+19.2%
Net operating Income	**698.4**	**602.2**	**+16.0%**
Impairment, net provisions and other results *	(0.2)	40.0	-
Income before taxes and non-controlling interests*	**698.2**	**642.2**	**+8.7%**
Taxes*	(208.8)	(192.5)	+8.4%
Income after taxes and before non-controlling interests*	**489.5**	**449.7**	**+8.9%**
Non-controlling interests	(0.0)	0.2	-
Non-recurrent results	0.0	20.1	-100.0%
Consolidated net income attributable to the shareholders of BST	**489.5**	**470.0**	**+4.1%**

* Excludes non-recurrent results

(1) Proforma 2018 result with reallocations of some accounting concepts between different income account items, for greater comparability with the 2019 accounts

(1) Impact, by concept, of the reclassifications in 2018
(million euro)

Net fees	-6.0
Other operating results	10.8
Staff costs	-1.7
General administrative costs	-3.0
Impairment, net provisions and other results	-22.7
Taxes	22.7

In 2019, net interest income stood at €854.5 million, down 1.4% compared to the €866.7 million at the end of 2018, reflecting the decrease of the loan-portfolio interest (volume and interest rate effect), partially offset by the reduction of interest paid on deposits and other resources in a competitive context of negative market interest rates moderate demand for loans.

The results from associates reached 2.5 million, compared with 7.2 million euros obtained in the same period.

Net fees amounted to €384.9 million, 4.0% higher that the figure at the end of 2018. This evolution was due to the increase of fees related to the management and maintenance associated with accounts, payment services and insurance, reflecting the commercial dynamic and the suiting of the pricing to the value of service provided.

Other operating results amounted to -€22.2 million, which included the 2019 and 2018 regulatory costs of €32.6 million (€20.3 million of the contribution to the Single Resolution Fund and €12.3 million to the National Resolution Fund).

The commercial revenue totalled €1,2221.4 million, 1.1% less than the €1,234.6 recorded a year earlier.

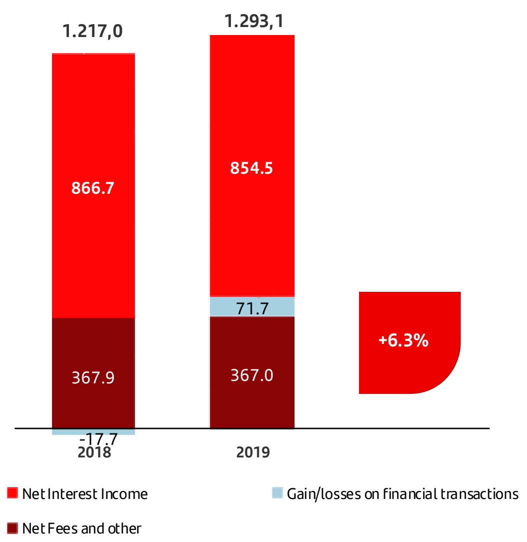
Gain/losses on financial assets amounted to €71.7 million, compared with -€17.7 million observed in 2018. The favourable evolution resulted from the management of the public and private debt portfolios and the revaluation of the portfolio at fair value.

Net income from banking activities amounted to €1.293.1 million, an increase of 6.3% over the amount at the end of December 2018, with the favourable contribution of the results on financial assets and net fees, which more than offset the decrease of net interest income.

At the end of 2019, 66% of the net income from banking activities was originated net interest income, 30% by net fees and 4% by other results.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs totalled €594.7 million, a 3.3% YoY decrease. This evolution reflects the impact of the improvements involving optimization of the distribution network and of the organizational structure, with the consequent reduction in the number of employees and attendance points, in parallel with the investment focused on technological innovation and business transformation.

Staff costs amounted to €342.3 million, down 3.5% year-on-year, and there was a reduction of 233 employees last year.

General administrative costs amounted to €203.2 million, a year-on-year decrease of 7.2%, with 30 attendance points closed last year.

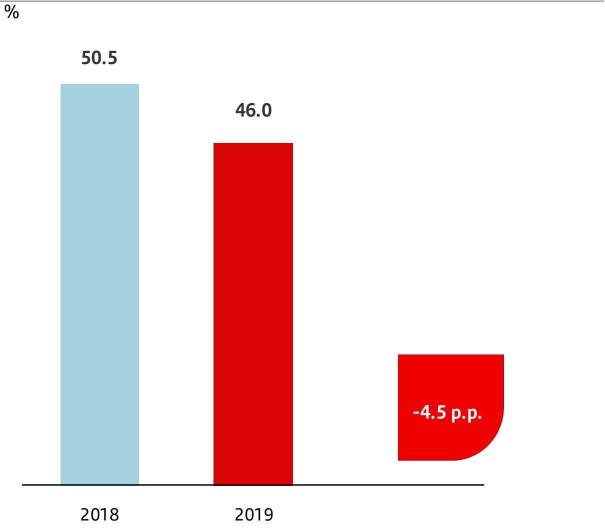
Depreciation in the year amounted to €49.3 million, up 19.2% compared to the end of 2018, influenced by the adoption of IFRS16, with effect as from January 1, 2019, which led an increase of costs of about €6 million, a variation contrary to that of general administrative costs.

In the operating costs structure, it can be seen that staff costs account for 58% of the total, followed by general administrative costs at 34% and depreciation in the year at 8%.~

OPERATING COSTS (million euro)	2019	2018	Var.
Staff costs	(342.3)	(354.6)	-3.5%
General Administrative Costs	(203.2)	(218.9)	-7.2%
Depreciation in the year	(49.3)	(41.3)	+19.2%
Operating costs	**(594.7)**	**(614.7)**	**-3.3%**
Efficiency ratio	**46.0%**	**50.5%**	**-4.5 p.p.**

In December 2019, there was an improvement in operating efficiency compared to the end of December 2018, seen in the efficiency ratio, which decreased 4.5pp, down from 50.5% to 46.0%, the result of the good 6.3% growth in net income from banking activities and of the 3.3% reduction of operating costs.

EFFICIENCY RATIO



The net operating income of €698.4 million rose by 16.0% year-on-year.

Impairment, net provisions and other results entailed a cost of €0.2 million. The special levy on the banking sector in the amount of €28.3 million, was offset by the low default rate, recoveries of past-due loans and gains on the sale of non-performing loans, and the results of non-current assets held for sale in the amount of €28.7 million.

Income before taxes and non-controlling interests amounted to €698.2 million, an increase of 8.7% compared to €42.2 million in 2018.

Taxes totalled €208.8 million, an annual increase of +8.4% compared to the €192.5 million recorded a year earlier.

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

At the end of 2019, Banco Santander Totta returned a consolidated net income attributable to the shareholders of BST of €489.5 million, a growth of 4.1% compared to the sum of €470.0 million last time, generating a return on equity of 13.8%.

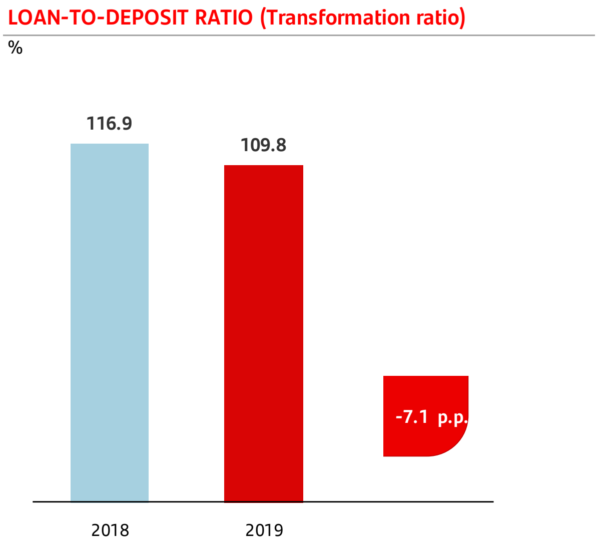
Balance Sheet and Business

At the end of 2019, business volume amounted to €83.4 billion, up 2.7% compared to the 2018 amount of €81.3 billion, resulting from the 6.5% increase of customers' resources, which offset the 1.2% decrease of loans and advances to customers (gross).

BUSINESS VOLUME (million euro)	2019	2018	Var.
Business Volume	**83,436**	**81,276**	**+2.7%**
Loans and advances to customers (gross)[1]	40,262	40,738	-1.2%
Customers' Resources	43,174	40,538	+6.5%

[1] Includes other balances receivable at amortised cost

The loan-to-deposit ratio stood at 109.8% in December 2019, 7.1 percentage points less than the 116.9% observed at the end of 2018, the result of the growth of deposits, in a context of low interest rates, and of the decrease of loans.



At the end of December 2019, the portfolio of loans and advances to customers (gross) stood at €40.3 billion, down 1.2% compared to the same period last year, influenced by the management of non-productive exposures through the sale and write-off of loans from the loan portfolio. Excluding the effect of these transactions, the portfolio of loans to customers would have been nearly stable compared to the figure recorded in December 2018.

LOANS (million euro)	**2019**	**2018**	**Var.**
Loans and advances to customers (gross) [1]	**40,262**	**40,738**	**-1.2%**
of which			
Loans to individuals	21,788	21,640	+0.7%
of which			
Mortgage	19,654	19,543	+0.6%
Consumer	1,707	1,635	+4.4%
Loans to corporates	17,654	18,197	-3.0%

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

[1] Includes other balances receivable at amortised cost

Loans to individuals stood at €21.8 billion, a YoY increase of 0.7%, across its major components.

Mortgage loans rose 0.6% to €19.7 billion, with a market share of new loans of about 20%, in a favourable context of the Portuguese real estate market, and with the provision of a new platform that led to the reduction in the average time required to take out a loan.

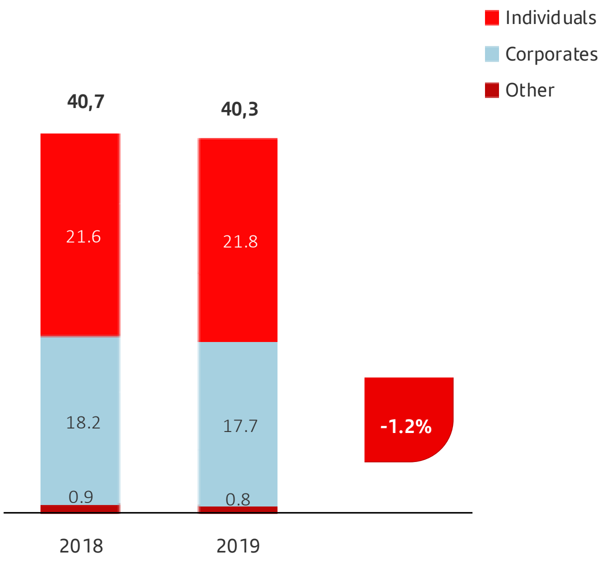
Consumer credit increased 4.4% to €1.7 billion, mainly for personal loans granted via the digital channels.

Loans to corporates stood at €17.7 billion, equivalent to a YoY decline of 3.0%, influenced by the sale of non-productive loan portfolios and by moderate demand by the economic agents. Emphasis is given to the dynamism of the Bank's commercial activity, seen in the market share of new credit loans to companies of around 20% reflecting the support granted to the Portuguese business community.

In the structure of loans and advances to customers, the individuals and corporates portfolios accounted for 54% and 44% of total loans and advances respectively.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



At the end of 2019, the Non-Performing Exposure (NPE), calculated in keeping with the EBA definition, stood at 3.3%, a decrease of 0.9pp over the same period last year. The non Performing Exposure coverage ratio stood at 53.1% (up 2.1pp compared to the 51.0% recorded in December 2018). The cost of credit, measured by the net impairment of recovery of loans previously written off from assets as a percentage of the average balance of the loan portfolio, stood at -0.02%, reflecting the improvement of loan impairment, with few entries into default, recovery of loans previously written off from assets and sale of portfolios, and the reduction of loans and advances to customers.

The improvement of the loan quality indicators highlights the Bank's strict policy for the grant and control of credit and the strategy of reduction of non-productive assets, as well as the economic environment, marked by low interest rates and the favourable evolution of the labour market.

CREDIT RISK RATIOS	2019	2018	Var.
Non-performing exposure Ratio	3.3%	4.2%	-0.9 p.p.
Non Performing Exposure coverage ratio	53.1%	51.0%	+2.1 p.p.
Cost of credit	(0.02%)	0.01%	-0.02 p.p.

At the end of December 2019, customers' resources totalled €43.2 billion, up 6.5% compared to the same period last year, demonstrating customer loyalty, supported by the performance of deposits (annual growth of 5.7%) and of off-balance sheet resources (10.6% more than at the end of December 2018).

RESOURCES (million euro)	2019	2018	Var.
Customers' resources	**43,174**	**40,538**	**+6.5%**
On-balance sheet resources	35,873	33,940	+5.7%
Deposits	35,873	33,940	+5.7%
Off-balance sheet resources	7,301	6,598	+10.6%
Investment funds marketed by the Bank	3,066	2,595	+18.2%
Insurance and other resources marketed by the Bank	4,235	4,003	+5.8%

Deposits in the amount of €35.9 billion, were up 5.7%, making a contribution of 83% of total customers' resources, the main source of financing the balance sheet, and reflecting the activity of commercial network and the financial soundness of the Bank, which reinforces the trust of customers, in a context of interest rates at historic lows.

Off-balance sheet resources stood at €7.3 billion, up 10.6% over the figure determined in December 2018. Investment funds marketed by the Bank, in the amount of €3.1 billion increased by a significant 18.2% over the previous year, due to the diversification of customer investments, within a framework of appreciation of the financial markets. Insurance and other resources marketed by the bank of €4.2 billion were up 5.8% year-on-year, influenced by the insurance activity.

Solvency Ratios

At the end of 2019, the Common Equity Tier 1 (CET 1) ratio calculated in accordance with the CRR/CDR IV rules, stood at 15.1% (fully loaded), an increase of 1.5pp compared to last year, reflecting the capacity for organic generation of capital, as well as the management of risk-weighted assets.

The Bank maintains fairly high capital levels, which is a very comfortable margin over the minimum requirements of the European Central Bank under the SREP (Supervisory Review and Evaluation Process).

CAPITAL (million euro)	**2019**	**2018**	**Var.**
Common Equity Tier 1	**2,820**	**2,717**	**3.8%**
Tier 1 Capital	2,820	2,717	+3.8%
Total Capital	3,228	2,739	+17.9%
Risk Weighted Assets (RWA)	**18,681**	**19,980**	**-6.5%**
CET 1 ratio	15.1%	13.6%	+1.5 p.p.
Tier 1 ratio	15.1%	13.6%	+1.5 p.p.
Total Capital Ratio	17.3%	13.7%	+3.6 p.p.

RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

On January 30 2020, the World Health Organization declared the SARS-CoV-2 virus epidemic that causes COVID-19 disease, a public health emergency at international level. On March 11, 2020, the World Health Organization ranked the said virus as a pandemic, urging states "to implement urgent and aggressive action" to combat it, stating that "all countries should achieve a balance between protecting health, minimizing economic and social disruption and protection of human rights".

After its appearance in December 2019 in the city of Wuhan, Hubei Province, in China, and its fast spread to Asian countries, the epidemic quickly spread to the United States and Europe, and there are fears that it will quickly spread to the African continent as well. As the pandemic comes to be increasingly global, the authorities, at national or global level, do not predict the time that the pandemic could continue or its impact at economic and social level, since existing estimates are subject to a multitude of variables not controlled by the authorities, starting with the effectiveness of the exceptional measures enacted in the meantime.

In this context, given the exceptional situation faced and the proliferation of cases of COVID-19 infection in Portugal, the Portuguese authorities have established temporary and exceptional measures relating to the epidemiological situation.

The measures taken to contain the spread of the virus and of the disease aim to restrict to a minimum contact between people and between them and goods or physical structures, imposing, in particular, restrictions to circulation on the public highway, performance of professional duties from home and rules applicable to the working or suspension of certain types of facilities, establishments and activities, regulating those that, for their essential nature, must remain in operation, which include banking, financial and insurance services.

THE OUTLOOK FOR 2020

As stated above, the global pandemic associated with Covid-19 is a fact of particular import in 2020. Santander in Portugal is monitoring the evolution of the outbreak of Covid-19, using the information that comes to be available to assess the potential impact on its business.

In this connection, it should be noted that Santander in Portugal has operational-risk management instruments, including a Business Continuity Plan (BCP). This plan was activated to ensure the best safety conditions for all employees, customers and suppliers charged with ensuring the continuity of the financial services and the maintenance of banking operations with the possible normality and fluidity, a set of risk-mitigation measures having been implemented in order to ensure the normal working of the business.

As set out in the chapter on the risks and uncertainties for 2020, it can be expected that the economic activity is set to be strongly negatively affected, and may induce a recession in the world economy and, consequently, in Portugal.

In the current context, in light of the existing uncertainty, both as to duration and as to the scale of the Covid-19, it is not possible to quantify the potential impacts on the business which will essentially derive from external factors affecting the demand for banking products and services, the assessment of which is difficult with the information currently available, as there is still no data to assess the depth of the impacts, nor even their duration.

In this adverse scenario, Santander in Portugal maintains its strategic lines previously defined, in particular, support for households and businesses, in a year that many difficulties for all economic agents are to be expected.

In the short term, the Bank's first priority is to support people, particularly employees, customers and suppliers, in order to mitigate the effects of the pandemic. In this connection, Santander in Portugal not only implemented the moratoriums on mortgage and corporate loans, in line with the decisions taken by the Portuguese government, but also adopted an additional set of extraordinary and temporary measures, with emphasis:

(1) For individual customers, the ability to sign up for a solution of capital repayment grace period during 6 months for loans that are in good standing and are not covered by the moratorium approved by the Portuguese state (such as mortgage loans for other purposes or personal loans). These renegotiations will be free from commissions related to alteration of the characteristics of the loan;

(2) For corporate customers, the Bank immediately implemented the moratorium approved by the Portuguese state, with the renegotiation of the loans, which are in good standing, offering also a grace period of the principal, without any alteration of the spread of the operations and without charging any contract-modifications commission. To satisfy additional short-term cash requirements, the Bank maintains unchanged all the contracted credit limits, both of a revocable and of an irrevocable nature, with no change of the spread conditions or other associated commissions. Also within the scope of the support lines that the state launched to help businesses, particularly those most affected by the pandemic, the Bank adopted the procedures necessary for the prompt provision of loans.

(3) To simplify the use of digital channels and reduce their cost of use, Santander has suspended the collection of the monthly POS charge and exempts the application of a minimum value of the transactions that are made. To support "contactless" transactions Santander has also suspended the collection of all MBWay service commissions on the POS.

Despite this very difficult background, the Bank maintains its defined objectives, pursuing its transformation strategy, based essentially on i) process digitalisation and optimisation, in particular through greater innovation in the digital channels and strengthening of multi-channel distribution model in order to provide a more complete service accessible to our customers, ii) increasing market shares and customer loyalty by strengthening, among other things, our position with the SMEs, iii) maintaining a low cost of credit and iv) maintaining a solid capital position in line with the new regulatory requirements.

Santander in Portugal will also continue to focus on being a Responsible Bank, boosting sustainable and inclusive growth of Society, reducing social and economic inequalities of the population and supporting, at the same time, the development of the Communities where it is present, which results in the promotion of sustainable consumption through products such as the Santander Sustainable Fund and the financing of renewable energy and green technologies, thus supporting the transition to a low carbon economy.

RISK MANAGEMENT

Introduction

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

The creation and implementation of the *RiskPro* programme, put into practice by implementing a Risk Culture disclosed throughout the company and is now present across the business, reinforces these principles at the level of the structure Bank, decisively influencing the way in which all processes carried out, taking into account not only the surroundings but also the attitudes, behaviours, values and principles that each of us demonstrates with regard to the different types of risks we face.

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

Main vectors of the business in 2019

- Maintenance of the segmentation principle the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers and of the products, and of the rigour of the admission criteria and, consequently, of the quality of the risks accepted in each of the segments, with a view to the preservation of good quality of the loan portfolios.
- At the level of portfolio risks the policy was maintained of proximity with the customers, in order to anticipate their needs, reviews of their credit lines and forestalling possible problems in their repayment ability. This action and the loan quality of the customers, allowed the non-performing loans (NPL) ratios to be kept under control and at acceptable levels.
- Fostering the business support levels in attracting new good-risk transactions and customers, and implementation of improvements in the processes with a view to responding to customer requests more effectively and quickly.
- In portfolio and customer monitoring, maintenance of the permanent focus on surveillance of lower-rating segments and on sectors that are, or are expected to be, affected by the macro-economic context, with a view to mitigating the NPL ratios.
- Holding customer monitoring and review meetings, the Bank's usual practice for the early detection of loan-portfolio alerts.
- Continuation of the review, development and application of improvement measures in the management of the new-loan admission process, always with a view to improving the quality of the service provided to customers.
- In standardized (or not portfolioed), updating and maintenance of automatic decision models, in particular the scoring comportment systems used in the Individuals and Businesses segments.
- In the matter of standardised risks, maintenance of the focus on ensuring portfolio quality, while continuing to provide a range of debt-restructuring products and solutions to adapt the customers' charges to their repayment capacity and current and future disposable income. To this end, the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to its customers.
- Conducting marketing campaigns for the Businesses segment in order to maintain the commercial engagement and customer cross selling and, at the same time, enhancing the attraction of new customers.
- Strong focus on loan-recovery activity, with increased agility of intervention, where NPL ratios are still important but less significant. Underscored is the activity of mass management of recovery activity and permanent monitoring of special and judicial/extra-judicial cases.
- Maintenance of the policy of strengthening negotiations with a view to reduction of the number of payments in kind, so that, when they do occur, the focus will be on obtaining payments in kind rather than judicial action.
- The process also took place of modernisation of the recoveries area with regard to IT developments carefully pointed out by users as necessary, which aim to control the process from the entry into recoveries, relations with the lawyers and executive action.
- Greater surveillance of the work methodology with a view to optimising the various processes for the purpose of "stressing" the model, increasing the efficiency of the resources and the effectiveness of the actions to bring loan recoveries forward.
- In corporate risk management, a permanent focus on knowledge and monitoring of the loan portfolio, with a view to strict control of its risk, seeking to provide adequate and timely management information in order to allow measures to be taken with a view to proper management of the Bank's risks;

Credit Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit-Risk Cycle

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

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

Planning and establishing limits

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

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

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

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

Study of the risk, transaction decision and monitoring and control

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

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

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

Recoveries

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

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

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

Counterparty risk

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

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

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

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

During 2019 actual exposure of the transactions on interest-rate indexes (Euribor) decreased sharply, reflecting the evolution of medium- and long-term market rates. With regard to exposure to Financial Groups, structural interest-rate risk hedging transactions were maintained, having the LCH

Clearnet as clearing house. Securitisation transactions from the former BANIF were included. The amount of the exposure of the derivatives with the Financial Groups fell significantly due to the increase of the Initial and Variation Margin from LCH.

Derivatives - Credit Risk Equivalent - 31/12/2019 (thousand Euro)

	<1 year	1-5 years	5-10 years	>10 years	Total
Interest rate derivatives	75,539	665,449	20,869	178,494	940,352
Exchange rate derivatives	20,038	2,361	785	3,147	26,332
Equity derivatives	3	0	0	0	3
Total	**95,581**	**667,810**	**21,655**	**181,642**	**966,688**

Balance-sheet risk

Control of the balance-sheet risk

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

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

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

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

The LCR (Liquidity Coverage Ratio), calculated in accordance with the EBA, rules, stood at 134% as at 31/12/2019.

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

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

Management of the balance-sheet structural risk

Santander in Portugal's policy is to maximise the available liquidity cushion to cope with adverse liquidity events. In 2019 the liquidity reserve increased by around €2.6 billion. Besides the active measures to generate eligible assets, the reduction of the commercial gap and consequent reduction of liquidity needs allowed a liquidity reserve totalling €11.6 billion to be achieved, available to cope with any unexpected events impacting on the Bank's liquidity situation.

During the 2019, there was a progressive reduction of the commercial gap, mainly through the increase of the customers' deposits base, closing the year with a loans-deposits ratio of 109.8%, compared to 116.9% at the close of 2018.

The funding obtained from the European Central Bank has been kept solely in long-term operations: €3.1 billion of TLTROs. The increase of the customers' deposits base allowed a reduction of the net exposure to the Eurosystem, standing at around zero at the end of 2019 (about €0.3 billion).

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

In terms of long-term funding, besides the €3.1 billion by the ECB, Santander in Portugal closed 2019 with about €0.7 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank with a view financing structural projects of the Portuguese economy, and also €2.75 billion of covered bonds.

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

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

Market Risk

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

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

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

Methodologies

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

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

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

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

Calibration and contrast measures (Backtesting)

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

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

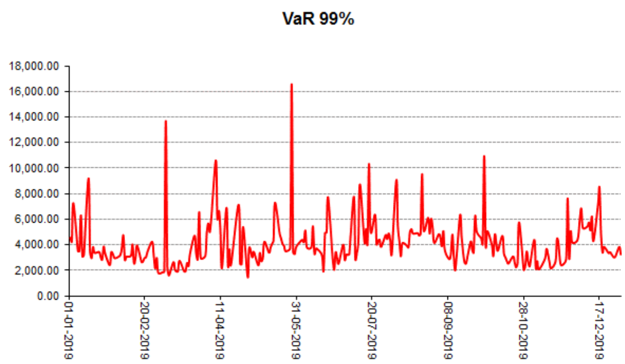
Limits

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

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

Quantitative analysis of the VaR throughout the year

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



VaR remained low, ranging between €2k and €17k.

Operational Risk

Banco Santander defines operational risk as "the risk of loss arising from shortcomings or errors in internal processes, human resources or systems, or derived from external circumstances".

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

The main objective in the matter of operational risk control and management is the identification, evaluation, measurement, control, mitigation and reporting of that risk, and the identification and mitigation of then sources of risk constitute a priority for the Bank regardless of whether they have given rise to actual losses or not.

For the purpose of calculation of own-funds requirements and in the matter of hedging the operational risk, the Group opted for the standard method laid down in the BIS II rules.

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

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

The operational risk function is structured in three lines of defence.

The first line of defence consists of the business and support areas. The first line is therefore responsible for the operational risk generated in its areas, the main function of which is the identification, assessment, monitoring, mitigation and reporting of thus risk.

The second line of defence is responsible for overseeing the effective control of the operational risk in its different variables and to assess whether it is managed in accordance with the tolerance levels set for the purpose.

The second line of defence is an independent function and complements the first-line management and control functions.

The third line of defence comprises the Internal Audit. This area assumes control functions and periodically assesses whether the policies, methods and procedures are properly implemented.

The various stages of the management and control model allow:

- Identification of the operational risk inherent in all the Bank's activities, products, processes and systems.
- Definition of the operational risk profile, by measuring metrics and indicators by area and time horizon, and establishment of tolerance limits and risk appetite.
- Drawing up and monitoring the operational risk budget.
- Promotion of the involvement and integration of all employees in the operational risk culture by conducting training in the matter of operational risk.
- Measurement and assessment of the operational risk in an objective, continuous and coherent manner, based on regulatory and other requirements.
- Conducting continuous and systematic monitoring of the sources of exposure to risk and implementation of the respective control mechanisms to minimize possible losses.
- Establish mitigation measures and actions that reduce the operational risk.
- Make periodic operational risk presentations and reports, and disclose them to the various management and supervision bodies (internal and external).

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

- Promotes the development of an operational-risk culture.
- Allows full and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information).
- Improves knowledge of the operational risks, both real and potential, and establishes their relationship with the business and support lines.
- Increases the improvement of processes and controls and reduces potential losses.
- Simplifies the establishment of operational-risk appetite limits.

As regards the identification, measurement and assessment of operational risk, several quantitative and qualitative instruments were defined, which together permit a diagnosis in the field of operational risk and classification/ evaluation of the different areas in relation to the management their own risk.

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

- Internal database, the objective of which is to log operational-risk events, with or without possible any accounting impacts. There are accounting-reconciliation procedures that ensure the quality of the information contained in the database.
- External database that provides quantitative and qualitative information and simplifies a more detailed and structured analysis of relevant events that may occur in the sector.
- Scenario analysis, in which various business areas, second line and operational-risk co-ordinators take part, with the objective of identifying potential events entailing low probability and high severity for the institution. The possible impact is assessed and, if necessary, additional controls and/or mitigation measures are identified that will minimise their impact.

The qualitative analysis allows an assessment of aspects related with the risk profile. The instruments used are fundamentally:

- Operational Risk Self-assessment, whose main objective is to identify and assess operational risks in relation to existing controls, and identify possible mitigation measures.
- Indicators, which are statistics or parameters that provide useful information about risk exposure. The indicators and the respective limits are reviewed and adjusted periodically.

- Recommendations of the internal and external audit and regulators that provide relevant information on the risk, allowing identification of possible weaknesses and improvement measures.

Additionally, there is also a set of various tools that complement and ensure a solid control environment, in particular:

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

The Bank implemented an advanced operational-risk management programme, having as main its objectives the involvement of all employees and management bodies in the control and mitigation of the operational risk. The implementation and disclosure of the Banco Santander risk culture allow more efficient evaluation and monitoring of the operational risk and simplify decision-making by the business areas and Management.

The Bank continues to act to improve the efficiency of the operational-risk management tools, including a specific application that is used by the first lines of defence and the various control areas. This tool enables synergies to be generated among the different areas and fosters promotes the use of common assessment and risk control methodologies. It is an integrated tool that incorporates the institution's risks, the event database, the control system, the metrics/ indicators and the action/ risk-mitigation plans.

Compliance and Reputational Risk

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

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

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

In accordance with the applicable legal and regulatory framework, the Bank has set up a compliance function under the Compliance and Conduct Area, the first line in the hierarchy of the Bank, to which functional management of the Compliance and Reputation risks is assigned. The management of the reputation risk is increasingly important at Banco Santander in Portugal and also at the Santander Group, now planning internal training courses specifically dedicated to this type of risk.

In parallel with these two risks, also of particular relevance is the Conduct risk, which impacts more on the relations been the Bank and its employees, customers and suppliers, among other aspects.

Without prejudice to all other aspects arising from the foregoing, the global policies relating to the Compliance and Reputation risks include various instruments (in particular, those listed hereunder for their special impact on the prevention and management of the said Compliance and Reputation risks, as well as of the Conduct risk:

- Corporate values that translate into concrete "behaviour" concrete, which govern the conduct of all employees;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct (with three dimensions: general; the relationship with customers; relating to and for the stock market);
- Marketing and regular product follow-up policies;
- Risk policy;
- Identification and management of conflicts of interest policy;
- Quality policy;
- Personal data processing and protection policy;
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them;
- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corporate defence policies;
- Reputation risk policy (and model of management of this risk);
- Policy for the financing of sensitive sectors (regulates the financing for certain sectors considered sensitive because

of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the involvement with these same sectors, in order to be able to identify and prevent the associated reputation risk);

- Defence policy (setting the criteria to be followed in financial activity related with this sector and providing an analysis procedure for all operations and customers covered in the sector).

Apart from the Compliance risk and the Reputation risk, the Bank also has a separate Sustainability and Responsible Banking area, in which other policies stand out, such as the *General Sustainability Policy*, *the Human Rights Policy*, the *Corporate Culture Policy* and the Social Purposes *Contributions Policy*.

In this connection mention should also be made of the social and environmental sectoral policies (energy, mines and mining sector and soft commodities), which are monitored by the Risk area, and define the criteria to be followed in the financial activity related to these sectors.

PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Net Income for the Year, in individual terms, in respect of 2019, was €499,714,615.94 (four hundred ninety-nine million, seven hundred fourteen thousand, six hundred fifteen euros and ninety-four cents) and the Consolidated Net Income in 2019 was €489,451,428 (four hundred eighty-nine million, four hundred fifty-one thousand, four hundred and twenty-eight euros).

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

- Legal Reserve: €49,971,462 (forty-nine million, nine hundred seventy-one thousand, four hundred and sixty-two euros);
- Retained Earnings: €449,743,153.94 (four hundred and forty-nine million, seven hundred forty-three thousand, one hundred fifty-three euros and ninety-four cents).

Taking into account the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors proposes not to distribute dividends.

Lisbon, April 21, 2020

THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION

Money laundering prevention

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

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

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

The system is audited annually.

The Bank drafted the Money Laundering Prevention and Terrorist Financing Report in accordance with Bank of Portugal Notice No. 5/2019 on the activity in these matters in 2019, having sent it to the Bank of Portugal after approval by the Board of Directors, with the prior opinion of the Supervisory Board.

Shareholder structure

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

Treasury shares movement

In keeping with the resolution passed by the Annual General Meeting held on May 20, 2019, Banco Santander Totta, SA, may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

On December 31, 2018, Banco Santander Totta, SA, held 407,130 treasury shares corresponding to 0.032% of its share capital. During 2019, it purchased 10,453 treasury shares, closing the year with 417,583 treasury shares, representing 0.033% of its share capital.

TRANSACTION WITH OWN SHARES - 2019

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2018	407,130	5.26	2,139,754	0.032%
Purchases	10,453	4.04	42,218	0.0008%
Disposals	0	-	0	
31/12/2019	**417,583**	**5.23**	**2,181,972**	**0.033%**

Movement of shares and bonds of the members of the management and supervisory bodies

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

	Entity	Number of shares at 31/Dec/2018	Transactions in 2019	Number of shares at 31/Dec/2019
António José Sacadura Vieira Monteiro*	Banco Santander, SA	**359,280**	22/02/2019 - shares deposit (corporate allocation): 58,276 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 13,237 shares - 4.29€/share	**430,793**
José Carlos Brito Sítima**	Banco Santander, SA	**71,971**	22/02/2019 - shares deposit (corporate allocation): 44,150 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 9,172 shares - 4.29€/share	**125,293**
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	**108,650**	22/02/2019 - shares deposit (corporate allocation): 43,914 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 9,655 shares - 4.29€/share 13/05/2019 - sale: 50,000 shares - 4.10€/share 19/06/2019 - sale: 50,000 shares - 4.04€/share	**62,219**
Amilcar Silva Lourenço	Banco Santander, SA	**16,193**	22/02/2019 - shares deposit (corporate allocation) : 9,205 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 1,999 shares - 4.29€/share	**27,397**
Ana Isabel Abranches Pereira de Carvalho Morais	Banco Santander, SA	**0**	-	**0**
Andreu Plaza Lopez	Banco Santander, SA	**134,725**	13/02/2019 - shares deposit (corporate allocation): 51,613 shares - 4.01€/share 07/03/2019 - shares deposit (corporate allocation): 13,019 shares - 4.29€/share	**199,357**
Daniel Abel Monteiro Palhares Traça	Banco Santander, SA	**0**	-	**0**
Inês Oom Ferreira de Sousa	Banco Santander, SA	**16,299**	22/02/2019 - shares deposit (corporate allocation): 20,252 shares - 4.01€/share 19/03/2019 - sale: 16,168 shares - 4.51€/share 25/03/2019 - shares deposit (corporate allocation): 936 shares - 4.29€/share	**21,319**
Isabel Cristina da Silva Guerreiro	Banco Santander, SA	**10,122**	22/02/2019 - shares deposit (corporate allocation): 6,551 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 978 shares - 4.29€/share	**17651**
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Banco Santander, SA	**0**	-	**0**
Manuel António Amaral Franco Preto	Banco Santander, SA	**107,942**	22/02/2019 - shares deposit (corporate allocation): 36,065 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 7,126 shares - 4.29€/share	**151,133**
	Totta Ireland	**1**	04/12/2019 - transference outside the international stock market	**0**
Manuel de Olazábal y Albuquerque	Banco Santander, SA	**0**	-	**0**
Maria Manuela Machado Farelo Ataíde Marques	Banco Santander, SA	**0**	-	**0**
Miguel Belo de Carvalho	Banco Santander, SA	**40,176**	22/02/2019 - shares deposit (corporate allocation): 17,374 shares - 4.01€/share 18/03/2019 - sale: 20,000 shares - 4.43€/share 25/03/2019 - shares deposit (corporate allocation): 3,276 shares - 4.29€/share	**40,826**
Remedios Ruiz Maciá	Banco Santander, SA	**45,531**	13/02/2019 - shares deposit (corporate allocation): 18,324 shares - 4.01€/share 07/03/2019 - shares deposit (corporate allocation): 2.624 shares - 4.29€/share	**66,479**

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

Duties performed 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
António José Sacadura Vieira Monteiro*	Santander Totta SGPS (Chairman of the Board of Directors)	Universia (Non-Executive Chairman); Vieira Monteiro Lda (Manager); Câmara Comércio Luso Espanhola (Deputy Chairman); Fundação Alfredo de Sousa (Board of Trusttees); Instituto Superior Técnico (Advisory Council); Nova (General Board)
José Carlos Brito Sítima**	Santander Totta SGPS (Deputy-Chairman of the Board of Directors)	Universia (Chairman General Meeting)
Pedro Aires Coruche Castro e Almeida	Santander Totta SGPS (Deputy-Chairman of the Board of Directors; Chairman of the ExCo (CEO)	ACEGE (Strategy Council); Centro Paroquial São Francisco de Paula (NE Director); ISEG (Advisory Council)
Amilcar da Silva Lourenço	-	-
Ana Isabel Abranches Pereira de Carvalho Morais	-	Instituto Superior de Economia e Gestão (Associate Dean); EPAL, Empresa Portuguesa das Águas Livres (Chairwoman of the Supervisory Board); Águas do Vale do Tejo, S.A. (Chairwoman of the Supervisory Board)
Andreu Plaza Lopez	Banco Santander SA (Senior Advisor to Group CEO)	Santander Consumer Finance (NE Board Member); Santander Global Technology, S.L. (NE Board Member); Santander Global Operations, S.A. (NE Board Member); Banco Santander, SA (Uruguay - NE Board Member)
Daniel Abel Monteiro Palhares Traça	-	Nova School of Business and Economics (Dean)
Inês Oom Ferreira de Sousa	-	Universia (NE Board Member); SIBS- FPS, SA (NE Board Member); SIBS SGPS, SA (NE Board Member); Unicre - Instituição Financeira de Crédito S.A. (NE Board Member); Associação EPIS - Empresários pela Inclusão Social (Advisory Council); Associação GRACE – Grupo de Reflexão e Apoio à Cidadania Empresarial (Advisory Council)
Isabel Cristina da Silva Guerreiro	-	Santander Bank Polska, S.A. (Supervisory Board Member NE)
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	-	Fundação Calouste Gulbenkian (Chairwoman); Instituto Superior Técnico (Advisory Council); Faculdade de Medicina da Universidade de Lisboa (Citizen's Council); Conselho das Ordens Nacionais Honoríficas (Vowel)
Manuel António Amaral Franco Preto	Santander Totta SGPS (Board Member; ExCo Member); Taxagest (Chairman);	-
Manuel Maria de Olazábal Albuquerque	-	MCH Private Equity (Advisory Council); Fulham Consulting S.L. (NE Board Member)
Maria Manuela Machado Farelo Ataíde Marques	-	Universidade Católica (Assistant Professor); Gerefinança (Manager); European Money Markets Institute (NE Board Member)
Miguel Belo de Carvalho	-	Fundação Económicas - Fundação Para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (Board Member)
Remedios Ruiz Maciá	Banco Santander SA (Global Head EWRM)	UCI SA (NE Board Member)

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

Net interest income

"Interest income" net of "Interest charge".

Net fees

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

Commercial revenue

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

Gain/losses on financial assets

Sum of "Financial assets and liabilities at fair value through profit or loss ", "Other Financial assets at fair value through other comprehensive income", "Exchange revaluation", "Disposal of other assets" and "Other", as presented in the income statement.

Net income from banking activities

Commercial revenue plus Gain/losses on financial assets.

Operating costs

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

Net operating income

Net income from banking activities minus operating costs.

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

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

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

Net operating income less impairments, net provisions and other results.

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

Income before taxes and non-controlling interests less taxes.

Non-recurrent results

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

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

Income after taxes and before non-controlling interests, less "non-controlling interests" plus other non-recurrent results (in 2018).

Efficiency ratio

Ratio between operating costs and net income from banking activities.

Loans / Deposits ratio (transformation ratio)

Calculated in accordance with Bank of Portugal Instruction 6/2018.

Commercial gap

Difference between "Credit granted and other balances receivable at amortized cost" and "Resources from customers and other debts".

Business volume

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

Loans and advances to customers (gross)

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

Loans and advances to customers (net)

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

Loans to individuals (mortgage and consumer) and companies

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

Non-performing exposure ratio

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

Cost of credit

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

Non-performing exposure coverage

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

Deposits

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

Off-balance sheet resources

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

Customers' resources

Sum of on-balance sheet resources (deposits) and off-balance sheet resources.

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

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

Return on Assets (RoA)

Ratio between net income and net assets.

Table of non-financial indicators

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

CORPORATE GOVERNANCE REPORT

I- Introduction

1. This report is prepared pursuant to Article 70(2)(b) of the Companies Code (CC) and Article 245 of the Portuguese Securities Code and is intended to comply with the duty of provision of annual information on the corporate governance structure and practices.
2. On December 13, 2018, the Bank's General Meeting approved the election of the Governing Bodies, including the members of the board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor for the 2019/2021 three-year period.
3. The Company Secretary was appointed by the Board of Directors on January 2, 2019 and will be in office during the 2019/2021three-year period.
4. On January 30, 2019, and after the competent supervisory authorities have issued their non- objection to the elected Directors starting their duties, the Board of Directors appointed, pursuant to Article 407 of the Companies Code and Articles 16 and 17 of the Bank's bylaws, an Executive Committee, a Risk Committee, a Remuneration Committee and an Appointments Committee.

II – Shareholder structure

5. The Bank's share amounts to €1,256,723,284, corresponding to a one billion, two hundred and fifty-six million, seven hundred and twenty-three thousand, two hundred and eighty-four ordinary shares of a par value of one euro.
6. Of the Bank's share capital 98.763% is held by the company Santander Totta SGPS, SA, which is directly controlled by the company under Spanish law Santusa Holding, SL, which holds a percentage of 99.848% in it.

   In turn, the company Santusa Holding, SL, is wholly owned by Banco Santander, SA, which is thus the dominant shareholder of Banco Santander Totta, SA.

   Of the remainder of the Bank's share capital there is still a percentage of 1.161% belonging to the company Taxagest - Sociedade Gestora de Participações Sociais, SA, a company equally under the full control, direct or indirect, of the companies Santander Totta, SGPS, SA, Santusa Holding, SL, and Banco Santander SA.

   The remainder of the share capital, 0.0432% is dispersed among various shareholders and 0.032% corresponds to treasury shares of Banco Santander Totta, SA.
7. The shares representing the share capital are all of the same type and category, conferring equal rights to their holders, including the right to vote and to participate in the profits.

   There is, therefore, no preferred stock of any kind. Similarly, there are no restrictions whatsoever on the transferability of shares, which is totally free.

   There is no established system of employee participation in the Company's share capital.
8. The Company is not aware of any shareholders' agreement concluded between shareholders.
9. In statutory terms one vote is assigned to each share.

   For shareholders to be entitled to attend the General Meeting they must prove to the Chairman of the Board of the General Meeting no later than 10 days before the date set for the meeting the registration or deposit of shares with financial intermediaries no later than fifteenth day before the said date.
10. The Company has not established any agreements whose entry into force is dependent upon the modification of the composition of the Bank's shareholders or that are altered or terminated in consequence thereof.

    In the normal course of the banking business, in its various components, there are, however, contracts that confer on the counterparty the right to terminate them in the event of a change in the shareholder control of the Bank, in line with what is current and common in banking practice.

    Otherwise, there are no agreements that grant to the Board of Directors or employees right to compensation when the termination of the tie that binds them to the institution results from their own initiative, from dismissal for cause or occurs following a take-over bid.

    The indication of the number of shares and bonds held by members of management and supervisory bodies is in the "Supplementary Information" chapter of the management report.

III – Governing Bodies and Committees

1. The Company is organically structured in in the manner provided for in article 278(1)(b) of the CC.

   The governing bodies are: the General Meeting, the Board of Directors and the Audit Committee, and there is also a Statutory Auditor.

   Under the terms of the Bank's bylaws, the Board of Directors consists of a minimum of three and a maximum of 15 members, who may be re-elected one or more occasions.

   The Audit Committee comprises solely non-executive members.

   Under the provisions of Article 16 of the Bylaws, the Board of Directors delegated the day-to-day management of the Bank to an Executive Committee.

   And, under the terms of Article 17 of the Bylaws, Statute it has appointed three more specialized committees to monitor specific areas permanently: the Risk Committee, the Remuneration Committee and the Appointments Committee.

   To advise the Executive Committee, various committees and subcommittees were appointed which, apart from one or two directors, comprise those responsible for the frontline reporting of the Bank.

   The terms of office of the governing bodies are all of three years.

During 2019 the composition of the Bank's governing bodies was as follows:

BOARD OF THE GENERAL MEETING

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

BOARD OF DIRECTORS

Chairman:	António José Sacadura Vieira Monteiro*
Deputy-Chairman:	José Carlos Brito Sítima[1]
	Pedro Aires Coruche Castro e Almeida
Members:	Amílcar da Silva Lourenço
	Ana Isabel Abranches Pereira de Carvalho Morais
	Andreu Plaza Lopez
	Daniel Abel Monteiro Palhares Traça
	Inês Oom Ferreira de Sousa
	Isabel Cristina da Silva Guerreiro
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	Manuel António Amaral Franco Preto
	Manuel Maria de Olazábal Albuquerque
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Miguel Belo de Carvalho
	Remedios Ruiz Macia

AUDIT COMMITTEE

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

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, SROC, LDA.,

represented by Aurélio Adriano Rangel Amado

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

[1] In the process of authorization and registration with the European Central Bank for formalisation of the duties of Chairman of the Board of Directors

EXECUTIVE COMMITTEE

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

RISK COMMITTEE

Chairman:	Manuel Maria de Olazábal Albuquerque
Members:	Daniel Abel Monteiro Palhares Traça
	José Carlos Brito Sítima
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

REMUNERATION COMMITTEE

Chairperson:	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
Members:	Daniel Abel Monteiro Palhares Traça
	José Carlos Brito Sítima
	Manuel Maria de Olazábal Albuquerque
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

APPOINTMENTS COMMITTEE

Chairman:	Daniel Abel Monteiro Palhares Traça
Members:	Ana Isabel Abranches Pereira de Carvalho Morais
	Andreu Plaza Lopez
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	José Carlos Brito Sítima
	Manuel Maria de Olazábal Albuquerque

REMUNERATION COMMITTEE

Chairman:	Jaime Pérez Renovales
Member:	Roberto di Bernardini

COMPANY SECRETARY

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

2. General Meeting

Under the terms of Article 12 of the Bank's Bylaws, the Board of the General Meeting shall consist of a Chairman, a Deputy-Chairman and a Secretary.

All its members were elected at the General Meeting held on December 13, 2018, for the 2019/2021 term of office, and are therefore in the first year of the current mandate.

In statutory terms each share is entitled to one vote, and shareholders may take part in the General Meeting directly or through a representative.

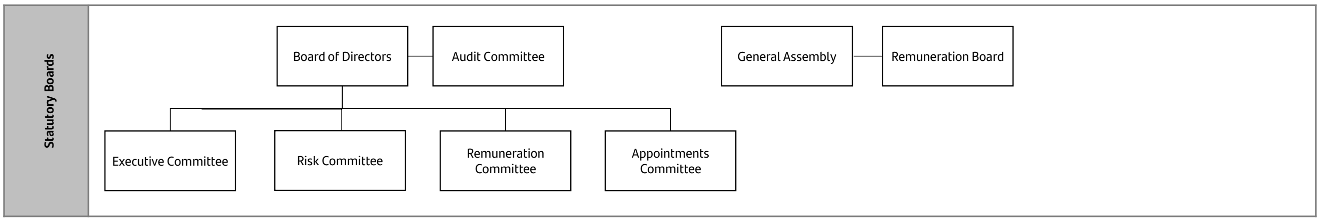
Here, reference is made to point 5.

Postal voting is not allowed, nor is sending by email the information to which Article 288.4 of the CC.

Resolutions are passed by majority of the votes of shareholders present or represented at the General Meeting, where the law does not require a greater number.

3. Management and Supervision

The Bank's Governance Model is as follows:



3.1. Board of Directors[1]

The Board of Directors is responsible for management and representation of the Bank and for the performance of such acts as may be necessary or convenient for the pursuit of the activities included in its corporate purpose.

The current Board of Bank Directors comprises fifteen members, nine non-executive members and six executive members.

Excluding the executive directors, five members of the Board of Directors out of nine are independent, which means there are 56% non-executive directors and 33% of the total Board of Directors.

The Bank's Board of Directors includes six women, representing 40% of the members of the Board of Directors.

No powers are conferred on the Board of Directors to decide increases of the Company's share capital. Nor are special rules defined concerning the appointment and replacement of directors, as well as regarding statutory changes, general law applying in these matters.

The Board of Directors meets at least six times a year and whenever convened by its Chairman, by two directors or by the Audit Committee.

During 2019, it met on twelve occasions and Company Secretary acted as secretary of the meetings.

[1] Data on December 31. As of this date the Board of Directors comprises 14 members, António Vieira Monteiro Sacadura having passed away on March 18, 2020, and the process of authorization and registration with the European Central Bank is now under way for the formalization of José Carlos Sítima as Chairman of the Board of Directors.

The composition, positions and qualifications of the members of the Board of Directors at the end of the year to which this report relates are as follows:

Board of Directors	Body and Position	Qualification
António José Sacadura Vieira Monteiro*	Board of Directors – Chairman	Not independent
José Carlos Brito Sítima[1]	Board of Directors – Deputy-Chairman Risk Committee – Member Remuneration Committee – Member Appointments Committee – Member	Not independent
Pedro Aires Coruche Castro e Almeida	Board of Directors – Deputy-Chairman Executive Committee – Chairman	Not independent
Amilcar da Silva Lourenço	Board of Directors – Member Executive Committee – Member	Not independent
Ana Isabel Abranches Pereira de Carvalho Morais	Board of Directors – Member Audit Committee – Chairperson Appointments Committee – Member	Independent
Andreu Plaza Lopez	Board of Directors – Member Appointments Committee – Member	Not independent
Daniel Abel Monteiro Palhares Traça	Board of Directors – Member Audit Committee – Member Risk Committee – Member Remuneration Committee – Member Appointments Committee – Chairman	Independent
Inês Oom Ferreira de Sousa	Board of Directors – Member Executive Committee – Member	Not independent
Isabel Cristina da Silva Guerreiro	Board of Directors – Member Executive Committee – Member	Not independent
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Board of Directors – Member Audit Committee – Member Appointments Committee – Chairperson Appointments Committee – Member	Independent
Manuel Maria de Olazábal Albuquerque	Board of Directors – Member Audit Committee – Member Appointments Committee – Chairman Remuneration Committee – Member Appointments Committee – Member	Independent

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

[1] In the process of authorization and registration with the European Central Bank for formalisation of the duties of Chairman of the Board of Directors

Board of Directors	Body and Position	Qualification
Maria Manuela Machado Farelo Ataíde Marques	Board of Directors – Member Audit Committee – Member Risk Committee – Member Remuneration Committee – Member	Independent
Manuel António Amaral Franco Preto	Board of Directors – Member Executive Committee – Deputy-Chairman	Not independent
Miguel Belo de Carvalho	Board of Directors – Member Executive Committee – Member	Not independent
Remedios Ruiz Maciá	Board of Directors – Member Risk Committee – Member Remuneration Committee – Member	Not independent

3.2. Audit Committee

The Audit Committee comprises non-executive members of the Board of Directors, a minimum of three and maximum of five, one of whom will be its Chairman.

All members of the Committee must be qualified as independent and, as a whole, have knowledge and experience in accounting, auditing or risk management, and all must ensure sufficient time and commitment to fulfil their obligations.

The Audit Committee elected for the 2019-2021 period consists of five members, one Chairman and four other members.

As a supervisory body of the Bank, it is assigned the powers provided for in Article 423-F of the Companies Code, in Article 18 of the Bylaws and in its own Regulation.

The Audit Committee is responsible, among other things, for the approval of the Plan and Follow-up of the Internal Audit activity, the follow-up of the activity of the external auditors, the approval of hiring services not related with the audit and the issue of opinions on the Annual Report and Accounts presented by the Board of Directors and on the Internal Control reports.

The Chairman of the Committee shall inform the Board of Directors of the activities undertaken by the Committee each year.

The Audit Committee meets regularly with the External Auditors, with the Chief Audit Officer (CAO), with the Chief Risk Officer (CRO) and with the Controller.

Notwithstanding the administrative and hierarchical reporting to the Chairman of the Board of Directors, the CAO reports functionally to the Audit Committee.

In 2019, the composition of the Audit Committee was follows:

Chairperson: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
Manuel Maria de Olazábal Albuquerque
Maria Manuela Machado Costa Farelo Ataíde Marques

The Audit Committee meets at least six times a year and during 2019 it met thirteen times.

Internal Governance acted as the secretary of and provided logistic support to this committee.

3.3. Executive Committee

The Board of Directors includes an Executive Committee on which all the powers permitted by article 407(4) of the CC are delegated.

The Executive Committee is responsible for the daily management of the Bank during the term for which the appointed directors were elected, on whom all powers have been delegated, except those which are mandatorily reserved by law or the articles of association for the Bank's Board of Directors, or that the Board of Directors decides to reserve for itself or assign to other of the Bank's commissions or committees.

It meets weekly or whenever convened by its Chairman, by other two of its members, or by the Chairman of the Board of Directors.

On January 2, 2019, and under the terms of Article 16 of the Bylaws, the Board of Directors appointed an Executive Committee comprising six members and delegated on it the Bank's management powers, save those who that the law or the bylaws reserve for the Board of Directors, those that the Board of Directors reserve for itself (those contained in the Board of Directors' Regulation) and delegated other committees (Risk, Remuneration and Appointments Committees).

In its internal organization, the Executive Committee assigned to each of its members certain matters (areas of responsibility).

As at December 31, 2019, the distribution of areas of responsibility by the members of the Executive Committee was as follows:

PEDRO CASTRO E ALMEIDA– Chairman

People management; Risks (with functional reporting to the Risk Committee), General Secretariat; Compliance and Conduct (with functional reporting to the Risk Committee), Communication and Corporate Marketing and Chief of Staff.

MANUEL FRANCO PRETO – Deputy-Chairman

Technology and Operations; Accounting and Management Control; Procurement and Costs; Organization; Properties; Financial and Capital Management; Strategy, Financial Planning and Economic Research and Taxation.

MIGUEL BELO DE CARVALHO – Member

North Commercial Area; South Commercial Area; Azores and Madeira Commercial Area; Private Banking; Commercial Segments and management; Corporate & Investment Banking; Business and Institutional Banking; Foreign Customers and Residents Abroad and Distribution Models.

INÊS OOM FERREIRA DE SOUSA – Member

Commercial Offer and Marketing; International Business; Universities; Payments; Responsible Banking and Public Relations and Event Organization.

ISABEL GUERREIRO – Member

End-to-End processes; House Purchase; Digital Development; Digital Performance; Analytics and Data; Customer Experience and Operational Excellence.

AMÍLCAR SILVA LOURENÇO – Member

Recoveries and Divestment; Irregular Loans; Promotion of Construction; Internal control Follow Up; *Factoring* and Confirming; Special Projects and Inspection. Responsible for Money Laundering Prevention issues.

The Chairman of the Executive Committee manages its meetings, has the casting vote and over and above the respective areas, he/she shall:

a) Ensure that all the information is provided to the other members of the Board of Directors relating to the activity and resolutions of the Executive Committee;

b) Ensure compliance with the limits of delegation, with the Company's strategy and with the duties of collaboration with the Chairman of the Board of Directors.

c) Co-ordinate the activities of the Executive Committee, chairing the respective meetings and overseeing the execution of the resolutions.

During 2019, the Executive Committee met on 51 occasions and Company Secretary acted as secretary of the meetings.

3.4. Committees created at the Board of Directors

The management also involves the Risk Committee, comprising five members of the Board of Directors who do not perform executive duties, the Remuneration Committee and the Appointments Committee, each comprising six members of the Board of Directors that do not perform executive duties.

The committees were set up by the Board of Directors pursuant to Articles 115-L, 115-B and 115-H of the General Credit Institutions and Financial Companies Regulations and each has its own regulation approved by the Board of Directors.

a) Risk Committee

The Audit comprises non-executive members of the Board of Directors, a minimum of three and maximum of seven. Members of the Committee, including its Chairman, are appointed by the Board of Directors, and the majority qualify as independent and have relevant experience in issues related with risk management. The Chairman shall not be the Chairman of the Board of Directors or Chairman of any other committee. But all members may be members of other Committees of the Bank, consistent with his/her duties.

The Chief Risk Officer and the Chief Compliance Officer attend all meetings of the Risk Committee to which they report functionally, without prejudice to their administrative and operational reporting to the Chairman of the Executive Committee.

Of the responsibilities of the Risk Committee the following and underscored: advising the Board of Directors on the appetite for risk and the overall general risk strategy, current and future, of the Bank; supporting and advising the Board of Directors in the definition and evaluation of risk policies affecting the Bank; supporting and advising the Board of Directors in matters of Regulation and Supervision, overseeing statements or reports issued by the supervisory authorities; reviewing the capital planning exercises; taking part in the adoption and changes of the Compliance policy, of the General Code of Conduct, of the procedures for prevention of money laundering and terrorist financing and of other Models, Policies and Procedures that must be approved by the Board of Directors .

The Committee, through its Chairman, will present periodic written reports on its activities to the Board of Directors.

In 2019, the composition of the Risk Committee was follows:

Chairman:	Manuel Maria de Olazábal Albuquerque
Members:	Daniel Abel Monteiro Palhares Traça
	José Carlos Brito Sítima
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

The Risk Committee meets at least four times a year and during 2019 it met nine times.

Internal Governance acted as the secretary of and provided logistic support to this committee.

b) Remuneration Committee

The Committee comprises non-executive members of the Board of Directors, a minimum of three and maximum of seven. Members of the Committee, including its Chairman, are appointed by the Board of Directors, and the majority qualify as independent and have experience and knowledge suitable for the performance of their duties, particularly in remuneration, management and risk-control policies, regarding the alignment mechanism of the remuneration structure with the Bank's risk profile and capital profile. All its members may be members of other Committees of the Bank, consistent with his/her duties.

The Remuneration Committee is charged, in general, with the appraisal of the remuneration policy and practices. Of its responsibilities, emphasis is given to the following: responsibility for the preparation of decisions regarding remuneration to be adopted by the relevant bodies, in particular with regard to the fixed and variable remuneration of the members of the management body and other identified employees; of support and advice regarding the concept of the institution's remuneration policy, submitting proposals on its content; ensuring the adequacy of information provided to shareholders on the remuneration policies and practices, particularly as regards higher ratio; directly overseeing the remuneration of senior staff of the control functions.

The Committee, through its Chairman, will present periodic written reports on its activities to the Board of Directors.

In 2019, the composition of the Remuneration Committee was follows:

Chairperson:	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
Members:	Daniel Abel Monteiro Palhares Traça
	José Carlos Brito Sítima
	Manuel Maria de Olazábal Albuquerque
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

The Remuneration Committee meets at least four times a year and during 2019 it met five times.

Internal Governance acted as the secretary of and provided logistic support to this committee.

c) Appointments Committee

The Committee comprises non-executive members of the Board of Directors, a minimum of three and maximum of seven. Members of the Committee, including its Chairman, are appointed by the Board of Directors, and the majority qualify as independent and have the knowledge suitable for the performance of their duties, particularly as regards the Bank's business and strategy and processes of selection and appointment, at internal and external level, as well as preparation adequacy processes with the supervisor.

The Appointments Committee is charged, in general, with the periodic evaluation of the members of the management and supervisory bodies and their succession. Among its responsibilities, emphasis is given to the following: identification and recommendation of candidates for the performance of duties in the management and supervision body its committees; setting a goal of gender representation; periodically, and at least annually, assessing the structure, size, composition and performance of the management bodies; ensuring compliance by the members of the Board of Directors with the duties established in the laws and regulations directly applicable to them; advising the Board of Direction in relation to matters of internal governance, assisting in the process of adaptation of the entity's internal governance system.

In 2019, the composition of the Appointments Committee was follows:

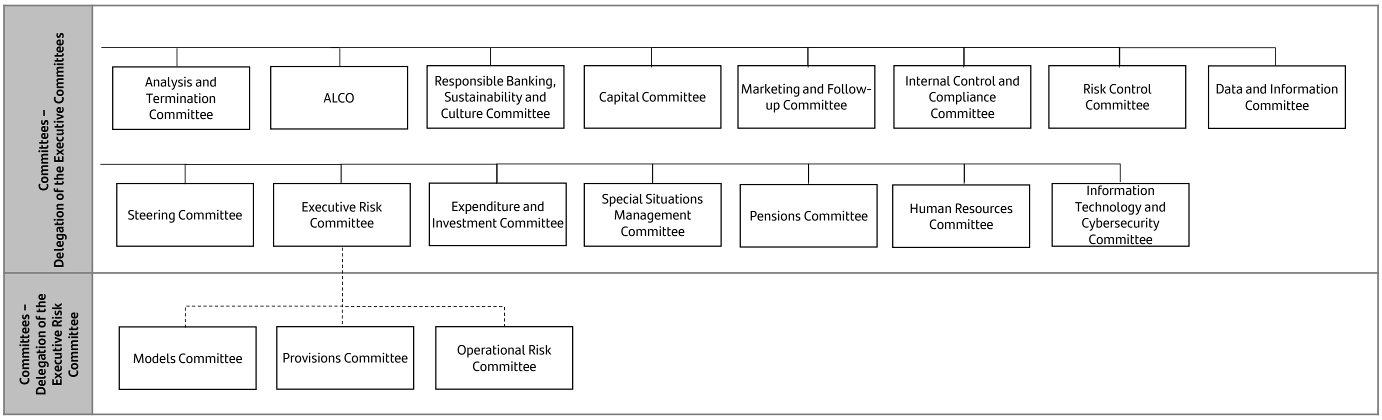
Chairman:	Daniel Abel Monteiro Palhares Traça
Members:	Ana Isabel Abranches Pereira de Carvalho Morais
	Andreu Plaza Lopez
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	José Carlos Brito Sítima
	Manuel Maria de Olazábal Albuquerque

The Appointments Committee meets at least four times a year and during 2019 it met five times.

Internal Governance acted as the secretary of and provided logistic support to this committee.

4. The company's global governance model/ committees set up by the Executive Committee:

Emphasis is given to the several interdisciplinary-based committees that monitor and control all the institution's activity, at executive level:



Analysis and Termination Committee

Committee whose attributions are the prevention of money laundering and terrorist financing, also making the communications established by law.

ALCO – Assets and Liabilities Committee

Committee that aims to manage the structural market and liquidity risk, establish contingency plans, promote hedging strategies and decide strategic positioning, in a manner such as to optimise net interest income and return on equity.

Responsible Banking, Sustainability and Culture Committee

Body that oversees the inclusion of sustainability in the business model, defining and following up the strategic social-responsibility plans, in conjunction with the Group's corporate plans.

Capital Committee

Committee that ensures the supervision, authorisation and evaluation of all aspects related to the share capital and to the solvency of the Bank.

Marketing and Product Follow-up Committees

Committees at which products and services are approved and carry out the appropriate follow-up, with special emphasis on incidents that occur and the reputational risk they may generate.

Internal Control and Compliance Committee

Body that aims to follow and supervise the Internal Control, Compliance and Risk Management policies, charged with acting in accordance with applicable laws and regulations and with the rules, principles and objectives set by the Board.

Risk Control Committee

Body responsible for the supervision and control of risks, ensuring that they are managed in accordance with the degree of risk appetite approved by the Board of Directors and ensuring at all times a comprehensive view of the risks identified in the General Risk Benchmark, including for the purpose identification and monitoring of the risks, current and future, and their impact on the risk profile of the Santander Totta Group.

Data and Information Committee

Body responsible for monitoring the most relevant issues in the matter of governance and data quality and regulatory consistency.

Steering Committee

The Steering Committee has as main objectives the general monitoring of the Bank's activity.

Executive Risk Committee

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

Expenditure and Investments Committee

Committee that has the power to assess, decide, follow-up and manage expenditure and investment.

Special Situations Management Committee

Committee whose responsibility is to manage and perform the follow-up and control of events of any nature (financial or of an operative and/or reputational nature, particularly the Entity's Continuity Plan) that can lead to serious deterioration of the Bank's liquidity and/or solvency levels or compromise its business.

Models Committee

Body responsible for monitoring the model exposure and risk profile in order to ensure that they fall within the approved risk appetite and ensuring the alignment of the local areas involved in the development and monitoring of models, as well as their inclusion into management.

Pensions Committee

Committee whose goal is to implement the corporate pensions policy and to fully control the risks.

Provisions Committee

Committee that aims to ensure that the financial statements reflect the best estimate of provisions for each close of accounts, performing the supervision and co-ordination of those involved in their calculation.

Human Resources Committee

Committee that aims to analyse and decide on the changes and exceptions to the current HR management policies, annually approve the measures and objectives presented within the scope of Family Friendly Enterprise (FFE) Certification, including the attributions of the Corporate Policy for Gender Equality and of the Volunteering Policy, promoting their development in collaboration with the Sustainability Area and ensuring and supervising the implementation of the activities laid down in the Human Resources Management Plan.

Operational Risk Committee

Body responsible for monitoring the exposure and operational risk profile, to ensure that it falls within the approved risk appetite.

Information Technology and Cybersecurity Committee

Body that evaluates and/or approves IT strategy proposals; monitors the IT strategic plan; monitors the Cybersecurity risk and evaluates risk-mitigation initiatives.

IV - Internal Control and Risk Management System

The Bank fully complies with Bank of Portugal Notice No. 5/2008 on Internal Control.

In this connection the Bank has a system of risk identification and management in keeping with articles 11 and 12 of that Notice, and it is so organised as to foster an appropriate control environment and a sound risk-management system.

Policies and procedures relating to all risks listed in the said article 11 of Bank of Portugal Notice No. 5/2008 are specifically defined and put into practice.

Such policies and procedures are available and easily accessible by all employees of the institution through their disclosure in a special area of the Bank's own Intranet system.

Since 2006 the Bank, like the Group to which it belongs, complies with the requirements of the Sarbanes-Oxley (SOX) Act of the United States of America, a standard that the Securities Exchange Commission (SEC) has made mandatory for companies listed on the New York Stock Exchange and which is one of the most demanding in terms of requirements of an adequate and reliable Internal Control Model.

Risk management, compliance and audit functions have been institutionalised in legal and regulatory terms.

There follow the guidelines that govern the organisation and working of the three functions.

a) **Risk Management Function**

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

The mission of the function is the general and effective implementation of the risk management system in keeping with article 16 of the said Bank of Portugal Notice No. 5/2008, in order to assess the relevance of the risks incurred and the degree of effectiveness of the measures taken to control, mitigate and overcome them. The Internal Governance guidelines of the EBA (EBA/GL/2017/11), in turn, strengthen and deepen in a detailed manner the main tasks of the Risk Management Function (RMF) and of its head within the scope of the of internal control functions. Additionally, the Capital Requirements Regulation (CRR) No. 575/2013 (EU), the Capital Requirements Directive 2013/36/EU (CRDIV) and Directive 2014/59/EU are the basis of the legal framework of the business of credit institutions and financial companies, transposed to the General Credit Institutions and Financial Companies Legislation (RGICSF). More specifically, article 115-M of the RGICSF determines the role of the Risk Management Function in ensuring the identification, evaluation and proper reporting of all material risks, in the participation of the strategy and decision of the material-risk management, and in the independence and freedom from conflict of interests of the head of the RMF.

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

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

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

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

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

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

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

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

The activity carried on by the risk-management function is documented in a special report, published annually, the "RMF Report", the last one dated May 2019. This document is intended to provide support to the risk management system of Banco Santander Totta, SA, and, of the report, emphasis is given to the RFM's conviction that there are no material risk situations that may came to have impact, other than those known to the Management Body, and are not monitored, and there continues to exist in the organization an environment favourable to risk control and mitigation.

Chief Risk Officer: Alfredo Fernandez Diez

b) **Compliance Function**

The Bank, for quite some time, has focused on the autonomy, monitoring and control of the risks leading to the possibility of incurring sanctions of a legal or regulatory nature, as well as financial or reputational losses, as a result of non-compliance with any normative provisions applicable to it, be they of a legal or regulatory nature, and also for infringement of Codes of Conduct or for procedures not in accordance with the required ethical standards or good practices.

The compliance function is embodied in the Compliance and Conduct Area which includes, at its core, an area specifically assigned to the prevention of money laundering and terrorist financing, which has exclusively assigned having special duties and an area specially charged with promoting and ensuring compliance with the rules on protection and processing of personal data, headed by the Data Protection Officer (DPO).

- The Compliance and Conduct Area is a first-line area reporting directly and exclusively to the Board of Directors, independent of all other areas, the business areas in particular;
- The Compliance and Conduct Area has its own staff exclusively assigned to the performance of the duties entrusted to the Compliance and Conduct Area, hierarchically and functionally dependent on the respective Chief Compliance Officer (CCO);
- In performing its duties, the Compliance and Conduct Area acts as a second line of defence in monitoring, controlling and managing the risk of default and has free access to all information and elements relating to the Bank's business that it requests or needs, as well as to the institution's facilities and equipment;
- The CCO has unlimited communication with the Board within the scope of its duties, carries out, proposes and recommends at its discretion whatever is required to prevent legal, reputational and compliance risks and, where appropriate, to remedy any incidents;
- The Bank has a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Relations with Customers, which set out the ethical principles and procedures that preside over the activities of the subject persons and, among other relevant aspects, focus on the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by the Compliance and Conduct Area, which also supports and follows up compliance with the General Code, control of which, however, is entrusted to the People Management Area;
- Complementing the provisions of the General Code, the Bank also has a Corruption Prevention Programme that reinforces the corporate commitment to absolute rejection of any corrupt practices involving the entire corporate organisation in this desideratum.

In this connection specific powers are granted to the Compliance and Conduct Area in the matter of follow-up and control of the execution of the programme and of the policies that support it.

Under the General Code of Conduct and Corruption Prevention Programme a Whistleblowing Channel is available, freely accessible to all employees, which, ensuring the confidentiality of communications and any subsequent procedures, grants them the possibility and exhorts them to provide evidence of irregular situations of which they take cognisance.

In this connection, attention is also drawn to the articulation institutionalised with the Customer Experience area – responsible for the follow-up and processing of customer complaints – in order, on the one hand, to monitor the evolution of the situation in this area and especially to scrutinise, based on the type of complaints, possible omissions or inadequate practices, in order to implement the appropriate adjustments or corrections.

Policies and product-marketing procedures are approved and implemented, as well as the process and bodies for the respective approval and monitoring aimed, on the one hand, at ensuring prior fulfilment of all the necessary requirements for the marketing to take place with no legal, reputational and compliance risks and, on the other, at ensuring the follow-up of incidents that may occur, assessing their significance and, if appropriate, introducing such corrective measures as may be justified, which may include suspension or termination of the marketing when the circumstances so determine or recommend. In this connection, it is particularly important to evaluate and follow-up the reputational risk inherent in the products or can be generated during their lifetime by the occurrence of specific events that somehow affect them, or are projected to a relevant extent into the relationship with customers.

Though with the support and executive management of the local units, the compliance policy is extensible in all its amplitude to the affiliates and subsidiaries abroad. Some of these have local compliance officers who perform the corresponding duties there. In the other cases, in which the type and manner of exercise of the activity do not justify this option, the operative head of the unit ensures the procedure in accordance with applicable laws and regulations, both local and those that must be complied with under the impositions to which the Bank is subject in Portugal. As part of its duties, as part of its duties the Compliance and Conduct Area controls the performance of the function by those officers to whom the execution is entrusted.

At another level, and to carry out its mission in a more efficient and effective manner, the Compliance and Conduct Division has promoted the institutionalisation of specific compliance committees especially oriented towards areas considered sensitive, particularly those most directly related with financial markets, which act periodically – as a rule, on a monthly basis – allowing an assessment of instituted practices, appraisal of compliance with legal and regulatory rules, keeping the areas informed of any innovations and ensuring their implementation, controlling fulfilment of information and other applicable obligations, identifying possible incidents and, where appropriate, considering and implementing appropriate measures to mitigate and prevent them. These committees are directed and co-ordinated by the Compliance and Conduct Area, with the participation of the heads of the areas involved.

On the other hand, both within the scope of these Committees, and outside them, the CCO maintains a relationship of regular co-ordination with the other control areas (General Audit and Risk Function) in order to ensure the overview, monitoring and overall control risks, and is a permanent member of several of the Bank's governance committees whose purpose is risk control, with emphasis on the Internal Control and Compliance Committee.

Notwithstanding the constant and systematic contacts with the Bank's Executive Committee, and primarily with the directly in charge of the area, mechanisms are established for regular interaction of the CCO with the Audit Committee and the Risk Committee of the Board of Directors.

The activity performed within the scope of the compliance function is the subject of an annual report. Accordingly, the CCO presented to the Board the annual report on the exercise of the Compliance Function dated May 2019, and attention is drawn to the conviction of the CCO that the compliance control system established and practiced at the Bank appropriately meets the applicable legal and regulatory requirements.

Chief Compliance Officer: Up until the end of December 2019 this function was performed by João António da Cunha Labareda, and is currently performed by Pedro Boullosa Gonzalez.

c) **Audit Function**

The Internal Audit authority stems directly from the Board of Directors. As an independent unit, it reports periodically to the Board of Directors, at least twice a year, besides having direct access to the Board as and when necessary. It also reports to the Audit Committee and meets the requests for information that it receives from the latter in the performance of its duties.

The head of the internal audit function is appointed by the Board, which granted him all the necessary powers to carry out his duties independently, with free access to all relevant information.

The Audit team is distributed across the Financial Risks, Credit Risks and Operating Risks and Technological Risks areas, and all employees have university degrees.

Internal Audit takes unto itself the definition of the Institute of Internal Auditors; it is a permanent function independent of any other function or unit, whose mission is to provide the Board of Directors and Top Management with independent assurance as to the quality and effectiveness of the processes and systems of internal control, of risk management (actual or potential) and of governance, thus contributing to the protection of the value of the organisation, its solvency and its reputation. For this, the Audit assesses:

- The effectiveness and efficiency of the processes and systems referred to above;

- Compliance with the applicable rules and requirements of the supervisors;
- The reliability and integrity of financial and operational information;
- Asset integrity.

Internal Audit is the third line of defence, independent of the others. To carry out its mission and achieve the established objectives, the Internal Audit teams have full, free and unrestricted access to all information.

The field of action of Internal Audit comprises:

- All the entities that form part of the Group over which effective control is maintained;
- The separate assets (for example, investment funds) managed by the entities mentioned in the previous point;
- Any entity (or separate assets) not included in the preceding points, with which there is an agreement for the performance of the internal audit function by the Group.

The scope defined subjectively in the preceding paragraphs includes, in any event, the activities, businesses and processes carried on (either directly or through externalisation), the existing organisation and, if applicable, the commercial networks.

Additionally, and also in the performance of the established mission, Internal Audit may conduct audits at other subsidiaries not included in the preceding points, where the Group has reserved this right as a shareholder.

Internal Audit will base its activities on the following principles:

- Independence, objectivity and impartiality: all opinions will be based on objective analysis of the facts, not affected by influences, pressures or interests of any kind;
- Integrity, ethical behaviour and confidentiality of the information managed and the conclusions drawn. The role of the auditors will be in accordance with the principles and rules of conduct established both in the Group's codes of conduct and also in the Internal Audit Code of Ethics, which must be known and acknowledged by all its members by means of their signature;
- Competence and professional qualifications of the auditors. For this, ongoing updating of their knowledge shall be sought;
- Quality of the work, based on reasoned, documented conclusions, supported by audit evidence, conducted with uniform criteria using common and appropriate work methodology and tools, and with due professional care;
- Creation of value, drafting relevant and truthful reports and supporting the management of the units audited in a spirit of collaboration and contribution of improvement measures;
- Appropriate collaboration with the rest of the controls existing in the Group and with the external auditors and other providers involved in the organisation, holding regular meetings and sharing with them the results of the audits conducted and audit reports issued;
- Fluid relations with the supervisors
- Observance of international standards for the performance of the function, especially the "International Standards for the Professional Practice of Internal Auditing" issued by the Institute of Internal Auditors and the principles established by the Basel Bank for International Settlements in this matter.

The CAE is responsible for:

- Design and implementation of an appropriate methodology;
- Preparation of an Audit Plan based on own assessment of the risks existing in the Group
- Performance of the various works included in the Audit Plan, properly drafting and distributing the reports called for in the plan;
- Communication to the audited parties of the conclusions of the various audits and recommendations, and establishment of a timetable for their implementation and monitoring their implementation;
- Evaluation, at appropriate intervals, of the sufficiency of resources to perform the function;
- Periodic reporting to the Audit Committee of the development of the approved Audit Plan;
- Periodic and monthly reporting to the Chairman of the Board of Directors;
- Information to the Board of Directors of the work carried out by Internal Audit in accordance with the respective Plan;

- Communication to the Governing Bodies on situations that, in its opinion, require special attention;
- Performance of all these audits, special work, reports and other duties required by the Board of Directors or the Audit Committee;
- Confirmation to the Audit Committee, on annual basis at least, that the work is carried out independently and is not compromised by any impediment that has affected the independence or objectivity of the Internal Audit;
- Preparation and maintenance of a programme to ensure quality and ongoing improvement covering all aspects of the activity of Internal Audit;
- Preparation and implementation of a training plan for internal auditors.

Chief Audit Executive: Ignácio Garcia Marquez

V - Consultation Site

Banco Santander Totta SA provides at its address https://www.santander.pt/pt_PT/Investor-Relations.html the essential information about the Bank's business and general information on the company, such the holders of corporate office, the Bank's bylaws, the market-relations representative and the main policies.

Information on the provision of interim and annual accounts is available at the following link https://www.santander.pt/pt_PT/Investor-Relations/Santander-Totta.html

The Bank's Intranet portal discloses the In-house Rules to be known by all employees.

VII – Remuneration Policy of Members of the Management and Supervisory Bodies

VII.1. DECLARATION ON THE REMUNERATION POLICY OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF BANCO SANTANDER TOTTA, SA.

(The "Declaration")

The following declaration on the remuneration policy of the members of the Management and Supervisory bodies of Banco Santander Totta, SA (the "Bank"), in force in 2019, is proposed to the General Meeting of shareholders for the approval of the 2018 accounts.

1. Framework

The Santander Group approved a remuneration policy (the "Policy"), addressed to all employees, which establishes the fundamental principles concerning the payment of fixed or variable remuneration (the unofficial translation to Portuguese of the Policy, in its current version, is Annex 1 of the Declaration of which its forms part for all purposes).

The policy was subject to slight changes during 2018, with a view to strengthening and updating the current policy and the Bank's intention to be recognized as a responsible bank.

Under the terms of the Policy, the Santander Group adopts consistent remuneration practices that comply with the applicable rules in the jurisdictions where it carries on its business.

The remuneration is defined to promote a culture of high performance, in which people are rewarded and recognised for their performance and competence and for the impact they have on the success of the Group and/or its affiliates.

The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, centred on the creation of value over time and being consistent with sound and effective risk management, while maintaining a solid capital base.

This Declaration provides information on compliance by the Policy with the various requirements imposed by Portuguese law, proposing its formal approval to the Bank's shareholders.

2. Application of the Policy to the Bank

2.1. Remuneration of the Bank's governing bodies

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

a) **General Meeting**. Its Chairman receives a fixed remuneration, paid as follows: annual amount paid 12 times a year.

b) **Audit Committee.** Its members receive a fixed remuneration, paid as follows: annual amount, paid 12 times a year.

c) **Board of Directors / non-executive members.** The non-executive members of the Board of Directors who are not members of the Audit Committee receive a fixed remuneration, paid as follows: annual amount paid 12 times a year. In duly substantiated and legally permitted cases, the competent bodies may authorize payment of an additional amount.

Non-executive directors who, however, perform management duties or others at Banco Santander, SA, or at other entities of the Santander Group, may or may not be remunerated for the exercise of that position at the Bank.

2.2. Remuneration of the Bank's executive directors

The Executive Committee members earn a fixed remuneration, paid 14 times a year, which is determined taking into account the criteria used in the Santander Group, the Bank's results, the evaluation of performance and market references, and, in 2019, it is not expected to amount to less than 33% of the total remuneration.

A variable remuneration may be added to the fixed remuneration, defined under the terms of the Policy, set individually by the Remuneration Committee.

2.2.1. Determination of the variable remuneration

The variable remuneration of executive directors is determined on the basis of a benchmark standard corresponding to compliance with 100% of the established goals, and a reference value is set for each member for each year.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year next following that of the performance of duties, on the basis of the benchmark amount and in the light of the actual fulfilment of the established objectives of the pool available for the purpose.

The concrete variable remuneration is determined considering:

a) A set of quantitative parameters in the short term measured in accordance with the annual objectives;

b) A qualitative assessment supported by qualified evidence and cannot modify the quantitative result by more than 25% up or down;

c) An exceptional adjustment, supported by qualified evidence, which may involve modifications originating from control deficiencies and/or risks, negative results of the evaluations of supervisors or significant or unexpected events.

The overall objectives for 2019 are those set out in Annex 2, which forms part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a certain level of compliance, the amount of the variable remuneration may not exceed 50% of the benchmark amount for the year in question. If the result of the said metrics is negative, the amount of the variable remuneration shall be 0%.

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

The bodies competent to carry out the assessment of individual annual performance are the Group's Managing Director, regarding the Bank's Chief Executive Officer, and the Chairman of the Executive Committee regarding the other executive directors, functional referrals to such Group structures as many be applicable notwithstanding.

2.2.2. Composition of the variable remuneration and its regulation

Payment of the variable part of the remuneration is subject to partial deferral, seeking a balance between the short and medium term.

a) Of the variable remuneration 50% is payable in cash and 50% in shares, part paid in 2020 and part deferred over three or five years, subject to observance of the following parameters:

   a. 60% (or whatever is defined in accordance with the applicable situation) of this remuneration shall be paid in 2020, in cash and in shares;

   b. The balance will be paid annually, in three or five equal parts (as applicable) in cash and shares, the conditions laid down having been observed.

b) The shares allocated do not benefit from any risk-hedging contract and, until the end of their respective terms of office, remain subject to the condition of being held until their value amounts to twice the amount of the total remuneration, without prejudice to the possibility of sale of shares required to pay taxes on the gains inherent in these same shares.

c) Additionally, the Board of Directors of the Santander Group approved a corporate stock-retention policy applicable to the executive directors of the Santander Group and to other senior staff off the Santander Group (including, in Portugal, the Country Head), which, after a transitional period, will oblige the employees in question to maintain at all times ownership of a volume of Banco Santander shares equivalent to twice their fixed annual remuneration.

d) The deferred portion of the variable remuneration, relating to the third year, and also the fourth and fifth years, if applicable, is also subject to the *malus* and clawback conditions, to compliance with the Group's long-term goals for 2019-2021, in accordance with the general criteria applicable within the framework of the Santander Group, under the terms of which the amount of the variable remuneration may only diminish (by reduction of the payment in cash or in shares), as defined for the current year under the terms of Annex 3.

e) Payment of the variable remuneration shall observe the rules of deferral and the reduction (*malus*) or reversal (clawback) mechanisms in force in the Policy in order to comply with legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory authorities. The faculty of reducing (*malus*) totally or partially the payment of deferred remuneration whose payment is not yet an acquired right, as well as retaining all or part of the variable remuneration whose payment is an acquired right (clawback), is limited to extremely significant events, properly identified, in which the persons concerned have directly taken part in the events identified.

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

In respect of 2015, the last third of the deferred variable remuneration was paid in 2019.

In respect of 2016, one third of the deferred variable remuneration is still to be paid.

In respect of 2017, two thirds of the deferred variable remuneration are still to be paid.

In respect of the 2018 variable remuneration, the part not subject to deferral was paid in 2019. Payment of the remainder is deferred over three or five years, as applicable.

2.2.4. Retirement

Executive directors who at the time of the merger were directors of Banco Totta & Açores, benefit from a supplementary old-age or disability pension plan, whose terms and conditions were set in accordance with the regulation approved by the Bank's General Meeting on May 30, 2007, and altered at the General Meeting of December 13, 2018, under the provisions of article 25(4) of the Bank's articles of association, which adopts the entire content of the regulation originally approved by the Banco Totta & Açores General Meeting on October 30, 1989. The requirements of this plan include in particular tenure of office for the minimum period, the amount of the supplementary payment varying in the light of the director's seniority.

The changes introduced at the General Meeting of December 13, 2018, were intended to expressly admit the possibility of redemption in capital of the amount of the supplementary pension, granting to the respective beneficiaries an option that, whenever exercised, will entail neutralization for the Bank of the risk of alterations of the total value of the supplementary pension, definitively waiving, upon delivery of the carrying amounts allocated to the fulfilment of the pension, any further liability towards beneficiaries exercising this option.

Additionally, the situation was clarified of executive directors who exercise the right to old-age or disability pension supplement and subsequently perform other non-executive duties at the Bank.

Executive directors with an employment contract with the Bank, and notwithstanding the suspension of the said contract, are covered by a supplementary pension plan established by the Santander Group for all its senior staff, the terms of which were approved by the respective Boards of Directors, no voting rights having been granted to those directors who would benefit from such a plan.

2.2.5. Other Regulations

Executive directors also benefit from health insurance and the benefits resulting from the collective bargaining agreements applicable to employees, including recourse to mortgage loans.

Executive directors benefit from life insurance, the capital covered of which is equivalent to twice the amount of the fixed annual remuneration of the holder in question;

Executive Directors, or the bank in their favour, cannot use any risk-hedging or similar mechanisms. This rule is observed and must be confirmed annually by the director before the Group.

During 2019 it is not expected that there will be amounts paid to executive directors by other companies in a controlling or group relationship with the Bank.

3. Supplementary aspects

3.1. Policy approval procedures

The Policy was approved by the Santander Group, adopting a set of national and international guidelines on the matter, the Bank having subsequently subscribed to the Policy on January 31, 2017, after presentation to the Bank's Remuneration Committee and the Board of Directors.

This Policy was, however, subject to specific changes that do not affect its essential structure.

The Policy, under the terms of which it was approved, will be complemented by a set of additional guidelines, essentially of an interpretative nature.

Since January 2019, the Bank's Remuneration Committee comprises Isabel Mota (Chairperson), Daniel Traça, José Carlos Sítima, Manuel Olazábal, Manuela Ataíde Marques and Remedios Ruiz (Members), the majority of its members legally qualify as independent (Isabel Mota, Daniel Traça, Manuel Olazábal and Manuela Athaíde Marques).

In turn, the Remuneration Committee provided for in the Companies Code, which determines the actual amount of remuneration payable to all members of the governing bodies, comprises Jaime Pérez-Renovales and Roberto di Bernardini, both senior officers of the Santander Group.

Mercer Portugal assisted the Bank (in 2017), as external consultant, in the work of transposing the application of the policy to the Bank.

3.2. Other aspects

It is unlikely that, during 2019, any compensation for early termination of the duties of corporate officers will be paid.

Allocation of stock option plans in 2019 is not expected.

There are no non-cash benefits or other forms of compensation other than those referred to in the Declaration.

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

The Bank's Policy is as a whole in line with the principles set forth in the regulation applicable in Portugal, governed at all times by simplicity, transparency and suitability for the medium- and long-term objectives.

In this way, the determination of the total remuneration, comprising a fixed and a variable part, as well as the articulation of these two components, as set forth in this Declaration and the attached Policy, allow one to conclude that the material rules set out in Portuguese regulations have, in general, been adopted.

The fact that the Bank forms part of the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies, which, in turn and given the global nature of the Group, have due regard for international regulations on the matter.

The applicable regulations also determine that a review be conducted, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that the payments of remuneration are appropriate and that the risk profile and long-term goals of the institution are being appropriately reflected, and that the policy is in accordance with the laws and regulations in force and with the applicable principles and national and international recommendations.

This annual review shall also include an assessment of the remuneration practices of the subsidiaries abroad and of the off-shore establishments, in particular on the respective effect on the management of the risks, share capital and liquidity of the institution.

The said assessment was performed, with due regard for the applicable regulation, the by the Bank's remuneration committee, the units responsible control functions having played an active role, no shortcomings have been encountered.

5. Information on the performance of the Remuneration Committee's duties

The members of the Remuneration Committee were elected at the General Meeting of December 13, 2018, having obtained non-opposition of the regulator to the performance of their duties in early September of that year in January 2019.

The duties performed by the Committee were those provided for in its internal regulation, which consist of making and informed and independent judgement on the remuneration policy and practices, and on the incentives created for the management of risks, share capital and liquidity, and it is also responsible for the preparation of decisions regarding remuneration.

Lisbon, April 23, 2019

Annex 1

Remuneration Policy of the Santander Group

Contents

1. Background

A responsible bank needs a solid culture that allows effective management, control and supervision of the variety of risks that the Group, its shareholders, employees and customers face, including those derived from incentive schemes. The Santander Group (hereinafter referred to interchangeably as "Santander Group" or "the Group") adopts consistent remuneration practices that comply with the rules applicable in the jurisdictions where the Group carries on its business. The remuneration is defined to promote a culture of high performance within the context of a responsible bank, in which people are rewarded and recognised for their performance and competence and for the impact they have on the success of the Group and/or its affiliates. The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, employees, customers and society and, in particular, promote good conduct. The Group also ensures that remuneration policies are compatible with proper and effective risk management and does not grant incentives that lower the tolerated risk level or endanger or limit the Group's ability to maintain a sound capital base.

The Policies of the Santander Group are defined in a joint effort involving the Group's control functions (Compliance, Audit and Risks), and other functions at Group level (Finances and Financial Control) and the Legal Advisory function. Other functions at Group level (Finance and Financial Control). The commercial functions and management of the subsidiaries (boards of directors, control functions and other equivalent local areas) also play an important role in that development by providing guidance on the basis of their knowledge bases or as interested party.

2. Introduction

The purpose of this policy is to establish how Group Companies manage the remuneration for all employees, including employees who occupy "Key Positions", in accordance with the "Modelo de Gobierno Matriz - Filial", the employees designated as "Significant Risk Takers", the senior staff of the "Promontório" and "Faro" segment in accordance with the Group's corporate segmentation, or any other group of regulated employees. This Policy sets out the key principles and sets the minimum rules required by the Group and respective control functions for the design, review, implementation and supervision of the remuneration.

This policy develops the Human Resources Corporate Model, and is related with and must be applied in conjunction with the provisions established in the provisions laid down in the "Modelo de Gobierno Matriz- Filial", as applicable.

3. Scope of application and transposition by the subsidiaries

This Policy was created by Banco Santander, SA, as the matrix of the Santander Group, and is directly applied to the corporate centre and will be available to all the companies, as a reference document setting out the principles applicable to remuneration, with which all the companies must comply.

To this end, all Group companies shall adopt this Policy and are responsible, using this document as a reference, for the creation and approval by the respective governing bodies of internal regulations allowing the application of the provisions contained herein, with such adaptations as may be essential for compliance with local regulatory requirements or following the recommendations of the supervisory bodies.

The Group's overall Human Resources function shall validate the said approval to ensure consistency with the regulatory framework of the Santander Group and the internal governance model established by the Group.

Not all sections of the Policy are applicable to all employees, but just to the group of employees considered. Thus, the specific scope of each of the eight (8) sections included in this Policy is specified at the beginning.

4. Risks and Controls

The global compensation function, included in the overall Human Resources function, will be responsible for drafting and developing the principles to be approved at different levels, depending on the category of the employees to whom they apply and are established to support the implementation of this Policy across the Group.

The human resources function, together with the Risks and Compliance functions of each Group company shall confirm that this Policy and the remuneration practices comply with the applicable rules and implement, where possible, the key control indicators required to monitor the level of compliance.

Additionally, effective controls shall be established to verify whether the remuneration policies and practices are being complied with, and to identify and address incidents in the matter of non-compliance.

With a view to demonstrating the effectiveness of this policy, comprehensive information, including quality models and opinions of key stakeholders, shall be used to test the effectiveness of the remuneration policies.

5. Sections of the Policy

Each of the eight (8) sections dealt with in this Policy addresses a specific area of remuneration:

1. **Santander Remuneration Principles**: establish, together with other sections of this Policy, the key principles in the matter of remuneration for all employees of the Santander Group.

2. **Variable Compensation**: contains, along with other sections of this Policy, instructions on the model and implementation of the risk-adjusted variable remuneration established at companies of the Santander Group, including the bonus systems, long-term incentives and other performance-related plans.

3. **Variable compensation of the Commercial Teams**: contains instructions on the model and implementation of the variable compensation of employees and other persons involved in the marketing of products and provision of banking, insurance and investment services or ancillary services to customers through all the distribution channels.

4. **Remuneration of the "Promontório" and "Faro" segments**: establishes, together with other sections of this Policy, the specific elements and characteristics of the remuneration of the top management of the Group.

5. **Identification of the "Significant Risk Takers**": establishes principles, guidelines and common interpretation criteria to determine the identity of employees whose professional activities may have a material impact on the Group's risk profile (the "Identified Officers) and to ensure appropriate reporting from time to time.

6. **Retribution of the "Significant Risk Takers"**: establishes the specific elements and characteristics of the remuneration of all the "identified officers".

7. **Remuneration of the Control Functions**: includes the principles of remuneration of the control functions and ensures that these functions are able to attract qualified talent having suitable experience to perform their functions without conflicts of interest arising from negative professional conduct and performance. Additionally, it also ensures that employees in these functions can be motivated and rewarded for the exceptional performance of their duties and for working in a unified and commercial manner with the business line under their supervision.

8. **Application of the *Malus* and Clawback Clauses**: defines the process of identification, assessment and review of events that, subsequent to the situations that gave rise to the payment of the variable compensation of the identified officers or regulated officers, may require the application of *malus* and clawback clauses, determine to the persons involved and the dimensions of the adjustment.

The eight (8) sections referred to above are gone into hereunder, structured into individual chapters.

Section 5.1: Remuneration Principles

Introduction

This section contains instructions on the remuneration principles established by the Santander Group. All countries must follow the instructions set forth in this section. Should it not prove possible to apply a specific principle, the Global Compensation function of Human Resources corporate area must be contacted.

The general remuneration procedures drawn up by the overall function define the decision-making processes to be followed by the Group companies in respect of the remuneration of all Group employees, including those designated as significant risk takers and those in the Promontório segments, Faro and Solaruco segments.

Scope of application

The principles included in this section are divided into two (2) sub-sections:

- "All employees" subsection applies to the remuneration of all employees in all countries and functions, including Senior Staff as well as the significant risk takers.
- The Senior Staff and Significant Risk Takers subsection applies only to the Group's Executive Directors and the Promontório and Faro "Key positions" senior staff as defined in the "Modelo de Gobierno Matriz- Filial" and other Significant Risk Takers.

In case of doubt regarding the functions to which the senior staff and significant risk takers section applies, consult **Sections 5.4 ("Promontório" and "Faro" Remuneration) and 5.5 (Identification of Significant Risk Takers)** of this Policy.

Principles

Applicable to all Employees:

The principles of the Group's Remuneration Policy are as follows:

- The remuneration shall be aligned with the interests of shareholders, be focused on the creation of long-term value and be consistent with strict risk management, with the company's strategy, and also maintenance of a sound capital base;
- The fixed compensation shall represent a significant proportion of the total compensation;
- The variable compensation is intended to reward performance through achievement of the agreed objectives, in the light of the employee's position and responsibilities revealing prudent risk management, behaviour and conducts that reflect the Group's culture;
- The variable compensation aims to promote conduct proper to a responsible bank not encourage the sale of a product or service when there are others better suited to the needs of the customer;
- Total compensation includes the grant of additional benefits to support employees in their professional and family life;
- The overall remuneration package and structure shall, in general, be competitive, making it easier to attract and retain employees;
- Conflicts of interest must always be avoided when related to decisions on remuneration, (e.g., those in question must not be responsible for decisions relating to their own remuneration);
- Decisions on remuneration shall be applied without discrimination of any kind other than that deriving from the evaluation of performance;
- The structure and amount of remuneration in each country will comply with local laws and regulations and must be consistent with Group Policy, as and where local law does not preclude it.
- The compensation is fixed or variable. There is no third category.

Fixed Compensation:

Applicable to all staff:

The fixed remuneration shall account for a considerable part of the total remuneration. Fixed remuneration mainly consists of:

- **Gross annual salary**: an amount consistent with the level of responsibility of the employees in question and encourages their retention and attracts the best talent. The gross annual salary may be revised annually within the context of legal and regulatory requirements, market practices and results of the Bank's business.
- **Compensation for international mobility**: supplements may be paid to compensate employees who are deployed to other countries for work reasons. Such supplements will be part of the fixed compensation and may granted as a lump sum. The Group's global human resources function will draw up the international mobility policy, detailing the corresponding remuneration components.
- **Supplements**: other supplements may be granted based on market conditions, policies, practices and local rules;
- **Pensions and other benefits**: All new commitments relating to pensions shall be based on defined-contribution plans, in order to mitigate the risks associated with other types of commitments. Existing defined-benefit plans shall be replaced, where possible, by defined-contribution plans with a lower risk profile. Where contributions to the plan are for significant risk-takers and are linked to the fulfilment of individual or collective results, the contributions will have the nature of discretionary pension benefits (variable remuneration) and will be subject to the requirements of section 5.6 Remuneration of significant risk-takers.

The benefits that are granted take into account local market practices and local public agreements.

All fixed-compensation components must comply with local legal and regulatory requirements.

Applicable to senior staff and significant risk takers:

Decisions on the compensation of Senior Staff and significant risk takers shall be reviewed by the appropriate committee.

Variable Compensation

The variable compensation shall reward performance for having achieved the individual objectives of the local business and, where applicable, of the Group.

The total variable compensation to be granted should not limit the ability of the company or the Group to maintain a sound capital base in the long term. It will therefore be necessary to consider:

- The total amount of variable compensation to be granted during the financial year.
- The variable compensation that will be paid or consolidated that year.

When variable compensation plans are established, be they new plans or continuation of ongoing plans, payment estimates must be made in different scenarios.

Applicable to all employees:

The variable compensation shall reward performance for having achieved the individual objectives of the local entity and, where applicable, of the Group. All variable compensation plans shall:

- Reward performance, taking into account the objectives achieved and how they were achieved;
- Be aligned with the risk;
- Encourage conduct proper to a responsible bank and behaviour aligned with the Group's culture (Simple, Personal and Fair) taking into account, for example, how employees carry out transactions, conduct business, take decisions and how they interact with customers, shareholders and society in general; or credit-risk, operational and reputational management;
- Not promoting the sale of a specific product or service, if any there is another product or service that can be offered and is better suited to the customer's needs;
- Is reasonable for the function and responsibilities.

Additionally, it should be possible that the result of the calculation of the variable compensation is zero both for the whole of the participants and for each individual participant.

Applicable to senior staff and significant risk takers:

The main objective of the variable compensation is to encourage, in a responsible manner compliance with the short-, medium- and long-term objectives and to achieve and exceed the goals established at local, function or Group level, as well as progressive improvement of individual performance.

This compensation is supplementary and of a variable nature, and can in no way be consolidated into salary, while there is always the possibility that no amount is received in the current year or even in subsequent years.

The variable compensation shall comply with regulatory requirements relating to the deferral and payment by means of financial instruments, both at local and at Group level.

- **Annual bonus**

Applicable to senior staff of the "Promontório" and "Faro" segments identified as participants and other senior staff mainly from global business areas also identified as participants, as well as any other group designated by the Group's human resources group committee and approved locally.

Generally, an annual reference amount known as "bonus base", target or reference bonus is defined for each participant. This amount is usually set in local currency and based on the employee's level of responsibility, on market references and on other criteria related to the attraction or retention of the employee.

The total amount of bonuses, known as "bonus pool", of each business, entity, function of the corporate centre or organisational unit is calculated by the sum of the base or target bonuses of its participants, multiplied by the degree of achievement of the corresponding quantitative and qualitative metrics, as well as by other factors or adjustments approved at the time of definition of the metrics.

The metrics for the calculation of the "bonus pool" shall include ex-ante adjustments relating to risks, in order to ensure that variable compensation is fully in line with the risks assumed. The metrics and factors used for the *ex ante* adjustment concerning risks will reflect all those that are relevant.

- **Long-term incentive plan (LTI) and deferral subject to long-term performance**

Applicable to senior staff of the Promontório and Faro segments, as well as those employees who may be designated in the Group as participants. The assignment of an LTI, be it separately or as part of a deferral subject to long-term performance is understood as being granted in the year in which there is compliance with the objectives that determine its grant. When plans have, in addition to long-term goals, a set of initial metrics that are evaluated to decide the grant of the plan to the participants, they are understood as having been granted in the year in which these metrics occur. Plans that are granted solely for belonging to a certain category of employees or similar eligibility criterion, are understood as having been granted when the long-term metrics occur.

To determine the result of an LTI, either as a separate ILP, or as part of a deferral subject to long-term performance, metrics and multi-year factors will be applied, including risk metrics or others that determine that it is paid only in the case of a sound capital base, based on the Group's performance in the respective year. These objectives and factors may be local when they are approved by the human resources committee of the Group and by the corresponding other bodies of local government and of the Group.

In the case of significant risk takers, the long-term incentive, if applicable, will be fully received on a deferred basis, at least 50% in shares, and will be subject to application of *malus* clauses. The whole as provided for in **Section 5.6 (Remuneration of Significant Risk Takers)**

For more detailed information of the variable compensation for Senior Staff and Significant Risk Takers, consult **Sections 5.2 (Variable Compensation), 5.4 ("Promontório" and "Faro" Remuneration), 5.6 (Significant Risk Takers Remuneration), 5.7 (Control Functions Remuneration) and 5.8 (Application of *Malus* and Clawback Clauses)** of this Policy.

Other Payments

Applicable to all staff:

- **Guaranteed variable compensation**: as a general rule, amounts received as a bonus cannot be guaranteed. However, occasionally and only during the first year of effective work at the Group, it is possible to ensure that a minimum amount of the variable compensation is paid under the following conditions:
- The capital base must be sufficient to allow payment;
- The local HR team must be informed of the amounts in question so they can be recorded and properly reported;
- Any guaranteed variable compensation will be subject to the applicable deferral policies. However, and only in the case of contracting or admission (sign on) bonuses, these may not be subject to deferral and payment will be made only in cash.
- A guaranteed variable compensation will only be granted to the same employee once, at the time of being contracted by the Group. It is not possible to grant guaranteed variable compensation for reason of change of employer within the Group.

The guaranteed variable compensation does not count towards the maximum amount of variable compensation of the first financial year's results.

- **Buyouts**: when employees are recruited from outside, they can only be compensated for the loss of remuneration deferred and not attributed when there is reasonable evidence of the actual grant and the entity has a sound capital base.

In these cases, the loss of expectation of the variable compensation will be compensated under terms equivalent to those established for the compensation that the employee no longer receives from the previous employer: payment period, amounts and form of payment (like to like). Nevertheless, by decision of the local compensation team, it may be decided to replace the amounts in cash with shares. The local human resources function will set the amount of the buyout. The compensation of buyouts in Santander shares is subject to an agreement of the General Meeting of Shareholders so permitting.

The amounts of the buyout compensation the loss of the variable compensation awarded during the years when the employee was a significant risk taker at his/her original entity of borrower in their home entity, will come to be subject to the Santander Group *malus* and clawback clauses that result from the application to the variable compensation granted at Santander in the same period of time. Additionally, the general conditions relating to delivery of shares to significant risk-takers provided in the relevant section of this policy will apply.

The requirements relating to the deferral and payment in instruments shall be construed satisfied to the extent that the employer of origin shall have them taken into account at the time of the grant.

The amount of compensation granted by way of buyout will not be included for the purpose of calculation of the ratio between the fixed and variable components of the employee's total remuneration for the year in which he/she came to join the Group.

The global compensation function approved specific guidelines, describing in detail the method of use of the buyouts.

- **Retention plans:** the variable compensation agreed upon as part of retention plans are not guaranteed and will depend at least on remaining with the Group entity for a predetermined period of time or until a certain effect is produced. The amounts paid as part of these plans to significant risk takers will have to meet the requirements relating to variable compensation, including those relating to the ratio between fixed and variable remuneration, payment in instruments, deferral and retention and *malus* and clawback clauses.

Applicable to senior staff and significant risk takers:

- **Guaranteed variable compensation, buyouts and retention plans**: for Significant Risk Takers, the overall compensation function of the Human Resources area shall be informed of the corresponding amounts for them to be registered and to fulfil the information obligations adequately.

Employment contracts

Applicable to all employees:

- **Code of Conduct and other codes**: employees must observe the provisions of the Group's General Code and the Securities Markets Code of Conduct and local regulations.
- **Termination of the employment contract**: The entities of the Group will have rules to determine and approve the indemnities arising from termination of the employment contract, which must include clear definition of the responsibilities, decision-making powers and

participation of relevant functions. In the case of Bank's Executive Directors and senior staff of the Promontório segment, the Board of Directors is charged with the authorization or validation of the conditions for employees of the Group's entities.

The indemnity payable shall be reasonable, fair and adapted to local practices and regulatory requirements and may be adapted in the light of the specific situation so that it takes into account aspects such as the strategic importance of the function, confidentiality, replaceability, etc.

The indemnity for termination of employment contract takes into account the variable compensation. However, the amount of the indemnity will not be considered for the purposes of calculating the ratio, application of the deferral and payment in instruments to significant risk takers in the situations described in section **5.6 Remuneration of significant risk takers.**

When payments within the scope of termination of the employment relationship are made outside normal policies and practices, appropriate documentation shall be prepared and maintained, including the grounds and justification for the exception.

- **Non-competition clauses**: depending on the context and general market practice, each company shall analyse the categories of employees to whom non-competition clauses shall apply. Where applicable, contracts may be suggested to employees prohibiting the conclusion of contracts for the provision of services to other companies or entities, except as expressly authorised to do so. In the case of Bank's Executive Directors and senior staff of the Promontório segment, the Board of Directors is charged with the authorization or validation of the conditions for employees of the Group's entities. Additionally, the duty of non-competition can be established in respect of companies and activities of a similar nature to those of the Group.

On the other hand, contracts proposed to certain employees may include specific non-competition prohibitions, as well for attracting customers, employees and suppliers, which may apply for a period of time after termination of the employment contract.

Period of notice: Group entities will set notice periods that are appropriate to context and local practice. The remuneration paid related to the duration of the notice of the term shall not consider the indemnities for termination of the employment contract.

Section 5.2: Variable Compensation

Introduction

This section contains instructions on the concept and implementation of the variable remuneration of the Santander Group.

Scope of application

This section applies to variable-compensation plans, including bonuses, long-term incentives, and other performance-related plans for all employees in all countries, companies and functions, including employees holding "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 Function of the Group’s Human Resources area should be contacted.

The Variable Compensation applicable to employees of the commercial teams is dealt with in Section 3 (Variable Compensation for the Commercial Teams) of this Policy.

This section should be considered together with:

- The Part of the Variable Compensation referred to in **Section 5.1 (Remuneration Principles)** of this Policy, which applies to all Group employees.
- **Sections 5.4 (Retribution "Promontório" and "Faro") and 5.6 (Remuneration of significant risk takers)** of this Policy apply to all employees included in these groups and contain additional information that must be considered in conjunction with this section.
- When **Section 5.7 (Remuneration of the control functions)** is applied to specific employees, the requirement of that section shall prevail over those of this section.
- If a variable compensation plan covers employees of the networks, other commercial teams and other employees who intervene in the provision of banking, insurance, investment or ancillary services to customers, then the guidelines established in **Section 5.3 (Variable compensation for Commercial Teams)** of this Policy shall be taken into consideration.
- The Deferred variable compensation shall also be subject to the conditions set out in **Section 5.8 (Application of *Malus* and Clawback Causes)** of this Policy.

Principles

Consult the Principles point relating to Variable Compensation set out in Section 1 (Remuneration Principles)

Attribution of the Bonus Pool by Country

The Group has implemented a specific regulation for the variable compensation of the "Promontório" and "Faro" segments, which is provided for in **Section 5.4 ("Promontório" and "Faro" Remuneration**) of this Policy. This policy, together with local adjustments that are necessary, should be the guidance also for the determination of the variable remuneration of the Solaruco segment. The adjustments between the Promontório, Faro and Solaruco system will be reviewed with the overall compensation function.

When countries apply a bonus pool or other variable compensation for different functions of the "Promontório" and "Faro" segments, it shall be based on:

- A suitable set of metrics appropriate to the short- and long-term performance of the local businesses;
- Metrics that include, among others, alignment with current and future risks;
- Metrics that must generally be based on the strategic objectives of the company and of the Group. The weight of each metric shall be established based on the objectives of each country.
- Metrics evaluated in the light of objectives and, where applicable and relevant, with compliance limits;
- In addition to the quantitative metrics, qualitative factors to ensure that all risks, results and necessary adjustments are reflected;
- Review of compliance with the performance objectives shall include, where possible, assessment of the impact of the supervisor's reviews and other internal metrics (audit, compliance, risks);
- Determination of the bonus pool shall be reviewed in accordance with local internal governance and shall always involve assessment by the risks function and other relevant control functions.

Each country shall determine the characteristics of the metrics used for groups of employees other than of the "Promontório" and "Faro" segments, as well as for the Solaruco personnel, in accordance with **Section 5.4. "Promontório" and "Faro" Remuneration**. They are authorized locally and comply with the principles and provisions set forth in this Policy. In the case of significant risk takers who are not part of the Promontório, Faro and Solaruco segment, the local compensation function shall inform the overall function of the metrics used to see whether they are in line with the rules applicable at the Group and, in particular, that they are compatible with proper and effective risk management.

Individual allocation of the variable compensation

The individual bonus or any other variable compensation shall be determined according to the following principles:

1. There shall be a clear link between compensation and performance.
2. The variable compensation shall be in line with the risk profile and encourage conduct proper to a responsible bank, foster Group culture, and comply with the rules and avoid conflicts of interest.
3. There can be no discrimination other than at the level of individual performance.

The performance-management process shall be planned and implemented in accordance with the following principles:

- Encourage alignment with the strategy and culture of the Group and of the countries;
- Be communicated to the employees in a transparent and clear manner;
- Include what has to be achieved (objectives, results, etc.) and how they are to be achieved (behaviour, team management, etc.)
- Ensure appropriate confidentiality;
- Consider the information (feedback) obtained from all sources related with the;

The individual variable compensation based on performance shall be calculated on the basis of a formula or a reasonable discretionary criterion, with adjustments in exceptional circumstances. The exceptional discretionary criterion shall be documented and justified. Examples of exceptional circumstances include incidences in the matter of risk and conduct or applicable regulation (maximum variable-compensation ratio).

When a decision is taken on the variable compensation of an employee who does not comply with these principles, the grounds must be documented and discussed with the local HR.

Definition of variable compensation for "Key Positions":

The individual variable compensation for "Key Positions" in accordance with the "Modelo de Gobierno Matriz - Filial", shall be defined in keeping with the process described in that Model, both the local and the corporate functions intervening.

Long-term incentives and deferred remuneration subject to long-term objectives

The following principles apply to long-term incentives and to deferred remuneration subject to long-term goals (consult **Section 5.1 (Remuneration Principles)** of this Policy):

- There must be a clear link with the creation of long-term value for the shareholder;
- They shall be assessed based on metrics related to shareholders, including, but not limited to, risks and capital;
- They must be delivered in suitable instruments, as permitted by applicable regulations;
- They must be deferred over an appropriate period as provided in the plan's regulations and applicable legal requirements (consult **Section 5.6** (**remuneration of significant risk takers**);
- They shall be subject to a retention period, according to the rules of the plan and legal requirements;
- They shall be subject to provisions on the application of *Malus* and clawback clauses as provided for in the regulation for Significant Risk Takers and other employees. **Section 5.8 (Application of *Malus* and clawback Clauses)** of this Policy contains additional information on this matter.

The Global Compensation Function shall be consulted on new long-term incentives or deferral plans, if they are applicable to Significant Risk Takers, and be submitted to the approval of the Group's Board of Directors if they apply to employees of the "Promontório" and "Faro" segments.

The Global Compensation Function shall provide the necessary indications on the accounting of long-term incentives for the calculation of the percentage of the variable compensation in the light of the fixed one.

Grant of the variable compensation

In general, as a condition of eligibility for the grant of bonuses, the beneficiaries must work for the Group and may not have communicated their intention to leave the Group at the time of the payment.

However, each corporate or local plan may contain its own provisions to address situations related to terminations by mutual consent or unilateral terminations, without prejudice to taking labour legislation into consideration.

Documentation, reporting and accessibility

The remuneration policies and practices shall be documented and archived for audit purposes for a minimum of five (5) years from the last date on which they were applied, and made available if requested by the competent authorities.

Such documentation shall include, but not be limited to, the objectives and the employees to whom this policy is applied, the details of its approval and implementation.

The approval of local remuneration policies must be ensured within the defined governance level, and these policies as well as plans of greater impact shall be reviewed by the local Remuneration Committee. All relevant policies and plans shall be approved by the local Human Resources, as appropriate.

In any case, the Risk Oversight, Regulation and Compliance Committee shall verify and validate any remuneration policy (or document that develops it) in order to ensure its compliance with the risk profile.

Section 5.3: Variable compensation for the Commercial Teams

Introduction

This section contains principles on the governance and concept of the remuneration of employees and others who are involved in the marketing of banking products and services and in the provision of banking, insurance, investment and ancillary services to customers.

The compliance and compensation functions or others of the Group, such as compliance and conduct, may issue additional guidance for information purposes, including examples and clarification for the implementation of this section of this Policy.

Scope of Application

This section shall apply to remuneration policies and practices (including variable compensation in kind, such as prizes, trips, invitations to events, discounts, purchases or gifts of material goods) of the people involved in the marketing of banking products and services and in the provision of ancillary services to customers through all the distribution channels, including branches and digital and telephone channel.

In particular, it is applied to the following:

- Employees who take part directly in the provision of banking, insurance, investment service or ancillary services;
- Employees responsible for the supervision of those employees or are their superiors;
- Financial analysts whose reports may be used by the sales teams to assist customers in making investment decisions;
- Employees involved in the concept and development of products and services;
- Employees involved in complaint management, processing of complaints and customer retention;
- Employees working in the recovery teams.

- Employees working in the corporate banking and investments teams.

The remuneration of some employees initially identified in this section by the duties they perform may also be covered by other sections of the policy (for example, if they are also significant risk takers). In any event, companies of the Santander Group shall, in all cases, identify the employees and the areas to which this section applies. In case of doubt as to the application of this section consult the Global Compensation function of the Corporate Human Resources area.

Agreements with third parties such as external commercial agents, intermediaries, distributors, etc., are not subject to this policy. However, it is expected that they will be, with respect to the remuneration derived from their commercial and distribution duties, based on principles similar to those set forth in this section. In case of doubt, consult the overall function or place of compliance and conduct.

Principles

The local remuneration policies of employees falling within the scope of this section shall be conceived:

- To take into account the rights and interests of customers and avoid or allow effectively management of conflicts of interest in accordance with the Group's business strategy and values;
- Not to promote the sale of a product, service, or category of products rather than another that can lead to contracting or sales that do not consider the customer's needs or that is not the most appropriate of those on offer available at the entity;
- To be easily accessible to all employees and that are clear and transparent;
- To allow the attraction and retention of the best professionals.

Conception

The local remuneration policy must be conceived taking into account the ratio of the fixed and variable remuneration and the metrics described hereunder:

Fixed and variable remuneration ratio:

All remuneration components are classified as fixed or variable and the ratio of these components shall be properly balanced (unless a specific local rule on positions is applied is applied to specific commercial values), to promote the conduct of a responsible bank.

A flexible variable remuneration policy shall be established that sets a minimum ratio and a maximum ratio relative to the fixed remuneration. In this regard, except as established for specific collective employees due to the market where they are and to local practices, a good practice is a variable compensation that does not exceed 100% of the fixed component. The policy shall also include the possibility of not paying any variable compensation.

Save authorised and justified exceptions, the ratio between fixed and variable components shall be consistent for all employees of the same category and business.

Metrics:

Group entities shall define in their remuneration policies and practices, metrics and quantitative and qualitative criteria to be used for the grant of variable compensation, taking into account, inter alia, the fair treatment of customers, the quality of services provided to customers, risk management and compliance with the rules.

The number of metrics should not be excessive. The metrics shall be calibrated in a simple and transparent manner so that the specific requirements of each function, department and different levels of responsibility are complied with.

Schemes intended to compensate a commercial promotion/ campaign (whatever the name adopted locally) on a product or a particular type of product shall be included within the scheme of periodic general objectives of the variable compensation system.

Taking into account the risk-authorisation models and when the functions have an impact on decisions about risks, such functions shall have a risk metric or assessment. Team management metrics may also be considered for those responsible.

The variable compensation is calculated and granted, preferably in a linear manner, to achieve the objectives, with a relevant weight of the quality components, especially linked to the conduct with customers and applying penalizing factors for failure to meet these goals.

The following are examples of acceptable performance metrics.

- Compliance with the Group's internal policies and procedures, especially those related to the rules of conduct;
- Assessment of effective risk management especially the operational risk that could impact on the Bank or its customers;
- Performance-evaluation results, including aspects such as people management, leadership, risk management or other necessary parameters in the light of the post or category of the employee;
- Results of customer satisfaction and loyalty polls;

- Customer formal complaints level;
- Metrics related to inappropriate sales practices controls, such as mystery customer, calls to customers or early cancellation;
- Degree of compliance of the of adequacy and suitability of the products on offer;
- Documentation metrics related to customer knowledge and their effective provision to the customer and transparency of information on products and services, including pre contractual or contractual documentation;
- For telephone channels, assessment of communications with customers in keeping with a periodic monitoring and processed control of tapping;
- Contribution to the development of the Group, department or area;
- Getting positive feedback on investments or portfolios and on customers' products;
- Training attendance and success.

Communication:

Employees must be clearly informed of the performance-evaluation criteria and of the conditions of this evaluation before its application.

The variable compensation shall be paid at the appropriate time in accordance with the rules of each plan.

Governance and Documentation

The policies, procedure and the guidelines that develop them shall be documented and archived for audit purposes for a minimum of five (5) years from the last date on which they were applied, and made available if so requested by the competent authorities.

Such documentation shall include, but not be limited to, the objectives and the employees to whom these policies apply and the details of their approval and implementation.

The approval of local remuneration policies of the sales teams must be by establishment of an adequate governance level allowing prior review by the local Remuneration Committee of the policies and plans of greater impact. In particular, the Compliance and Conduct function will be responsible for approving the procedures that develop local policy and any variable compensation plan of the employees subject to this section before its implementation. Additionally, the existence in the company is recommended of a work group on variable compensation plans for the sales teams in which the business, human resources and compliance and conduct functions shall take part to oversee both the concept of the schemes and the follow-up of their effectiveness.

All relevant policies and plans shall be agreed by the local Human Resources areas, as appropriate.

Section 5.4: "Promontório" and "Faro" Remuneration

Introduction

This section contains instructions on the remuneration of the "Promontório" and "Faro" segments established by the Santander Group.

The Group's global compensation function shall draw up, annually, guidelines on the variable compensation scheme applicable in the Group for the Promontório and Faro segment, and is also essential guidance for the Solaruco segment scheme. It also for guidelines on the businesses (for example, Santander Corporate & Investment Banking - SCIB), to which a global scheme applies.

Scope of application

This section applies to the remuneration policies and practices for the "Promontório" and "Faro" segments in all countries, companies and/or functions. To this end, employees of the "Promontório" and "Faro" segments are defined as those who perform the Group's most relevant duties, that were named by the Board of Directors of Banco Santander SA, in the case of "Promontório" or "Faro" by the Group's Human Resources Committee in the case of "Faro", whose appointment was duly and individually communicated.

Specifically, for clarification purposes and as a general and non-exhaustive job description, the "Promontório" segment first executives of the main countries, the Managers and principal corporate functions and other functions of significant strategic impact, while the "Faro" segment generally includes in functions as a whole the members of the Management Bodies in the Group's main countries and businesses and employees having more relevant functions who report directly to the corporate functions managers.

The elements of this section shall also serve as the main guideline in the remuneration of the Solaruco segment, with the local adaptations deemed necessary.

This section shall be considered together with:

- **Section 5.1 (Remuneration Principles)** of this Policy, which applies to all Group employees.
- **Section 5.2 (variable compensation)** in particular as indicated for the individual allocation of the bonus pool of the variable compensation.

- When **Section 5.7 (Remuneration of control functions)** of this Policy is applied to employees included in the "Promontório" and "Faro" segments, the requirements of that section shall take precedence over the requirements of this one.
- **Section 5.6 (Remuneration of significant risk takers)** of this Policy shall also apply when employees of the "Promontório" and "Faro" segments are identified as Significant Risk Takers.

Principles

Consult **Section 5.1 (Remuneration Principles)** of this Policy.

Fixed Remuneration

With regard to the fixed salary, supplements and mobility payments to employees of the "Promontório" and "Faro" segments, consult Section 5.1 (Remuneration Principles) of this Policy.

With regard to contributions to pension plans made on behalf of employees, they shall be assigned in accordance with local practices. New provisions shall be subject to a maximum of 22% of annual base salary for employees of the "Promontório" and "Faro" segment. Exceptions to this percentage will be approved or validated by the board of directors for the Promontório segment and by the human resources committee for the Faro segment. The pension plans shall be defined contribution.

If required by local regulations or where it is justified for other reasons, variable-pension plans may be established. In this case, the specific use criteria are approved locally. These plans will be considered variable compensation, as discretionary pension benefits and, in the case of significant risk takers, will be subject to the requirements established in **Section 5.6 (Remuneration of significant risk takers)**. Under specific terms the defined contribution shall be included for assessment of the limit of the variable compensation and will be subject to deferral and to application of the "*Malus* and clawback" clauses.

Health, life and accident insurance shall be established in competitive terms in comparison with the local market.

Additional benefits can be offered to employees of the "Promontório" and "Faro" segments, in keeping with the local market, but an endeavour will be made to see do not exceed 20% of the annual base salary.

Variable compensation

The section dealing with Variable Compensation in this Policy contains principles on the conception and implementation of the variable compensation and should be taken into consideration together with the additional requirements listed hereunder for the employees of the "Promontório" and "Faro" segments. These principles, mutatis mutandis, should also guide the system applicable to Solaruco segment. Generally, an annual amount known as target or reference "base bonus/base incentive" is defined for each participant. This amount is usually set in local currency and is based on the level of responsibility, and on market reference points and on other criteria justified in the light of the attraction or retention of talent.

Taking into consideration an adequate balance between fixed and variable compensation, the annual amount set for the employees of the "Promontório" and "Faro" segments shall consist of a proportion of their respective annual base salary, appropriate in accordance with the global and local practices of the market. A reasonable proportion of this should be based on long-term goals.

The final variable compensation defined taking into account the "bonus or incentive base", the available bonus pool and the individual performance of the employee.

Total variable compensation may not exceed a maximum of 100% of the fixed remuneration, even when there has been exceptional performance. However, this limit may be increased extraordinarily to a maximum of 200% of the fixed remuneration if so approved by the Banco Santander shareholders, in keeping with the conditions ser forth in the regulation. The global compensation function is responsible for confirming to every Group company the positions that have approval to exceed 100%. In no event may it be exceeded for positions that form part of the control functions, as established in **Section 5.7** (**Remuneration of the control functions**).

Variable compensation pool:

The individual variable remuneration shall be defined on the basis of the bonus pool available for each country (including the corporate centre as one of them. The bonus pool for each country will be determined by considering:

1. Evaluation of the Country;
2. The adjustment for Group results, which includes both the multiplier for Group results and the general adjustment for risks and environment and control;
3. Exceptional adjustment.

The bonus pool will be reviewed annually at the Group in accordance with the approved internal governance rules.

1. Evaluation of the Country:

As defined in **Section 5.2 (Variable Compensation)** of this Policy, the evaluation of the country will be based on quantitative and qualitative metrics defined on the basis of the Group's priorities, and may be grouped into specific categories as customers, shareholders (covering risk, capital and returns) or others. The metrics and goals are fixed at the beginning of each year.

The weighting of each category shall be based on Group's priorities in the short-, medium- and long-term, fixed in the budget and strategic planning processes. Group entities may propose alteration of the metrics or of the weighting of each of them. These changes should be duly justified and will be sent to the Group's Human Resources Committee which, if it considers them appropriate, will submit them to the consideration of the Group's Remuneration Committee and, where applicable, to the approval of the Group's board of directors. Each entity shall determine the details of the metrics used and they will be authorized by the Global Human Resources Function in accordance with the general plan approved by the Group's Remuneration Committee.

Performance shall be assessed on the basis of quantitative and qualitative metrics:

- Quantitative metrics are assessed considering pre-defined objectives. When the performance is less than 75% of the target, the quantitative result will be zero for this metric. Some metrics may be subject to specific limits. However, the qualitative assessment may also provide an upward or downward adjustment to the result.
- The qualitative assessment is finalised for each category using predefined questions, which must be answered with clear justification and supported by evidence. For each category, the overall extent of a potential qualitative adjustment entails an upward or downward adjustment of up to 25%.

When there is more than one metric in a category, and save agreement to the contrary, they will be equally weighted. In exceptional circumstances, the specific weighting of the metric to reflect the local strategic direction may be weighted flexibly if supported by an argument that justifies it.

The assessment will be reviewed in accordance with the internal governance model adopted locally and by the Group's Human Resources Committee, and it shall always count on the timely contribution of the risk function and other relevant control functions.

The weighted average of the results of the category will determine the final assessment of the Country.

2. Adjustment for the Group's results:

A multiplier will be applied on the country's performance based on the Group's results. The purpose of this multiplier is to partly reflect the impact of the Group's performance on the country's pool.

The result of the multiplier in the assessment of the Country will vary in the light of how much the Country's performance differs from the Group's performance. The multiplier is determined at the discretion of the Group's Human Resources Committee and will be communicated transparently to all countries at the beginning of each year.

In this connection, the general risks and control environment adjustment is also included. This adjustment is proposed to the Group's human resources committee after the review conducted by the risk, audit and compliance functions. The factors may be external and internal (for example, they may consist of the poor results of the valuations performed by the supervisors of by the control functions) and may give rise to positive or negative adjustments. This adjustment is decided annually and will be applied directly as an increase or decrease of the pool and may be applied as a fixed amount or as a percentage to the said pool.

3. Exceptional adjustments:

In certain situations, there may be a need to apply a discretionary adjustment to the country's bonus pool to take into account factors that were not considered in the other components of the bonus system and to ensure that the country's pool is competitive. Such factors may also be internal or external and include extraordinary contributions of the Group, financial goals or exogenous circumstances such as natural disasters or geopolitical risks affecting the results.

When a positive exceptional adjustment is requested, it must be supported by concrete evidence. The country's first executive and the Group's Human Resources Committee shall approve the adjustment before it is submitted to the Group's Remuneration Committee for approval.

When an exceptional adjustment is requested at Group level, which is applicable to one, several or all countries, it will have to be approved by the Group's Human Resources Committee before being submitted for approval to the Group's Remuneration Committee. Justification for the exceptional adjustment shall also include comments of the relevant control functions, including the risk-control function.

The grounds for the exceptional adjustment shall be evidenced and the justification communicated to the interested parties.

This adjustment shall be through a direct increase or decrease of the bonus pool, either by a percentage thereof or by a defined amount, and it will be applied only in the reference year.

Payment method:

When employees of the "Promontório" and "Faro" segments are significant risk takers as described in **Section 5.5 (Identification of Significant Risk Takers)** of this Policy, the variable compensation will be paid at least partially in shares or other instruments, as described in **Section 5.6 (Remuneration of Significant Risk Takers)** of this Policy.

Deferred remuneration subject to long-term objectives:

Both the last three (3) payments and also the last payment, as applicable, of the variable compensation of employees of the "Promontório" and "Faro" segments, respectively, will be subject to additional long-term objectives. These objectives will be assessed by applying priority metrics for shareholders, such as the growth of the benefit per share or total shareholder return (TSR), as well as other capital and risks ones. These metrics may be absolute or relative as appropriate to the shareholders' long-term interests. The relative metrics will express the degree of fulfilment of an objective in relation to that of the comparison groups.

To determine the final amount to be paid to the employees the corresponding weighting will be assigned to the metrics.

Each country can have long-term supplemental plans if required by local regulation or as a result of local practices or other valid reasons. These plans must comply with the requirements of the variable-compensation section of this Policy and shall be sent to the Group's Human Resources Committee, which will submit them to the Group's Remuneration Committee for consideration. Following approval by the Remuneration Committee, the plans will be submitted to the Group's Board of Directors. Such supplemental plans will comply with the rules laid down in **Section 5.2 (Variable compensation)** of this policy and, where applicable, of **Section 5.6 (Remuneration of significant risk-takers).**

Variable compensation governance model

The bonus pool, categories, metrics and components of the qualitative assessment will be proposed annually by the Group's Human Resources Committee and will be submitted to the Group's Remuneration Committee for review. Following approval by the Remuneration Committee, the plans will be submitted to the Group's Board of Directors. In the case of the Group's Executive Directors, the Board of Directors will request the approval of the Group's shareholders.

The Global Compensation Function will share with all countries and global businesses the bonus pool, categories, metrics and components of the qualitative evaluation. The objectives of each metric will be established for each country in accordance with the Group's objectives and reviewed internally with the corresponding functions (i.e., Financial Control Function).

The achievement of each objective and qualitative component will be assessed at the end of the year for each country (or global business) and reviewed by the Group's Human Resources Committee, which will also propose the Group's performance, on the occurrence of the general adjustment of risks and of environmental control and the exceptional adjustment. For this review, the Committee will rely on the Group's risks, compliance, audit, intervention and control of financial management functions, thus ensuring that all present and future risks are taken into account.

The Human Resources Committee will submit the bonus pools to the Group's Remuneration Committee for review and, if so agreed, the Committee shall submit the proposals to the Group's Board of Directors.

As prescribed in Section 5.2 (Variable compensation), individual allocation for each employee of the "Promontório" and "Faro" segments of the Country's bonus pool will be based on the achievement of the individual objectives of the employees of these segments. There shall be a clear link between compensation and performance, and the allocation of variable compensation shall be in line with the risk and encourage good conduct.

Compensation related to contracting and retention

Consult **Section 5.1 (Remuneration principles)** of this Policy.

Employment contracts

Consult **Section 5.1 (Remuneration principles)** of this Policy.

- **Termination**: payment of compensation for early termination of the employment relationship shall be authorised at the appropriate level and paid in accordance with local rules. Such payments shall reflect performance and compliance.
- **Non-competitions clauses**: the duty of non-competition shall be established in respect of companies and activities of a nature similar to those of the Group. Non-competition shall be reasonable, fair and adapted to local practices and local rules. It shall never be less than two (2) years for employees of the "Promontório" segment and six (6) months for employees of the "Faro" segment, payable as 100% of the annual base salary, unless local rules or market practice prescribe otherwise.
- **Period of notice:** Notice of termination shall be reasonable, fair and adapted to local practices and local rules. The said period may be adapted to each case considering the strategic importance of the function, confidentiality, replacement, etc., but shall never be less than six (6) months for employees of the "Promontório" segment or three (3) months for employees of the "Faro" segment, unless local rules or market practice prescribe otherwise.

Section 5.5: Identification of Significant Risk Takers

Introduction

The purpose of this section is compliance with applicable law in this area, establishing rules, principles, guidelines and common criteria of interpretation to identify these officers and report on them from time to time. This section is developed with additional implementation guidelines.

The Group's Human Resources Corporate function is charged with issuing the procedure for identification of significant risk takers in detail, with examples and further clarification in order to put this section of this Policy into practice.

Scope of application

This section aims to establish principles, guidelines and common interpretation criteria to assess the identification of these officers, in keeping with the legislation in force.

All subsidiaries/affiliates shall be actively involved in the implementation of and compliance with this section, based on the procedures set out in the implementing regulation and considering, where appropriate, local regulatory requirements.

In case of doubt as to the applicability of this section, consult the Global Compensation Function within the scope of the Corporate Human Resources function.

Principles

Basic principles:

For the development of this section and implementation of the respective regulations the following basic principles were followed:

- Addressing the Group's diversity and geographic dispersal, identifying countries, divisions and, in general, "units"[1], as required by the rules, when this section is seen to be applicable both individually as well as being part of the Santander Group.
- Providing these units with criteria for the application of the regulations on a standardised basis.
- Monitoring, as Group, the identification of these identified officers and keeping a duly updated record, making it available to the European Central Bank or any other local regulatory authority, as and when requested.
- Carrying out the identification process at least once a year.

Basic identification principles:

The section on identification of the identified officers is based on the regulations in force from time to time that establish the criteria in keeping with the following:

- Qualitative: refers to the set of criteria used to consider an individual as belonging to this group of officers due to their position within the organisation or due to their responsibility within it.
- Quantitative: refers to the set of criteria used to consider an individual as belonging to this group of officers as a result of the remuneration received for the services provided.

[1] The term unit is generally used to encompass any organizational grouping that can be considered in isolation at a given time, for the purpose of applying the regulation.

- Internal: refers to those criteria not expressly covered by the applicable regulations, but are deduced as a result of the respective understanding and purpose as being logical within the specific context of the Group.

Criteria will also be defined to identify and classify the units where the above criteria are to be applied. These criteria will be based on simple, known elements, such as capital, gross margin, volume of income, such others as may be appropriate to the main business of the units, and shall reflect the relative importance of each of the units identified that may affect the risk profile of the Santander Group.

The Global Compensation Function will define the criteria of proportionality both in relation to the relative importance of the various units and of the various levels of responsibility of the positions occupied by the individuals under consideration to facilitate the respective implementation. In this connection, a simple but objective process that can be audited will be defined, which will also allow the identification of individuals who should not be considered as identified officers due to the principle of proportionality.

The procedure for the development of this section will include the remuneration evaluation criteria for the purposes of the qualitative, quantitative and internal criteria. In any case, Group entities take shall into account the components of the fixed and variable compensation, granted for the services rendered in the year preceding that of the identification.

Lastly, to develop and implement this section, the corporate Human Resources function shall take best practices and market trends into account.

Duties and responsibilities

It is incumbent upon the Corporate Human Resources function to ensure compliance with this section and to define the appropriate implementing regulation, together with any additional rule required to comply with this responsibility.

The Corporate Human Resources function shall determine, as provided for in the regulation, the units to which this section will apply. The function will also be responsible for the monitoring and control of such implementation within the scope of the units.

The said function must be able to provide information, at the request of any regulator or supervisor, at any time, on the identified officers, along with the basic criteria that qualifies them as such, their physical, organisational and functional location and any other element taken into consideration for this task to be satisfactorily performed by the function. In any case, the risk oversight, regulatory and compliance committees, together with the Remuneration Committee, will oversee at least once a year the process followed to identify the significant risk-takers.

The Human Resources function of each unit is responsible for identifying the employees who should be part of the identified officers and for providing support to the Corporate Human Resources function in the implementation of this policy. If any unit is not part of the Human Resource function itself, the management function on which that function was delegated will assume this responsibility for the unit and, in the absence thereof, the task will revert to the Corporate Human Resources function. Within the scope of the Corporate Human Resources the Global Compensation function shall determine the following key elements for the process of identification of the officers by means of the implemented regulation:

- Parties of the process
- Necessary tools and materials;
- Calendar.

The Human Resources function of each unit is responsible for identifying the local (or other) rules that may have an objective similar to that of this section. The Human Resources functions at the subsidiaries/affiliates shall determine whether to adopt additional procedures and documents to comply with those local requirements not included in this section or in the implementing regulation.

The Human Resources function of each unit is responsible for proposing and promoting improvements in this section and/or in its basic elements. The Corporate Human Resources function shall establish any procedures that may be necessary to facilitate the fulfilment of this responsibility.

Lastly, the global compensation function is also responsible for resolving disputes arising from the application of the regulation affecting the Group (included in this section and the documentation that develops and enables its application). Where appropriate, the Corporate Human Resources function shall submit such disputes to the Remuneration Committee for decision.

Evaluation, monitoring and control

The global compensation function shall present to the Remuneration and Supervision Committees, at least once a year, the alterations of the identified officers and the basic elements relating to the identification procedure performed.

Responsibility for the monitoring and evaluation of compliance with this section by the units is entrusted to the global compensation function, which shall properly report the risks arising from inadequate compliance, obtaining the support, if necessary, of the corporate compliance areas or legal advice.

The global compensation function will be subject to supervision and control with regard to the implementation of this section, as established by the regulatory requirements and by the Group's governance model. Specifically, the Internal Audit function will conduct a periodic review of the main aspects of the implementation of this section, a task that will be included in its plan of activities.

Section 5.6: Remuneration of Significant Risk Takers

Introduction

This section contains instructions regarding the remuneration of the Significant Risk Takers (also designated as identified officers) established by the Santander Group in keeping with **Section 5.5 (Identification of Significant Risk Takers)** of this Policy.

The global compensation function with the necessary approvals of the Group's governing bodies will draw up the regulations, guidelines or other documentation necessary for the implementation of this section of the Policy. In particular, these guidelines will include the annual working of the deferrals related to the variable compensation granted annually and to the payment of indemnities in the event of termination of the employment relationship.

Scope of application

This section applies to the remuneration policies and practices for Significant Risk Takers in all countries, companies and/or functions identified at Group level. Each country must have additional policies, if necessary, to cover Significant Risks Takers identifiable at local level. To obtain detailed instructions as to the identification of Significant Risk Takers consult **Section 5.5 (Identification of Significant Risk Takers)** of this Policy.

In case of doubt as to the applicability of this section, you should consult the Global Compensation Function within the scope of the Corporate Human Resources function.

Principles

Consult **Section 5.1 (Remuneration Principles)** of this Policy.

Fixed Remuneration

With regard to the fixed salary, supplements and mobility payments for Significant Risk Takers, consult **Section 5.1 (Remuneration Principles)** of this Policy.

Variable Compensation

The section dealing with Variable Compensation in this Policy contains instructions on the conception and implementation of the variable compensation and must always be complied with, with the additional requirements listed hereunder for the Significant Risk Takers.

The total variable compensation may not exceed a maximum of 100% of the fixed remuneration, even when there has been exceptional performance. However, this limit may be increased extraordinarily to a maximum of 200% of the fixed remuneration if so approved by the Banco Santander shareholders, in keeping with the conditions ser forth in the regulation. The global compensation function is responsible for confirming every position Group entity whose variable compensation may exceed 100%. In no case can this ration be exceeded in the case of the control functions, as identified in Section 5.7 (Remuneration of the control functions).

The Global Compensation Function shall provide guidelines to the countries and business areas with the criteria to take into account for the different elements of remuneration such as variable or fixed compensation.

If local regulations establish special rules for the calculation of the variable compensation limits (for example, taking into account the annualised fixed remuneration and not that actually paid in the case of admissions in the middle of the year), validation by the global compensation function will be requested.

Deferral:

A portion of the variable compensation will be deferred and may be subject to additional performance criteria. The proportion and the deferral period depend on the following categories in which the employee is included:

1. **Executive Directors of the Group and Significant Risk Takers having total variable compensation above a certain limit, communicated annually by the Group's HR Compensation Function**: 60% deferred, provided in equal parts over a period of five years, the last three years subject to long-term objectives.

2. **Division and Corporate Area Managers, Country Heads of countries that individually account for at least 1% of the Group's share capital and other Significant Risk Takers having total variable compensation above a certain limit, communicated annually by the Group's HR Compensation Function**: 50% deferred, provided in equal parts over a period of five years, the last three years subject to long-term objectives.
3. **Other Significant Risk Takers (including employees of the "Promontório" and "Faro" segments not covered in points 1 and 2 above)**: 40% deferred, provided in equal parts over a period of three years; of which, solely for Promontórios and Faros, the last year subject to long-term objectives.

In implementing the principle of proportionality, Significant Risk Takers to whom an annual variable compensation not exceeding a total of €50,000 gross is granted, will be excluded from the deferral scheme described above.

For details of the objectives applicable to deferred or long-term variable compensation consult a **Section 5.2 (Variable Compensation)** of this Policy.

Both the deferral period and the percentages may be increased if required by local rules. All immediate or deferred payments must be made at least 50% in instruments and for specific plans it may be determines that that this percentage be higher. The variable compensation shall be conceived and implemented in accordance with regulations applicable to the specific plans.

Deferred variable compensation shall be subject to the provisions on application of the *malus* clauses established in **Section 5.8 (Application of *malus* and clawback clauses)** of this Policy.

Instruments:

At least 50% of the deferred amounts and 50% of the immediate payment of the variable compensation for the Significant Risk Takers shall be made in instruments, giving preference to shares in Banco Santander or related instruments, such as American Depositary Receipts (ADRs). Subject to the approval of the Group's Human Resources function and when the company is listed on the stock market and has a certain turnover on the local market, the entity may use local instruments, giving preference to local shares.

Each country shall use other instruments if required by the regulator or local regulations. These situations shall be reviewed by the Group's Human Resources function in order to also comply with Group regulations.

For further information on the instruments to be used, you should consult the Global Compensation function within the scope of the Group's Human Resources function.

Retention period:

Any instrument granted to Significant Risk Takers, be it as part of the immediate payment, be it as payment of the deferred portion, will be subject to a retention period of one year, so that during the course of the twelve (12) months next following the delivery of instruments the participant may not sell them or use hedging strategies.

Dividend-equivalent payment and dividends:

Payments equivalent to dividends shall not be made on any variable compensation over the period of deferral or in the grant relating to the deferred period for variable compensation granted after 2016.

The foregoing notwithstanding, the dividends paid in respect of any shares or similar instruments that have been granted are permitted even during the retention period of one (1) year following the award.

Interest on deferred payment in cash:

Interest on payments in cash shall not be made on any deferred compensation during the retention period for the variable compensation awarded after 2016.

At the time of payment in cash of the deferred amounts, and subject to the same requirements, an amount may be paid in cash to offset the effect of inflation on that deferred amount. The global compensation function will establish the procedure to confirm the local application of this situation.

Personal coverage:

Employees are not authorised to use hedging strategies to transfer the exposure to the risk on the variable compensation, both deferred and retained, to a third party. The following agreements are not allowed:

- A contract that requires a third party to directly or indirectly make payments to an employee that is related or corresponds to amounts that have been reduced from the variable compensation of the employee.

- The acquisition or holding of derivative financial products that are intended to hedge losses associated with the instruments received as part of the variable compensation.
- An insurance contract covering the risk of adjustment for decrease of the remuneration.

Specific rules for certain compensation concepts

Long Term Incentives:

In the case of long-term incentives (described in **Section 5.1. Remuneration principles** and **Section 5.2. Variable Compensation**) approved as a separate plan, the following shall be taken into account at the time of the concept and deferral:

- In the case of plans awarded without being subject to compliance with an initial objective but only to multiannual objectives, it is understood that they are granted in the year in which the plan's objectives have been met. The applicable deferral period, as previously mentioned, will start after the award of the incentive.
- In the case of plans awarded after the annual objectives have been met and are also subject to multiannual objectives, it is understood that they are granted in the year in which the annual objectives have been complied with. The deferral period will end one year after the assessment has been made of the multiannual objectives.

Discretionary pension benefits:

The discretionary pension benefits (described in **Section 5.1. Remuneration principles)** are subject to *malus* and clawback during the period and under the conditions described in this section and in **Section 5.8 Application of *Malus* and Clawback Clauses.** Thus, if a significant risk taker is a beneficiary of a discretionary benefit pension and ends his/her employment contract with the Group prior to his/her retirement, the discretionary pension benefits shall be maintained in full in the form of instruments over a period of at least five years from the date of termination of the employment contract. If this occurs on the date of retirement a retention period of five years will apply to the total amount paid in instruments.

Indemnities for termination of employment contract:

The amounts paid by way of compensation for termination of employment contract shall not be taken into account for the purposes of calculating the maximum ratio of the variable remuneration, application of deferrals and payment in instruments:

- Mandatory indemnities for dismissal provided for in the national labour law, by court decision, calculated using the previously-defined generic formula provided for in the local rules, in local policy or that may be considered as common practice in the local market in the event of termination of the employment contract.
- When they are subject to a non-competition clause and payment is made in future years up to the maximum annual amount of the fixed remuneration that has been paid in the non-competition period if the employee was still employed.
- In the case of a particular business area see reduced significantly its activity, is not feasible or acquired by another entity without employees have the option of keeping their employment contract or when an agreement is concluded in case of labour conflicts, potential or real, to avoid taking the situation to court, as long as it has demonstrated to the competent authority the reasons for the suitability of the amount of compensation for termination of employment contract.

Contracting and retention

Consult **Section 5.1 (Remuneration Principles)** of this Policy.

Employment contracts

Consult **Section 1 (Remuneration Principles)** of this Policy.

Communication process

The Santander Group will implement a communication process to ensure that Significant Risks Takers understand the implications of their status, especially those relating to the application of the malus and clawback clauses established in Section **5.8 (Application of Malus and clawback Clauses)** of this Policy.

Section 5.7: Remuneration of Control Functions

Introduction

This section contains principles on the remuneration of control functions established by the Santander Group.

The Group's Human Resources function shall issue guidelines in the matter of identification of the control functions for information purposes, including examples and further clarification for the implementation of this section of this Policy.

Scope of application

This section applies to all employees with control functions within the scope of all countries, divisions and units of the Santander Group.

Control functions are defined as positions held in the areas of risk, compliance, internal audit, financial, accounting and management control.

In general, all positions that form part of the risk, compliance and conduct, auditing and general intervention and management control functions, are part of part of the control functions and are subject to the provisions of this section. The companies may identify positions that, falling within these functions, do not actually perform a control function (for example, recovery teams of assets involving risk) and submit them for consideration to the global compensation function. Also, if there are positions dedicated to independent control in other functions (for example, related to the control of capital-adequacy or liquidity plans) they shall be identified as such and subject to the provisions of this section.

Amount of the remuneration

The total remuneration package of the control functions shall be competitive in the market, to attract sufficiently qualified and experienced staff to perform the duties.

A competitive salary level in the market shall be determined through a formal and documented procedure that includes a comparison of the salary level for similar functions within the scope of the local market.

Structure of the remuneration

All components of the remuneration (including the deferral and payment of long-term incentives) may be in keeping with local policies for other employees. There shall be no differences in the policy applied in this connection for the control function (although a different policy may be introduced at local level if necessary).

Variable compensation

The level of the variable compensation shall be taken into account and a suitable level established for the control functions.

Normally, the average ratio between the fixed remuneration and the variable compensation for the positions of the control functions shall be less than that of the business functions. In any event, the variable remuneration of the control functions shall not exceed 100% of the fixed remuneration in the year of its grant. For control functions, there shall be a clear connection with the performance of the control function for the determination of the degree of compliance of any long-term incentive plans where performance is evaluated at Group level.

Bonus metrics and individual objectives

Bonuses of control functions may have at their origin the same bonus pool as other employees, as decided by the local management or corporate centre, provided that the overall bonus pool is adjusted to the risk and that individual objectives are based on the performance of the control function. The bonus of employees of the "Promontório" and "Faro" segments in-control functions will have their origin in the bonus pool of the country in question or of the corporate centre as described in **Section 5.4 (Remuneration of the "Promontório" and "Faro" segments).**

The appropriate governance body (local Remuneration Committee or local Board of Directors) may decide to assign a bonus pool specific to the control functions, even in a situation of losses and, where appropriate, provided that the control functions have contributed to the long-term success of the business. In this situation and when applicable to employees of the "Promontório" and "Faro" segments, the Group's Board of Directors, at the proposal of the Remuneration Committee, will review and approve the specific bonus pool or the individual amount.

The individual objectives shall be 100% based on the performance of the control function, rather than on the results of the business, but must be aligned with the long-term success of the business objectives, in particular with those in respect of the creation and maintenance of a sound capital base.

Process for the determination of the bonus

The performance of the control function will be assessed by staff independent of the business areas they oversee.

For most employees this evaluation will be based on the taking of decisions at local level by members having greater responsibility in the same control function (i.e., the CRO – local Risk Manager for employees of the risk function, the Local Compliance Manager for employees of the same compliance and conduct function, etc.). However, for a limited number of employees in positions of greater responsibility, identified in the "Modelo de Gobierno Matriz- Filial" (e.g. CROs of each country), this will be 30% based on a decision taken by the Group and 70% on a decision taken locally or as reflected in the Model from time to time.

For posts of greater responsibility, the process of local decision-making shall be undertaken by an independent committee or governance body.

Procurement

The posts of the control functions shall be filled under the conditions laid down in this section. Control functions hiring decisions shall be decided in accordance with the "Modelo de Gobierno Matriz- Filial".

All other hiring procedures and policies for control-function positions shall be in keeping with the recruitment policy. Specifically, they shall comply with the definition of objectives and performance evaluation of the control functions, under the terms of the "Modelo de Gobierno Matriz - Filial.

Section 5.8: Application of the Malus and Clawback Clauses

Introduction

This section contains instructions on the application of *malus* and clawback clauses established by the Santander Group. After consultation with the Global Compensation function within the scope of the Human Resources function, these provisions may be adapted where necessary to comply with local rules or to follow the recommendations of local supervisory entities.

The Group's Human Resources function shall issue guidelines and procedures for the application of *Malus* and Clawback clauses, including examples and further clarification for the implementation of this section of this Policy.

Scope of application

This section regulates the *malus*, defined as the ability to completely or partially reduce the amount of the deferred compensation, and clawback as the ability to recover a part or the whole all of the amount of variable compensation paid in the past or the right to which had already been granted.

Malus and Clawback may be applied to the whole of the variable compensation granted and/or paid to Significant Risk Takers, as identified in **Section 5.5 (Identification of Significant Risks Takers)** of this Policy, and to those granted and/or paid to any other employee subject to *malus* and/or clawback in accordance with the regulations of a specific variable-compensation plan.

Variable compensation includes bonuses and long-term incentives covering a predetermined period, the incentives of the commercial teams, retention bonuses, guaranteed variable remuneration, discretionary pension benefits, and other provisions that may be come to be considered variable compensation (including payments for contract termination).

Person covered

All persons shall be assessed who may potentially take part in an identified event (as described below), including persons with supervisory, management or control functions, in order to determine whether *malus* and clawback will have to be applied.

The foregoing notwithstanding, the application of clawback clauses shall be restricted to functions that have a more direct participation in the identified event.

Identification of Events

Application of *malus* and/or clawback begins with the occurrence of an identified event as specified in this section.

Application of clawback will be supplementary to the application of *malus*, and will thus take place when the latter is insufficient for the impact that the event should have on the variable compensation, as described below. Without prejudice to its condition as supplementary, the clawback will be applicable in addition to the *malus* in the case of very significant events, as presented hereunder.

Where an event is identified, application of *malus* will take precedence and only when the application of the said *malus* is exhausted and insufficient will the clawback be applicable.

The identified events may be classified as minor, significant or very significant. The definitions of these three categories are set out hereunder.

The application of *malus* and/or clawback begins when at least the following circumstances occur:

a) If the institution and/or business unit is subsequently affected by a significant slowdown of its financial performance (e.g., specific business indicators);

b) If the institution and/or the business unit where the identified employee works is affected by significant failure in risk management;

c) Significant increases in the economic or regulatory own funds of the institution or business unit;

d) Any regulatory sanctions to which the identified employee has contributed;

e) Proof of misconduct or gross error by the employee (e.g., violation of the code of conduct or other internal regulations, especially those related with risks).

Additionally, the individual policies of each Country shall include any other criteria required by the regulations and/or by the local regulators themselves.

Period of application

For any variable compensation to which a deferral scheme is applied, the application period shall extend until the date on which the period of retention ends of the last delivery of the financial instrument provided for the said variable compensation.

When a deferral scheme is not applied, the period of application will fall due on the date defined in the variable compensation plan and, if not provided for, it must never exceed the date of the fifth anniversary of the date of its grant. Local rules may require a longer period to be fixed.

Control functions posts

The control and management-control functions must provide information and recommendations to the local or Group decision-making bodies regarding potential events that may result in the application of *malus* and/or clawback.

Size of the adjustment

The decision as to the size of the adjustment and on the use of *malus* and/or clawback shall be based on the circumstances of the identified event. The competent local body shall take a decision based on advice received from the local control functions and the Human Resources function.

In order to determine the size of the adjustment and the implementation of the *malus* and/or clawback, the events can be classified into three broad categories:

- **Minor event**: event that relates to a single person with limited effect on the financial or reputational risk with impact on the business unit or entity, and will trigger application just of *malus*;
- **Significant event**: event involving a small number of employees with a significant effect on the financial or reputational risks on the business of the business unit or entity at issue, and will trigger the application of malus and, where applicable, of clawback only in cases where application of malus is deemed insufficient; and
- **Very significant event**: event that has a significant and unfavourable impact on the financial or reputational risk profile of the entity. Observing the priorities between *malus* and clawback described above, very significant events may trigger both *malus* and clawback actions.

Identification of the event and its registration

Business units, control functions and other functions will identify events that may give rise to application of *malus* and of clawback, under the terms of the procedures established for the purpose.

Communication

Participants of incentives subject to the *malus* and clawback provisions shall be informed of these circumstances at the time of the communication of the plan and when the incentive is granted.

If a *malus* and/or clawback event is triggered, the participants shall be informed about the adjustments made to the deferred compensation and/or variable compensation granted and the reasons for such adjustments (*malus*) or penalty (clawback).

Governance Process

The decision to apply *malus* and/or clawback clauses is the responsibility of the local governance bodies of each entity and of the Group's Human Resources Committee in the case of employees of the corporate centre (or of the governance body on which the latter may delegate for certain groups of employees), except for the Promontório segment, in respect of which the Group's Human Resources Committee will send the application proposal regarding the latter to the Group's Remuneration Committee and to the Board of Directors for approval.

The local Human Resources function will report to the Group's *Malus* and Clawback working group or to the Group's Human Resources Committee any proposal for the application of *malus* and clawback derived from events identified locally. The Group's Human Resources Committee may review all cases in co-ordination with the corporate control functions indicated above. Similarly, the Group's *Malus* and Clawback working group and the Human Resources Committee may identify any event triggered and not proposed by local decision bodies to which the *malus* and/or clawback would be applicable. The Group's Human Resources Committee shall adequately report these situations to the local human resources function for execution purposes.

The Group's Human Resources Committee shall annually report to the Remuneration Committee regarding the application of *malus* and clawback within the scope the Group for the respective evaluation in accordance with the rules and regulations of the Board of Directors of the parent company.

The corresponding governing body of each subsidiary/affiliate shall ensure that compliance with the remuneration policy regarding the variable compensation is compatible with the soundness of the capital.

Specific variations for countries or groups of employees

All processes within the scope of a country shall be included in the mandate of the appropriate local governance body, which include the Santander Corporate & Investment Banking Division.

6. Governance and approval

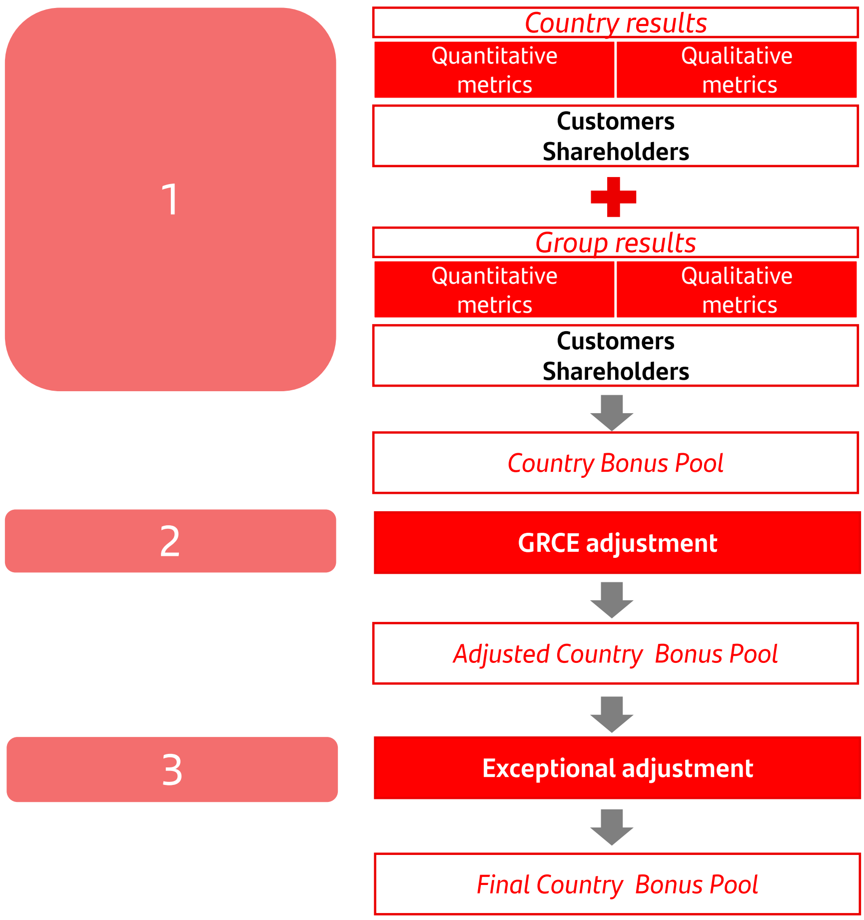
The Group's Board of Directors approved this section of the Policy, at the proposal of the Remuneration Committee at its meeting of July 24, 2018.

The interpretation of this document lies with the global compensation function, which will be supported where necessary by the Group's Human Resources Committee.

This document shall enter into force on the date of its publication and is subject to periodic reviews or others deemed appropriate.

Annex 2

Annual Objectives



Annex 3

Criteria for the determination of the deferred variable remuneration subject to performance

a) Compliance with the growth of the consolidated earnings per share ("EPS") of Banco Santander in 2021 compared to 2018. The coefficient corresponding to this objective ("EPS Coefficient") will be obtained from the following table:

EPS Growth in 2021 (% over 2018)	"EPS Coefficient"
≥ 15%	1
>10% and <15%	0 – 1 (*)
<10%	0

(*) Linear increase of the EPS Coefficient in the light of the concrete percentage of growth of the 2021 EPS compared with the 2017 EPS within this range.

Compliance with the objective, either total or partial, also requires that during 2019 and 2020 BPA growth be greater than zero.

b) Relative performance of the total return of the shareholder (TSR) of the Bank in the 2019-2021 period in relation to the TSRs of a reference group of 9 credit institutions.

For these purposes the following shall be understood:

–"TSR", the difference (expressed as percentage) between the final value of an investment in common shares of Banco Santander and the initial value of that investment, taking into account that for the calculation of this final value consideration will be given to the dividends or other similar concepts (such as the Santander Dividendo Elección programme) received by the shareholder on such investment during the corresponding time period as if they had invested in more shares of the same type on the first date on which the dividend or similar concept is due to the shareholders and the weighted average closing price on that date. To calculate the TSR consideration shall be given to the weighted average by daily volume of the weighted average prices corresponding to the fifteen stock-market sessions prior to January 1, 201p (not included) (for the calculation of the initial value) and of the fifteen market sessions prior to January 1, 2022 (not included) (for the calculation of the final value).

– **"Reference Group"**, the following 9 financial institutions taken as a whole: BBVA, BNP Paribas, Citi, Crédit Agricole, HSBC, ING, Itaú, Scotiabank and Unicredit.

For this metric of the TSR, the following scale of compliance is determined:

Position of Santander's TSR	"TSR Coefficient"
Greater than 66%	1
Between 33% and 66%	0-1(*)
Less than 33%	0

(*) Proportional increase of the TSR Coefficient in the light of the number of positions that it rises in the ranking within this line of the scale.

c) Compliance with the objective of Santander Group's *fully-loaded* common equity tier 1 or "**CET1**") fixed for the 2021 financial year. The coefficient corresponding to this objective ("**CET1 Coefficient**") will be obtained from the following table:

CET1 in 2020	CET1 Coefficient
≥ 12%	1
≥11.5% but <12%	0 – 1 (*)
<11.5%	0

(*) Linear increase of the CET1 Coefficient in the light of the 2021 CET1 within this scale.

To check compliance with this objective, possible increments of the CET1 derived from share capital increases will not be taken into account (except those that implement the *Santander Dividendo Elección* programme). Furthermore, the CET1 on December 31, 2021, may be adjusted to eliminate the effects on it of such regulatory changes as occur in relation to its calculation up until that date.

Thus, to determine the amount of the Deferred Part Subject to Objectives which, if applicable, must be paid to each beneficiary on the corresponding Anniversaries (each payment a "**Final Annuity**"), the following formula shall be applied to each of the Annuities pending payment, without prejudice to such adjustments as may result from application of the *malus* policy referred to above:

Final Annuity = Imp. x (1/3 x A + 1/3 x B + 1/3 x C)

Where:

-"Imp." corresponds to one fifth or one third, in the light of the recipient's profile, of the amount deferred.

-"A" is the EPS Coefficient that results from the scale of point (a) above, in the light of the growth of the EPS in 2021, compared to that of 2018.

-"B" is the TSR Coefficient that results from the scale of point (b) above, in the light of the growth of the TSR in the 2019-2021 period by comparison with the Reference Group.

-"C" is the CET1 Coefficient that results from meeting the CET1 objective for 2021 described in paragraph (c) above.

VII.2. REMUNERATION AND OTHER BENEFITS ASSIGNED TO MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

This information is provided to comply with the provisions of article 3 of Law 28/2009 of June 19, and article 17 of Bank of Portugal Notice No. 10/2011 of December 29 (*Diário da República*, 2nd Series, of January 9, 2012), in that part referring to the disclosure of the annual amount of remuneration earned by the members of the management and supervisory bodies.

The fixed and variable remuneration, in 2019 aggregate terms, of the members of the Board of Directors and of the Audit Committee taken together, were €3,362 million for the fixed and €2,591 million for the variable remuneration, respectively.

On December 31, 2019, the current cumulated set of credits granted to the members of the Board of Directors under article 85 of the general credit institutions and financial companies legislation amounted to €735K, as follows:

	Thousands of Euro
Name	Mortgages
Inês Oom Ferreira de Sousa	347
Miguel Belo de Carvalho	59
Amílcar Silva Lourenço	78
Daniel Abel Monteiro Palhares Traça	250
Total	**735**

The individual remuneration paid and deferred in respect of 2019 is that detailed in the following tables.

Annual remuneration

Board of Directors

Name	Position	Fixed remuneration (thousand euro)
António José Sacadura Vieira Monteiro*	Chairman	591
José Carlos Brito Sítima**	Deputy-Chairman	350
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	403
Amílcar da Silva Lourenço	Member	191
Ana Isabel Abranches Pereira de Carvalho Morais	Member	143
Andreu Plaza Lopez	Member	-
Daniel Abel Monteiro Palhares Traça	Member	143
Inês Oom Ferreira de Sousa	Member	250
Isabel Cristina da Silva Guerreiro	Member	191
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Member	150
Manuel António Amaral Franco Preto	Member	465
Manuel Maria Olazabal Albuquerque	Member	150
Maria Manuela Machado Costa Farelo Ataíde Marques	Member	143
Miguel Belo de Carvalho	Member	191
Remedios Ruiz Macia	Member	-
		3,362

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

Annual Variable Remuneration

Portion in cash

Board of Directors

Name	Position	Bonuses-2019 (cash) thousand euro
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	187
Amílcar da Silva Lourenço	Member	75
Inês Oom Ferreira de Sousa	Member	90
Isabel Cristina da Silva Guerreiro	Member	90
Manuel António Amaral Franco Preto	Member	176
Miguel Belo de Carvalho	Member	98
		716

Portion in shares

Board of Directors

Name	Position	Bonuses-2019 (retained by one year) thousand euro
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	199
Amílcar da Silva Lourenço	Member	80
Inês Oom Ferreira de Sousa	Member	96
Isabel Cristina da Silva Guerreiro	Member	96
Manuel António Amaral Franco Preto	Member	188
Miguel Belo de Carvalho	Member	104
		762

This amount corresponds to 195,036 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

Deferred Remuneration

The cash portion of the deferred remuneration, in respect of 2019 is as follows:

Board of Directors

		Bonuses-2019 (thousand euro)				
		2021	2022	2023	2024	2025
Name	Position	Cash	Cash	Cash	Cash	Cash
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	37	37	37	37	37
Amílcar da Silva Lourenço	Member	17	17	17	-	-
Inês Oom Ferreira de Sousa	Member	20	20	20	-	-
Isabel Cristina da Silva Guerreiro	Member	20	20	20	-	-
Manuel António Amaral Franco Preto	Member	39	39	39	-	-
Miguel Belo de Carvalho	Member	22	22	22	-	-
		155	155	155	37	37

The portion in shares of the deferred remuneration, in respect of 2019, is as follows:

Board of Directors

		Bonuses-2019				
		2021	2022	2023	2024	2025
Name	Position	Shares	Shares	Shares	Shares	Shares
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	10,191	10,191	10,191	10,191	10,190
Amílcar da Silva Lourenço	Member	4,541	4,541	4,542	-	-
Inês Oom Ferreira de Sousa	Member	5,450	5,450	5,449	-	-
Isabel Cristina da Silva Guerreiro	Member	5,450	5,450	5,449	-	-
Manuel António Amaral Franco Preto	Member	10,674	10,674	10,674	-	-
Miguel Belo de Carvalho	Member	5,904	5,904	5,903	-	-
		42,210	42,210	42,208	10,191	10,190

On this date, two-thirds of the variable remuneration relating to 2018 are deferred (except for the variable remuneration of the Chairman of which four fifths are deferred), the 2019 portion of that remuneration having been paid.

Board of Directors

		Bonuses-2018 paid in february 2020 (thousand euro)		
Name	Position	Inflation adjust.	Cash	Shares
António José Sacadura Vieira Monteiro*	Chairman	0	63	57
José Carlos Brito Sítima**	Deputy-Chairman	0	51	46
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	0	47	43
Amílcar da Silva Lourenço	Member	0	9	8
Inês Oom Ferreira de Sousa	Member	0	27	24
Isabel Cristina da Silva Guerreiro	Member	0	9	8
Manuel António Amaral Franco Preto	Member	0	39	36
Miguel Belo de Carvalho	Member	0	16	14
		1	260	236

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

The value of the shares corresponds to 60,391 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

Board of Directors

		Bonuses-2018							
		2021		2022		2023		2024	
Name	Position	Shares	Cash (thousand euro)	Shares	Cash (thousand euro)	Shares	Cash (thousand euro)	Shares	Cash (thousand euro)
António José Sacadura Vieira Monteiro*	Chairman	14,577	63	10,865	47	10,865	47	10,864	47
José Carlos Brito Sítima**	Deputy-Chairman	11,752	51	9,998	43	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	11,051	47	9,401	40	-	-	-	-
Amílcar da Silva Lourenço	Member	2,052	9	2,052	9	-	-	-	-
Inês Oom Ferreira de Sousa	Member	6,204	27	5,278	23	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	2,016	9	1,715	7	-	-	-	-
Manuel António Amaral Franco Preto	Member	9,094	39	7,736	33	-	-	-	-
Miguel Belo de Carvalho	Member	3,645	16	3,645	16	-	-	-	-
		60,391	260	50,690	218	10,865	47	10,864	47

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

On this date, one-third of the variable remuneration relating to 2017 has been deferred (except for the variable remuneration of the Chairman, of which three-fifths are deferred), the 2019 portion of that remuneration having been paid.

Board of Directors

		Bonuses-2017 paid in february 2020 (thousand euro)		
Name	Position	Inflation adjust.	Cash	Shares
António José Sacadura Vieira Monteiro*	Chairman	1	60	39
José Carlos Brito Sítima**	Deputy-Chairman	1	50	33
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	1	47	31
Amílcar da Silva Lourenço	Member	0	10	7
Inês Oom Ferreira de Sousa	Member	0	27	18
Isabel Cristina da Silva Guerreiro	Member	0	8	5
Manuel António Amaral Franco Preto	Member	0	31	20
Miguel Belo de Carvalho	Member	0	17	11
		3	251	165

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

The value of the shares corresponds to 42,129 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

Board of Directors

Name	Position	Bonuses-2017 2021 Shares	2021 Cash (thousand euro)	2022 Shares	2022 Cash (thousand euro)	2023 Shares	2023 Cash (thousand euro)
António José Sacadura Vieira Monteiro*	Chairman	8,599	51	8,599	51	8,599	51
José Carlos Brito Sítima**	Deputy-Chairman	7,230	43	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	6,881	41	-	-	-	-
Amílcar da Silva Lourenço	Member	1,677	10	-	-	-	-
Inês Oom Ferreira de Sousa	Member	3,937	23	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	1,160	7	-	-	-	-
Manuel António Amaral Franco Preto	Member	4,527	27	-	-	-	-
Miguel Belo de Carvalho	Member	2,906	17	-	-	-	-
		36,917	220	8,599	51	8,599	51

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

One third of the variable remuneration relating to 2016 has been paid as of this date.

Board of Directors

Name	Position	Bonuses-2016 paid in february 2020 (thousand euro) Dividends	Cash	Shares
António José Sacadura Vieira Monteiro*	Chairman	6	46	36
José Carlos Brito Sítima**	Deputy-Chairman	5	38	29
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	4	36	28
Amílcar da Silva Lourenço	Member	1	10	8
Inês Oom Ferreira de Sousa	Member	1	4	4
Isabel Cristina da Silva Guerreiro	Member	-	-	-
Manuel António Amaral Franco Preto	Member	4	30	23
Miguel Belo de Carvalho	Member	2	15	12
		22	179	140

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

Board of Directors

Name	Position	Bonuses - 2016 2021 Shares	2021 Cash (thousand euro)	2022 Shares	2022 Cash (thousand euro)
António José Sacadura Vieira Monteiro*	Chairman	9,061	46	9,061	46
José Carlos Brito Sítima**	Deputy-Chairman				
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	-	-	-	-
Amílcar da Silva Lourenço	Member	-	-	-	-
Inês Oom Ferreira de Sousa	Member	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	-	-	-	-
Manuel António Amaral Franco Preto	Member	-	-	-	-
Miguel Belo de Carvalho	Member	-	-	-	-
		9,061	46	9,061	46

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

The value of the shares corresponds to 35,222 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

Two-fifths of deferred variable remuneration of the Chairman are still deferred.

Board of Directors

		Bonuses-2015 paid in february 2020 (thousand euro)			
Name	Position	Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro*	Chairman	-	9	45	45
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	-	-	-	-
Amílcar da Silva Lourenço	Member	-	-	-	-
Inês Oom Ferreira de Sousa	Member	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	-	-	-	-
Manuel António Amaral Franco Preto	Member	-	-	-	-
Miguel Belo de Carvalho	Member	-	-	-	-
		-	9	45	45

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

Board of Directors

		Bonuses-2015	
		2021	
Name	Position	Shares	Cash (thousand euro)
António José Sacadura Vieira Monteiro*	Chairman	11,332	45
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	-	-
Amílcar da Silva Lourenço	Member	-	-
Inês Oom Ferreira de Sousa	Member	-	-
Isabel Cristina da Silva Guerreiro	Member	-	-
Manuel António Amaral Franco Preto	Member	-	-
Miguel Belo de Carvalho	Member	-	-
		11,332	45

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

Other Benefits

With regard to post-retirement benefits, the members of the Board of directors who have an employment tie with BST and are not included in the plan hereunder, are included in the pension plan of the Collective Bargaining Agreement for the banking sector subscribed by the Bank.

In 2010, the Group established a defined-contribution plan for all its management staff. This plan also includes the members of the Board of Directors who are not included in the plan hereunder.

Executive directors who, at the time of the merger, were directors of Banco Totta & Açores, benefit from a supplementary old age or disability pension plan, whose terms and conditions were set in accordance with the regulation approved by the General Meeting on May 30, 2007, under the provisions of article 11(7) of the Bank's articles of association, and adopt the entire content of the regulation originally approved by the Banco Totta & Açores General Meeting on October 30, 1989. The requirements of this plan include in particular tenure of office for the minimum period, the amount of the supplementary payment varying in the light of the director's seniority.

As of December 31, 2018, liabilities with this plan amounted to €14.154 million and were covered by a provision of the same amount carried in the bank's balance sheet. The total number of beneficiaries of the Regulation was four in 2019 and six in 2018, and during 2019 two beneficiaries exercised the option for remission and one beneficiary exercised the right to payment of the supplementary pension.

Contractual Terminations

During 2019, no compensation was paid for early termination of the duties of corporate officers.

VII.3. - REMUNERATION POLICY FOR 2019

The remuneration policy of the Members of the Management and Supervisory Bodies of Banco Santander Totta, for 2019, will be subject to approval at the Annual General Meeting, in compliance with the applicable regulation.

VIII – Senior Staff Remuneration Policy

VIII.1. DECLARATION ON THE REMUNERATION POLICY OF THE SENIOR STAFF OF BANCO SANTANDER TOTTA, SA (the "Bank")

(The "Declaration")

For the purposes of this Declaration, workers who are part of the groups of senior officers detailed hereunder and are not, at the same time, members of the management body, are considered Senior Officers of the Bank and are so designated.

Those senior staff forming part of the so-called 'Faro' Group under the terms of the remuneration policy of the Santander Group (the "Policy") adopted on January 24, 2017, and its subsequent revisions;

a) The top management and those responsible who perform duties involving responsibility for risk-taking on behalf of the Bank or its customers, with a material impact on the Bank's risk profile; and
b) Those responsible for carrying on their professional activity within the scope of the control functions laid down in Bank of Portugal Notice No. 5/2008, of July 1, including those responsible for the Audit Divisions, General Risk Function of the Bank, and Compliance, as well as those responsible for other areas considered equivalent to control functions by the Santander Group, including the most senior person responsible for Management Control area (the "Control Functions Managers").

The updated identification of the functions of Identified Officers is set out in Annex 1 of the Declaration, of which it forms part for all legal purposes.

1. Framework

The Policy is addressed to all Santander Group employees and it establishes the fundamental principles relating to the payment of fixed or variable remuneration (the unofficial translation of the Policy to Portuguese is Annex 2 of the Declaration, which forms part thereof for all purposes).

The Policy applies to all the affiliates of the Santander Group, including the Bank, the Board of Directors having formally adhered to the Policy in its updated version (in April, 2019).

Under the terms of the Policy, the Santander Group adopts consistent remuneration practices that comply with the applicable rules in the jurisdictions where it carries on its business.

The remuneration is defined to promote a culture of high performance, in which people are rewarded and recognised for their performance and competence and for the impact they have on the success of the Group and/or its affiliates.

The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, employees, customers and society and, in particular, promote good conduct. The Santander Group ensures, through the Policy, that the remuneration policies promote and are consistent with sound and effective risk management and with maintenance of a sound capital base.

This Declaration provides information about adequacy of the Policy in connection with the various requirements imposed by Portuguese law.

2. Application of the Policy to the Bank

Fixed Remuneration

a) The fixed remuneration is paid 14 tome a year;

b) The fixed remuneration comprises the basic remuneration and some cash benefits that are assigned to all employees of the Bank, such as seniority payments or other allowances payable under legal and contractual terms;

c) The fixed remuneration is determined taking into account the criteria used at the Santander Group, the Bank's results, the evaluation of performance, the collective bargaining agreements and market references, with due safeguard of the different specificities and dimensions;

d) The fixed remuneration of the Identified Officers has the limits set each year by the Executive Committee and, in 2019, it is not expected to account for less than 55% of the Total Remuneration.

2.2.1. Determination of the variable remuneration

The variable remuneration is determined on the basis of a benchmark standard corresponding to compliance with 100% of the established goals, and a reference value is set for each member for each year.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year next following that of the performance of duties, on the basis of the benchmark amount and in the light of the actual fulfilment of the established objectives.

The concrete variable remuneration is determined considering:

a) A set of quantitative parameters in the short term measured in accordance with the annual objectives;

b) A qualitative assessment supported by qualified evidence and cannot modify the quantitative result by more than 25% up or down;

c) An exceptional adjustment, supported by qualified evidence, which may involve modifications originating from control deficiencies and/or risks, negative results of the evaluations of supervisors or significant or unexpected events.

The overall objectives for 2019 are those set out in Annex 3, which forms part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a certain level of compliance, the amount of the variable remuneration may not exceed 50% of the benchmark amount for the year in question. If the result of the said metrics is negative, the amount of the variable remuneration shall be 0%

The maximum ratio between the amount of all components of the variable remuneration and the total amount of the fixed remuneration shall not exceed 200%.

With regard to the Control Functions Managers, the determination of variable remuneration meets the following criteria: (i) individual assessment of the employees taking into account only the specific objectives related to the duties they perform; (ii) overall performance of the Bank and of the economic group of which it forms part.

The maximum ratio between the amount of all components of the variable remuneration and the total amount of the fixed remuneration of the Control Function Managers shall not exceed 100%.

The evaluation of the performance of the Managers, to be carried out annually, is carried out by their superiors or directly by the Executive Directors responsible for the area in question, where there is a direct reporting relationship. As and when these Managers are subject to the obligation of double-reporting, the evaluation is also conducted by the Group officer in charge of the area at issue.

Without prejudice to the internal provisions on fixing objectives and annual evaluation of the Control Functions Managers, their remuneration shall be monitored by the Bank's Remuneration Committee.

2.2.2. Composition of the variable remuneration and its regulation

Payment of the variable part of the remuneration is subject to partial deferral, seeking a balance between the short and medium term.

a) Of the variable remuneration 50% is payable in cash and 50% in shares, part paid in 2020 and part deferred over three or five years, subject to observance of the following parameters:

   a. 60% (or whatever is defined in accordance with the applicable situation) of this remuneration shall be paid in 2020 cash and in shares;

   b. The balance will be paid annually, in three or five equal parts (as applicable) in cash and shares, the conditions laid down having been observed. However, the Bank (through its competent body and in a reasoning of congruence within the Group) reserves for itself the possibility of not applying such a deferral when the amount of the total variable remuneration does not exceed €50,000, provided always that such a possibility is not impeded by an applicable legal or regulatory determination.

b) Attributed shares do not benefit from any risk-hedging contract and are subject to the condition of being kept during one year

c) For the heads of the Faro segment, the deferred portion of the variable remuneration, relating to the third year and also the fourth and fifth year, if applicable, is subject, in addition to the malus and clawback conditions, to compliance with the Group's long-term goals for 2019-2021, in accordance with the general criteria within the framework of the Santander Group, pursuant to which the amount of the variable remuneration can only diminish (by reduction of the payment in cash or in shares), as defined for the current year under the terms of Annex 4.

d) Payment of the variable remuneration shall observe the rules of deferral and the reduction (*malus*) or reversal (clawback) mechanisms in force in the Policy in order to comply with legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory authorities. The faculty of reducing (*malus*) totally or partially the payment of deferred remuneration whose payment is not yet an acquired right, as well as retaining all or part of the variable remuneration whose payment is an acquired right (clawback), is limited to extremely significant events, properly identified, in which the persons concerned have directly taken part in the events identified.

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

In respect of 2015, the last third of the deferred variable remuneration was paid in 2019.

In respect of 2016, one third of the deferred variable remuneration is still to be paid.

In respect of 2017, two thirds of the deferred variable remuneration are still to be paid.

In respect of the 2018 variable remuneration, the part not subject to deferral was paid in 2019. Payment of the remainder is deferred for three years or five years.

2.2.4. Benefits

Benefits are so granted as to ensure compatibility with the corporate strategy, objectives, values and long-term interests of the Bank.

Without prejudice to the grants on a case-by-case basis and of residual scope resulting from measures taken in the past by original 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 complementing the Medical-Social Assistance Service (SAMS) provided for in the collective bargaining agreement of the banking sector;

b) Personal accident insurance, as defined in the collective bargaining agreement of the banking sector.

Some employees benefit from life insurance as a result of their contractual link to the former Banco Santander Portugal or to Banco Santander de Negócios Portugal.

Some employees benefit from a supplementary retirement pension plan, under the terms of the Board of Directors' resolution of February 25, 2010.

No pension benefits are granted on a discretionary basis.

No risk-hedging or similar mechanisms may be used by Managers or by the Bank on their behalf. This rule is observed and must be confirmed annually by the manager before the Group.

3. Supplementary aspects

3.1. Policy approval procedures

The Policy was approved by the Santander Group, adopting a set of national and international guidelines on the matter, the Bank having subsequently subscribed to the Policy on January 31, 2017, and its updates after presentation to the Bank's Remuneration Committee and the Board of Directors.

The Policy, under the terms of which it was approved, will be complemented by a set of additional guidelines, essentially of an interpretative nature.

3.2. Other aspects

Allocation of stock option plans in 2019 is not expected.

There are no non-cash benefits or other forms of compensation other than those referred to in the Declaration.

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

The Bank's Policy is as a whole in line with the principles set forth in the regulation applicable in Portugal, governed at all times by simplicity, transparency and suitability for the medium- and long-term objectives.

In this way, the determination of the total remuneration, comprising a fixed and a variable part, as well as the articulation of these two components, as set forth in this Declaration and the attached Policy, allow one to conclude that the material rules set out in Portuguese regulations have, in general, been adopted.

The fact that the Bank forms part of the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies, which, in turn and given the global nature of the Group, have due regard for international regulations on the matter.

The applicable regulations also determine that a review be conducted, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that the payments of remuneration are appropriate and that the risk profile and long-term goals of the institution are being appropriately reflected, and that the policy is in accordance with the laws and regulations in force and with the applicable principles and national and international recommendations.

This annual review shall also include an assessment of the remuneration practices of the subsidiaries abroad and of the off-shore establishments, in particular on the respective effect on the management of the risks, share capital and liquidity of the institution.

The said assessment was performed, with due regard for the applicable regulation, the by the Bank’s remuneration committee, the units responsible control functions having played an active role, no shortcomings have been encountered.

Lisbon, June 3, 2020

Annex 1

Senior Staff Identified

DEPUTY-DIRECTOR AZORES AND MADEIRA

DEPUTY-DIRECTOR DIVESTMENT RECOVERIES AREA

DEPUTY-DIRECTOR ACCOUNTING CONTROL MANAGEMENT AREA

DEPUTY-DIRECTOR COSTS ORGANIZATION AND PROPERTIES SECURITY AREA

DEPUTY-DIRECTOR FINANCIAL AREA

DEPUTY-DIRECTOR RISKS AREA

DEPUTY-DIRECTOR GLOBAL CORPORATE BANKING

DEPUTY-DIRECTOR INTERMEDIATION PROTECTION AND INVESTMENT

DEPUTY-DIRECTOR NORTH INDIVIDUALS AND BUSINESS NETWORK

DEPUTY-DIRECTORTECHNOLOGY AND OPERATIONS

DEPUTY-DIRECTOR INDIVIDUALS AND BUSINESSES COMMERCIAL AREA

DESIGN AUTHORITY DIVISION

INTERNATIONAL BUSINESS DIVISION

INFORMATION SYSTEMS DIVISION

LEGAL MATTERS AND SECRETARIAT CO-ORDINATOR MANAGER

INTERNAL AUDIT CO-ORDINATOR MANAGER

LOAN CONTRACTING CO-ORDINATOR MANAGER

IRREGULARITIES FOLLOW-UP CO-ORDINATOR MANAGER

COMPLIANCE AND CONDUCT CO-ORDINATOR MANAGER

STRATEGY AND MULTI-CHANNEL CO-ORDINATION DIVISION

LARGE COMPANIES CO-ORDINATOR MANAGER

INTERNATIONAL AND INSTITUTIONAL BANKING CO-ORDINATION DIVISION

MARKETING CO-ORDINATION DIVISION

PAYMENT MEANS CO-ORDINATOR MANAGER

BUSINESSES CO-ORDINATOR MANAGER

PRIVATE BANKING CO-ORDINATOR MANAGER

PRODUCTS AND SERVICES CO-ORDINATOR MANAGER

RECOVERIES CO-ORDINATOR MANAGER

HUMAN RESOURCES CO-ORDINATOR MANAGER

INDIVIDUALS AND BUSINESSES SOUTH NETWORK CO-ORDINATION DIVISION

DIGITAL TECHNOLOGY CO-ORDINATOR MANAGER

LEGAL NETWORK SUPPORT DEPARTMENT MANAGER

TAXATION DEPARTMENT MANAGER

HEAD OF COMPANIES AREA

HEAD OF CONSTRICTION FOMENTATION AREA

HEAD OF OPERATIONS CO-ORDINATION DIVISION

HEAD OF COMMERCIAL INTELLIGENCE AREA

HEAD OF IT SECURITY AND TECHNOLOGY OFFICE

Annex 2

Remuneration Policy of the Santander Group

See Annex 1 of the Declaration on the remuneration policy of the members of the management and supervision bodies of Banco Santander. "Santander Remuneration Policy".

Annex 3

Annual Objectives

See Annex 2 of the Declaration on the remuneration of the members of the management and supervision bodies of Banco Santander – "Annual objectives".

Annex 4

See Annex 3 of the Declaration on the remuneration policy of the members of the management and supervision bodies of Banco Santander SA – "Criteria for the determination of the deferred variable remuneration subject to performance".

VIII.2. REMUNERATION AND OTHER BENEFITS ATTRIBUTED TO SENIOR OFFICERS AND MANAGEMENT STAFF

This information is provided in compliance with article 17 of Bank of Portugal Notice No. 10/2011 of December 29 (*Diário da República*, 2nd Series, of January 9, 2012), in that part referring to the disclosure, in aggregate terms, of the annual amount of remuneration paid to employees who are not members of the management or supervisory bodies of Banco Santander Totta, SA, exercise their professional activity in the field of the control functions laid down in Bank of Portugal Notice No. 5/2008, of July 1, or perform duties with responsibilities in taking risks on behalf of the Bank or its customers, with a material impact on the Bank's risk profile (hereinafter, "Senior Officers").

Annual remuneration

Amount of the fixed remuneration:	
Control Duties	€829k
Other duties	€4,871k
Amount of the variable remuneration:	
Control Duties	€528k
Other duties	€4,036k
Number of beneficiaries:	
Control duties	4
Other duties	40

The 2019 performance bonus retained for one year in the amount of €1.318 million corresponds to 337,332 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

On this date, the following amounts are deferred:

Bonuses - 2019						
	2021		2022		2023	
	Shares	Cash*	Shares	Cash*	Shares	Cash*
Control functions	9,667	35	9,667	35	9,667	35
Other functions	67,270	247	67,270	247	67,259	247

* In thousand euros

As of this date, two-thirds of the variable remuneration relating to 2018 are deferred, one third of that remuneration having been paid.

Bonuses - 2018							
	Paid in 2020*			2021		2022	
	Inflation adjust.	Shares	Cash	Shares	Cash*	Shares	Cash*
Control functions	-	33	37	9,067	39	9,065	39
Other functions	1	231	255	60,828	261	60,587	260

* In thousand euros

The value of the shares corresponds to 67,741 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

As of this date, one third of the variable remuneration relating to 201 7 is deferred, one third of that remuneration having been paid.

Bonuses - 2017					
	Paid in 2020*			2021	
	Interests	Shares	Cash	Shares	Cash*
Control functions	-	22	34	6,118	36
Other functions	3	159	243	40,936	244

* In thousand euros

The value of the shares delivered corresponds to 46,466 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

The variable remuneration paid relating to 2016 was as follows:

Bonuses - 2016*			
	Paid in 2020		
	Dividendos	Shares	Cash
Control functions	3	22	28
Other functions	21	137	176

* In thousand euros

The value of the shares delivered corresponds to 40,851 shares in Banco Santander, SA, each of a value of €3.9065, as this was the stock-market value on the date on which it was granted.

Other Benefits

Senior Officers enjoy the health insurance benefits complementing those of the Medical-Social Assistance Service (SAMS) provided for in the collective bargaining agreement of the banking sector and personal accident insurance, as defined in the collective bargaining agreement of the banking sector.

Some Senior Officers benefit from life insurance as a result of their contractual link to the former Banco Santander Portugal or to Banco Santander, SA.

Some Senior Officers benefit from supplementary retirement pension plan, under the terms of the Board of Directors' resolution of February 25, 2010.

VIII.3. REMUNERATION POLICY FOR 2019

The current remuneration Policy for Senior Officers and Management Staff of Banco Santander Totta was approved by the Board of Directors at its meeting on June 196, 2019, applicable in the 2018 and 2020 financial years. Until new resolution is passed, this policy is the one transcribed above. Review of the matter is planned for June 2020.

Declaration to which article 245(1)(c) of the Securities Code refers

Article 245(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

"I hereby declared under the terms and for the purposes of article 245(1)(c) of the Securities Code that, as far as I am aware, the Management Report, the Annual Accounts, the Legal Certification of Accounts and the other accounting documents of Banco Santander Totta, SA, all relating to 2019, have been drawn up in accordance with the applicable accounting standards, providing a true and fair image of the assets and liabilities, of the financial position and of the results of the said company and of the companies included in the consolidation perimeter, and that the Management Report truly sets out the evolution of the business, the performance and the position of the issuer and of the companies included in the consolidation perimeter, and that it contains a description of the main risks and uncertainties with which they are faced".

Board of Directors

José Carlos Brito Sítima Deputy-Chairman[1]	Pedro Aires Coruche Castro e Almeida Deputy-Chairman
Amílcar da Silva Lourenço Member	Ana Isabel Abranches Pereira de Carvalho Morais Member
Andreu Plaza Lopez Member	Daniel Abel Monteiro Palhares Traça Member
Inês Oom Ferreira de Sousa Member	Isabel Cristina da Silva Guerreiro Member
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota Member	Manuel António Amaral Franco Preto Member
Manuel Maria de Olazabal y Albuquerque Member	Maria Manuela Machado Costa Farelo Ataíde Marques Member
Miguel Belo de Carvalho Member	Remedios Ruiz Macia Member

[1] In the process of authorization and registration with the European Central Bank for formalisation of the duties of Chairman of the Board of Directors

Declaration of the Audit Committee on the Conformity of the Financial Information Presented

Article 245(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

"I hereby declared under the terms and for the purposes of article 245(1)(c) of the Securities Code that, as far as I am aware, the Management Report, the Annual Accounts, the Legal Certification of Accounts and the other accounting documents of Banco Santander Totta, SA, all relating to 2019, have been drawn up in accordance with the applicable accounting standards, providing a true and fair image of the assets and liabilities, of the financial position and of the results of the said company and of the companies included in the consolidation perimeter, and that the Management Report truly sets out the evolution of the business, the performance and the position of the issuer and of the companies included in the consolidation perimeter, and that it contains a description of the main risks and uncertainties with which they are faced".

Audit Committee

Chairperson: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Manuel Maria de Olazabal y Albuquerque

Maria Manuela Machado Farelo Ataíde Marques

CONSOLIDATED FINANCIAL STATEMENTS

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

ASSETS	Notes	31-12-2019 Amounts before impairment and depreciation	31-12-2019 Impairment and depreciation	31-12-2019 Net assets	31-12-2018 Net assets
Cash and deposits at central banks	5	3,153,555	-	3,153,555	1,655,730
Balances due from other banks	6	339,109	-	339,109	845,003
Financial assets held for trading	7	1,085,927	-	1,085,927	1,215,956
Other financial assets mandatory at fair value through profit or los	8	144,998	-	144,998	176,878
Other financial assets at fair value through other comprehensive in	9	5,862,438	89	5,862,349	5,247,452
Financial assets at amortised cost					
Loans and advances to credit institutions	10	727,515	29	727,486	675,031
Credit granted and other balances receivable at amortized cost	10	40,261,659	921,479	39,340,180	39,629,271
Hedging derivatives	11	56,246	-	56,246	73,464
Investment in associated companies	12	59,240	-	59,240	61,481
Investment properties	13	252,513	-	252,513	297,625
Other tangible assets	14	645,359	268,766	376,593	346,733
Intangible assets	14	90,599	59,865	30,734	28,478
Tax assets	15	583,982	-	583,982	661,395
Other assets	16	336,563	88,192	248,371	336,443
Non-current assets held for sale	17	76,869	32,826	44,043	30,022
Total assets		53,676,572	1,371,246	52,305,326	51,280,962

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2019	31-12-2018
Liabilities			
Financial liabilities held for trading	7	1,114,703	1,242,475
Financial liabilities at amortised cost			
Resources from central banks	18	3,037,524	3,050,040
Resources from other credit institutions	18	3,195,996	3,539,844
Resources from customers and other debts	18	35,873,272	33,940,102
Debt securities	18	3,728,941	4,611,944
Other financial liabilities	18	218,021	176,206
Hedging derivatives	11	393,831	90,556
Provisions	19	223,029	286,446
Tax liabilities	15	377,262	244,822
Equity representative instruments	20	64,620	69,560
Other liabilities	21	443,311	476,668
Total liabilities		48,670,510	47,728,663
Shareholders' equity			
Share capital	22	1,256,723	1,256,723
Share premium account	22	193,390	193,390
Other equity instruments	22	135,000	135,000
Accumulated comprehensive income reserves	22	(224,423)	(235,322)
Other reseves and retained earnings	22	1,828,113	1,775,660
(Own shares)	22	(44,065)	(44,022)
Consolidated net income attributable to the shareholders'	23	489,451	469,951
Shareholders' equity attributable to the shareholders of BST		3,634,189	3,551,380
Non-controlling interests	24	627	919
Total shareholders' equity		3,634,816	3,552,299
Total liabilities and shareholders' equity		52,305,326	51,280,962

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS AS OF DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2019	31-12-2018
Interest income	26	1,211,774	1,229,348
Interest charge	27	(357,303)	(362,620)
Net interest income		854,471	866,728
Income from equity instruments	28	1,789	1,601
Results from associates	29	2,546	7,188
Income from services and commissions	30	490,228	453,770
Charges with services and commissions	31	(105,367)	(77,574)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	32	320	(37,929)
Other Financial assets at fair value through other comprehensive income	32	59,556	25,287
Exchange revaluation	32	11,253	9,524
Disposal of other assets	32	718	(14,533)
Other		(150)	-
Other operating results	33	(22,226)	(21,838)
Net income from banking activities		1,293,138	1,212,224
Staff costs	34	(342,253)	(352,873)
General administrative costs	35	(203,187)	(215,804)
Depreciation in the year	14	(49,268)	(41,322)
Provisions, net of reversals	19	(996)	(251,025)
Impairment on financial assets	19	6,963	(3,008)
Impairment of other non-financial assets	19	(6,620)	(30,831)
Results from non-current assets held for sale	36	28,706	21,107
Other results	1.3 l)	(28,259)	-
Income before taxes and non-controlling interests		698,224	338,468
Taxes	15	(208,762)	131,265
Income after taxes and before non-controlling interests		489,462	469,733
Non-controlling interests		(11)	218
Consolidated net income attributable to the shareholders´ of BST		489,451	469,951
Number of ordinary shares outstanding	23	1,241,722,467	1,241,728,211
Earnings per share (in Euros)	23	0.39	0.38

The accompanying notes form an integral part of the consolidated income statements for the year ended December 31, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE PERIODS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	2019		2018	
	Attributable to the shareholders of BST	Attributable to non-controlling interests	Attributable to the shareholders of BST	Attributable to non-controlling interests
Consolidated net income for the period	489,451	-	469,951	-
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Gross value	(150,913)	-	(28,787)	-
Tax effect	22,591	-	7,524	-
Changes in fair value in equity instruments				
Gross value	138		(70)	
Tax effect	-		(39)	
Items that may be reclassified subsequently to the income statement:				
Revaluation reserves of associated companies valued by the equity method				
Fair value	1,907	-	699	-
Tax effect	(486)	-	(177)	-
Changes in fair value of debt instruments				
Fair value	284,615	-	72,705	-
Tax effect	(88,336)	-	(21,482)	-
Changes in fair value of cash flows hedging derivatives				
Fair value	(84,954)	-	45,837	-
Tax effect	26,337	-	(14,210)	-
Consolidated comprehensive income for the year	500,350	-	531,951	-

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the years ended December 31, 2019

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros)

	Share capital	Share premiun account	Other equity instruments	Revaluation reserves: Legal revaluation	Revaluation reserves: Fair value	Revaluation reserves: Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the period	Non-controlling interests	Shareholders' equity
Balances as at December 31, 2017	**1,256,723**	**193,390**	**135,000**	**23,245**	**(378,699)**	**78,229**	**344,748**	**1,153,781**	**476,825**	**(43,991)**	**421,157**	**1,138**	**3,661,546**
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	-	69,563	317,177	34,417	-	(421,157)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(618,597)	-	-	-	-	(618,597)
Acquisition of own shares	-	-	-	-	-	-	-	-	-	(31)	-	-	(31)
Impact of opening IFRS9 application	-	-	-	-	-	-	-	(18,465)	-	-	-	-	(18,465)
Long ter incentives - shares	-	-	-	-	-	-	-	332	-	-	-	-	332
Other	-	-	-	(23,245)	-	3,148	-	15,879	-	-	-	(219)	(4,437)
Consolidated comprehensive income for 2018	-	-	-	-	90,384	(28,384)	-	-	-	-	469,951	-	531,951
Balances as at December 31, 2018	**1,256,723**	**193,390**	**135,000**	**-**	**(288,315)**	**52,993**	**414,311**	**850,107**	**511,242**	**(44,022)**	**469,951**	**919**	**3,552,299**
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	-	47,553	420,506	1,892	-	(469,951)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(422,873)	-	-	-	-	(422,873)
Acquisition of own shares	-	-	-	-	-	-	-	-	-	(43)	-	-	(43)
Sale of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	5,799	-	-	-	-	5,799
Long ter incentives - shares	-	-	-	-	-	-	-	(332)	-	-	-	-	(332)
Other	-	-	-	-	-	-	-	(92)	-	-	-	(292)	(384)
Consolidated comprehensive income for 2019	-	-	-	-	50,793	(39,894)	-	-	-	-	489,451	-	500,350
Balances as at December 31, 2019	**1,256,723**	**193,390**	**135,000**	**-**	**(237,522)**	**13,099**	**461,864**	**853,115**	**513,134**	**(44,065)**	**489,451**	**627**	**3,634,816**

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the years ended December, 2019 and 2018

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros)

	31-12-2019	31-12-2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1,588,051	1,582,012
Payment of interest and commissions	(436,225)	(395,620)
Payment to staff and suppliers	(602,802)	(640,448)
Pension Fund contributions	(176,573)	(46,534)
Foreign exchange and other operating results	(10,973)	(22,015)
Recovery of uncollectable loans	8,507	9,176
Operating results before changes in operating assets and liabilities	369,985	486,571
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	(97,151)	148,512
Financial assets held for trading	130,119	299,507
Credit granted and other balances receivable at amortized cost	494,173	260,010
Assets and liabilities at fair value through profit or loss	58,874	(31,112)
Non-current assets held for sale	13,443	37,851
Investment properties	45,113	56,332
Other assets	58,262	436,046
	702,833	1,207,146
Increase / (decrease) in operating liabilities		
Resources of financial institutions	(344,176)	(841,247)
Resources of customers and other debts	1,941,025	1,815,322
Financial liabilities hedl for trading	(127,772)	(291,285)
Other liabilities	(30,171)	(241,788)
	1,438,906	441,002
Net cash flow from operating activities before income tax	2,511,724	2,134,719
Income tax paid	(38,012)	(75,030)
Net cash flow from operating activities	2,473,712	2,059,689
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1,789	1,601
Purchase of financial assets at fair value through other comprehensive income	(1,060,782)	(1,299,878)
Sale of financial assets at fair value through other comprehensive income	826,814	634,458
Other financial assets mandatory at fair value through profit or loss	31,880	(128,622)
Income from financial assets at fair value through other comprehensive income	127,852	153,657
Purchase of tangible and intangible assets	(98,888)	(65,944)
Sale of tangible assets	(6,559)	12,739
Investments in associates	-	21,241
Net cash flow from investing activities	(177,894)	(670,748)
CASH FLOW FROM INVESTING ACTIVITIES:		
Issuance/(redemption) of debt securities	(876,350)	80,401
Interest paid on bonds issued and other	(43,984)	(45,946)
Dividends paid	(422,873)	(618,597)
Interest paid on subordinated liabilities	(4,990)	(1,775)
	(1,348,197)	(585,917)
Net Increase / (Decrease) (a) in cash and cash equivalents	947,621	803,024
Cash and cash equivalents at the beginning of the period	2,500,733	1,697,709
Cash and cash equivalents at the end of the period	3,448,354	2,500,733

The accompanying notes form an integral part of the consolidated statement of cash flows

(Amounts expressed in thousands of Euros)

INTRODUCTION

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

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

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

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

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

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

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

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

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

The Bank has a nationwide network of 497 branches (527 branches as at December 31, 2018). The Bank's London Branch was closed on December 31, 2018. It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank's financial statements for the year ended December 31, 2019, were approved at the Board of Directors meeting on April 21, 2020. These financial statements are also subject to approval by the Shareholders' General Meeting, but the Board of Directors considers that they will be approved with no significant changes.

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 endorsed by the European Union, in accordance with Regulation (EC) nº 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice nº 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Bank in preparing the consolidated financial statements as at December 31, 2019, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2018.

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

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

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

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

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

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

- **IAS 28** (Amendment) – Long-term investments in associates and joint ventures. This amendment clarifies that long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9 – Financial instruments. Long-term investments in associates and joint ventures are subject to the estimated loss impairment model, before being added for the purpose of impairment testing of the overall investment in an associate or in joint ventures, as and where there are indicators of impairment.

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

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

In the wake of the standards and interpretations referred to above no material impacts were identified:

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

- **IAS 1 and IAS 8** (Amendment), Definition of material. This amendment introduces a change to the concept of material, and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, the entity to assess the materiality considering the financial statements as a whole. Clarifications are also provided as to the meaning of "primary users of the financial statements", which are defined as 'current and future investors, lenders and creditors' who rely on the financial statements to obtain a significant part of the information they need.

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

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

- **IFRS 9, IAS 39 and IFRS 7** (Amendment), Reform of the reference interest rates. These amendments are still subject to endorsement by the European Union. These changes are part of the first phase of the IBOR reform of the IASB and allow exemptions related to the reform of the benchmark for the reference interest rates. The exemptions relate to hedge accounting in terms of: i) risk components; ii) "highly likely" requirement; iii) prospective valuation; iv) retrospective effectiveness test (for those adopting IAS 39); and v) recycling the cash-flow hedge reserve, and its objective is that the reform in of the reference interest rates will not determine the termination of hedge accounting. However, any hedge ineffectiveness determined must continue to be recognized in the income statement.

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

In the wake of the standards and interpretations referred to above no material impacts were identified:

1.2. Consolidation principles and registration of associate companies

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

Subsidiary companies are those in which the Group exercises effective control over their day-to-day management in order to obtain economic benefits from their business. Normally, control is evidenced by holding more than 50% of the share capital or voting rights, by exposure to or rights to variable results through its relationship with the company invested in and the ability to use its power over the business of the company invested in to affect the amount of their results.

Additionally, as a result of the application of IFRS 10 – Consolidated financial statements, the Group includes special-purpose entities in its consolidation perimeter, in particular vehicles and funds set up within the context of securitisation operations, when it exercises effective financial and operational control over them and when it is exposed to the majority of the risks and benefits associated with their business.

The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated.

Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 24).

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

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

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

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

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

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

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

Impairment losses recorded in prior periods may be reversible, up to the limit of the accumulated losses.

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

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

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

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

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

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

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

The Bank uses the accrual-accounting principle for most items of the financial statements. Thus, 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 official closing exchange rate (Bank of Portugal fixing).

c) Financial instruments

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

- The business model under which financial assets are managed;

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

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

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

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

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

Credits sold and not derecognised are recorded under 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 right to receive their cash slows expires, (ii) the Bank has substantially transferred all the risks and benefits inherent in holding them; or (iii) notwithstanding retaining a part, but not substantially the whole, of the risks and benefits inherent in holding them, the Bank shall have transferred control over the assets.

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenditure with services and commissions

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

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

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

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

Other financial assets at fair value through other comprehensive income

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

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

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

Financial assets and liabilities held for trading and other financial assets that must be carried at fair value through profit or loss

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

Financial assets and liabilities held for trading and other financial assets that must be carried at fair value through profit or loss are initially recognised at fair value, the expenses associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses resulting from the subsequent valuation at fair value are recognized in the income statement under "Financial assets and liabilities 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 reporting date. If a market price is not available, the fair value of the instrument is estimated using valuation techniques that include price valuation models or discounted cash flow techniques. When techniques discounted cash flow techniques are used the future cash flows are estimated in accordance with management's expectations and the discount rate used corresponds to the market rate for financial instruments of similar characteristics. In the price valuation models, the data used correspond to information on market prices.

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

Financial liabilities

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

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

Repo Operations

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

Secondary market transactions

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

Hedge accounting

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

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

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

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

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

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

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

- Over the life of the operation the effectiveness of the hedge lies in the interval between 80%

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

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

Fair-value hedges

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

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

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

Cash flow hedge

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

In this sense, the Bank contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate. It also contracted financial derivatives instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.
Application of cash-flow hedge accounting is subject to the general requirements referred to above for hedge accounting and entails the following records:

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

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

- The accumulated variation in the fair value of the hedging instrument from the start of the hedge; and

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

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

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

Loan impairment

IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through equity.

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

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

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

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

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

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

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

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

Significant increase of the credit risk

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

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

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

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

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

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

Credit risk parameters

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

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

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

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

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

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

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

Collective analysis

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

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

Individual analysis

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

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

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

Incorporation of forward-looking information

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

d) **IFRS 16** - Leases

The Bank applied the modified retrospective approach to determine the impacts at the time of the transition and first adoption of IFRS 16, on January 1, 2019. Thus, the impacts at the time of transition were prospectively determined, the cumulative effect if the initial application being recognised as a balance sheet adjustment on the transition date (January 1, 2019). The main type of contracts that require estimation of an asset for right of use and a liability for lease entail leases of properties (branches and central services) that are assigned to the business of the Bank.

Method for measuring the right of use and lease liability

IFRS 16 defines a set of new requirements for the application of this standard, especially for the classification and measurement of lease operations from the viewpoint of the lessee. As lessee, the Bank records an asset of right of use and a lease liability on the start date of the respective operation:

i. The lease liability is measured by the present value of future lease payments to be incurred during the life of the contract, using a discount rate differentiated per maturity. In the estimate of the liabilities consideration is given to the fixed payments, the variable one that depend on a rate or index, amounts relating to the exercise of the purchase option when the Bank is reasonably certain that it will exercise its right.

   The lease liability is remeasured whenever a contract amendment occurs, and at the time the lease liability is revalued, the effects of the revaluation are recognized against the right to use (asset). In the event of a change in the term of the contract or of an alteration as to the valuation of the exercise of the option a new discount rate must be estimated and, consequently, the liability remeasured.

ii. The right of use is initially measured at cost at the value of lease liability, adjusted for subsequent contractual changes, and it is depreciated using the straight until the contract expires, and is subject to impairment tests.

Use of practical expedients provided for in the standard

In the adoption of IFRS 16 the Bank implemented a set of practical expedients provided for in the standard, namely: low-value leases; short-term leases and non-inclusion of initial direct expenses incurred in the calculation of the right to use; in the measurement of the lease liability it did not separate the non/lease components included in lease contracts.

Definition of the main assumptions on the date of transition and contracts concluded later

On the transition date, the Bank estimated a discount rate differentiated by maturity and collateralized by the same type of target asset of the lease. With regard to the maturity of the lease to be considered in the calculation of the lease liability, its determination must take into account the period of the lease that cannot be cancelled, as well as the period covered by any deadline extension options and/or early termination, if any reasonable certainty as to its exercise exists. Thus, when the term is not defined by contract the Bank made its best estimate for its termination.

e) Tangible assets

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

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

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

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

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

Gains and losses on the sale of these assets are recognized under "Results of non-current assets held for sale".

f) Intangible assets

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

Amortisation of intangible assets is accrued, in twelfths, over their estimated period of useful life, which is three years on average.
In 2019 the Bank recognised €3,697k of internally-generated intangible assets (€2,509k in 2018).

g) Investment properties

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

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

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

h) Available-for-sale non-current assets

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

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

Their initial recognition is at the lower of their fair value less expected selling expenses and the carrying amount of the loans granted constituting the object of the recovery, and they are tested for impairment on the date of reclassification as non-current assets held for sale. 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.

If, on a subsequent date, the facts that led to the recording of impairment losses no longer exist due to an increase of the fair value less sales expense, the impairment losses will be reverted up to the limit of the amount that the assets would have had they not been reclassified to non-current assets held for sale.

i) Provisions

A provision is set aside where there is present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability on the reporting date, in accordance with the information provided by the Bank's legal and tax consultants.

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 approved by the Executive Committee, tax risks, ongoing legal proceedings and other specific risks arising from its business

j) Employee post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€89.01 per beneficiary and €38.52 in the case of pensioners); and
ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit, because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

Application of IAS 19

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

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

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

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

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

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

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

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

k) Corporation tax

The Bank is subject to the tax system established in the Corporation Tax Code (IRC). Current taxes are calculated based on the Bank-s taxable income, determined in accordance with the tax rules approved or substantively approved on the financial reporting sate.

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 2019 State Budget Act (Law 71/2018 of December 31), the taxation of corporate earnings for 2019 and 2018 came to be the following:

- IRC rate of 21% on taxable profit;
- Municipal surcharge at a rate between 0% and 1.5% on taxable profit;
- State surcharge at a variable rate on taxable income in accordance with the following tiers:
    - Up to €1,500k 0%
    - between €1,500k and €7,500k 3%
    - between €7,500k and €35,000k 5%
    - over €35,000k 9%

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

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

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

Regulatory Decree 5/2016, of November 18 came to establish the ceilings for impairment losses and other value corrections for specific credit deductible for purposes of determination of taxable income under IRC in 2016. This methodology was also applied to the treatment of the transitional adjustments related to the credit impairments of entities that had previously submitted their financial statements under the NCA. Regulatory Decree No. 13/2018 of December 28 extended the 2016 tax regime to 2018.

Law 98/2019 of September e approved a new regime in the matter of the impairments of credit institutions and other financial institutions, also establishing the regime applicable to for impairment losses recorded in previous taxation periods not yet accepted for tax purposes.

Since this new system is of optional nature during a five-year adjustment period commencing on or after January 1, 2019, the expected accession to the new tax regime, applicable in the matter of impairments of credit institutions and other financial institutions, is dependent on a communication addressed to the Director General of the Tax and Customs Authority by the end of the tenth month of the current tax period (cf. Article 4.1 of this law).

In this sense, the Bank adhered to the definitive regime enshrined in Articles 2 and 3 of this law.

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

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

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

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

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

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

l) Banking sector contribution

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

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

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

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

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

This contribution is carried under "Other results" of the income statement. As at December 31, 2018, this contribution was recognized in the tax line.

m) Treasury shares

Treasury shares recoded as a debit in the capital accounts for the purchase price and are not subject to revaluation, the portion of the dividend to be distributed in respect of these shares being retained under equity. Gains and losses realised on sale of treasury shares, as well as the respective taxes are recorded directly in equity and do not affect the year’s profit or loss.

n) Provision of insurance mediation services

The Bank uses the accrual-accounting principle in relation to income from the provision of insurance mediation services - commissions. Thus, income is recorded as and when generated, regardless of the time of payment or receipt. The amounts receivable are subjected to impairment loss analyses.
The Bank does not collect insurance premiums on behalf of insurers, nor does it handle funds relating to insurance contracts. There is therefore no other asset, liability, income or expense to

report in respect of insurance mediation business carried on by the Bank, other than those already disclosed.

o) Cash & cash equivalents

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

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

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

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

Employee post-employment benefits

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

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

Valuation of financial instruments not traded on active markets

In the valuation of financial instruments not traded on active markets valuation models or techniques are used. Accordingly, the valuations obtained correspond to the best estimate of the fair value of those instruments on the reporting date.

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.

To ensure an appropriate segregation of duties, the value of those financial instruments is determined by a body independent of the trading function.

Fair value

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

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

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

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

  i) Bid prices disclosed by means of dissemination of financial information, such as Bloomberg and Reuters, including market prices available for recent transactions;

  ii) Bid prices obtained from financial institutions operating as market makers; and

  iii) Valuation models that take into account market data that would be used in setting a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortised cost:

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

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

Determination of impairment losses

Impairment losses on loans are calculated as indicated in Note 1.3.c). In this way, determination of the impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. Determination of the impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as instrument type, customer type, credit-risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and collateral value (LTV).

Available-for-sale non-current assets

Properties, equipment and other goods received as payment in kind or acquired in payment of past-due credit operations are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Bank expects to incur with their sale, or their quick-sale value, if lower. Real estate is subject to periodic valuations performed by independent valuers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are carried, impairment losses are recorded.

Taxes

Recognition of deferred tax assets assumes the existence of profits and future taxable matter. Additionally, current and deferred taxes were determined on the basis of the interpretation of current tax legislation. Thus, changes to tax laws or to their interpretation by the authorities may have an impact on the amount of current and deferred taxes. For the purpose of analysis of the recoverability of deferred tax assets (tax losses), the Bank projects taxable profits on the basis of assumptions. Thus, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank's Board of Directors.

Determination of the outcome of legal proceedings in progress

A provision is recognized 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 outcome of the legal proceedings in progress, as well as the respective amount of the provision corresponding to the best estimate of the amount to be spent to settle the liability on the balance/sheet date, is assessed in accordance with the opinion of the Bank's lawyers/legal advisers and decisions of the courts to date, which, however, might not come about.

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Business Banking:

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

Corporate Activities:

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

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

The breakdown of the income statement by operating segment as at December 31, 2019 & 2018, is as follows:

	December 31, 2019				
	Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Net interest income (narrow sense)	78,535	517,472	94,740	163,724	854,471
Income from equity instruments	-	-	-	1,789	1,789
Net interest income	**78,535**	**517,472**	**94,740**	**165,513**	**856,260**
Result from associates				2,546	2,546
Net commissions	48,673	334,871	25,010	(23,693)	384,861
Other operating results	-	2,292	-	(24,518)	(22,226)
Commercial revenue	**127,208**	**854,635**	**119,750**	**119,848**	**1,221,441**
Gains/Losses on financial assets	21,926	6,545	1,842	41,384	71,697
Net income from banking activities	**149,134**	**861,180**	**121,592**	**161,232**	**1,293,138**
Operating costs	(25,933)	(467,216)	(49,127)	(3,164)	(545,440)
Depreciation in the year	(2,727)	(45,206)	(1,335)	-	(49,268)
Net operating income	**120,474**	**348,758**	**71,130**	**158,068**	**698,430**
Impairment and provisions, net of reversals	5,688	19,278	(10,596)	(15,023)	(653)
Non-current assets held for sale	-	-	-	28,706	28,706
Other results	-	-	-	(28,259)	(28,259)
Income before taxes	**126,162**	**368,036**	**60,534**	**143,492**	**698,224**
Taxes	(39,110)	(114,087)	(18,765)	(36,800)	(208,762)
Non-controlling interests	-	-	-	(11)	(11)
Net income for the period	**87,052**	**253,949**	**41,769**	**106,681**	**489,451**

	31-12-2018				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Net interest income (narrow sense)	87,991	513,924	117,642	147,171	866,728
Income from equity instruments	-	-	-	1,601	1,601
Net interest income	**87,991**	**513,924**	**117,642**	**148,772**	**868,329**
Result from associates	-	-	-	7,188	7,188
Net commissions	47,007	313,883	28,498	(13,192)	376,196
Other operating results	-	3,420	-	(25,258)	(21,838)
Commercial revenue	**134,998**	**831,227**	**146,140**	**117,510**	**1,229,875**
Gains/Losses on financial assets	13,732	4,433	1,631	(37,447)	(17,651)
Net income from banking activities	**148,730**	**835,660**	**147,771**	**80,063**	**1,212,224**
Operating costs	(24,147)	(502,494)	(38,705)	(3,331)	(568,677)
Depreciation in the year	(2,786)	(37,696)	(840)	-	(41,322)
Net operating income	**121,797**	**295,470**	**108,226**	**76,732**	**602,225**
Impairment and provisions, net of reversals	6,208	(22,483)	1,987	(270,576)	(284,864)
Non-current assets held for sale	-	-	-	21,107	21,107
Income before taxes	**128,005**	**272,987**	**110,213**	**(172,737)**	**338,468**
Taxes	(39,681)	(81,553)	(34,166)	286,665	131,265
Non-controlling interests	-	-	-	218	218
Net income for the period	**88,324**	**191,434**	**76,047**	**114,146**	**469,951**

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

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

	31-12-2019				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	19,653,605	-	-	19,653,605
Consumer loans	-	1,706,797	-	-	1,706,797
Other loans	3,664,919	6,046,351	8,268,508	-	17,979,778
Total allocated assets	**3,664,919**	**27,406,753**	**8,268,508**	**-**	**39,340,180**
Total non-allocated assets					12,965,146
Total Assets					**52,305,326**
Liabilities					
Resources in the balance sheet					
Resources from customers and other debts	2,435,766	27,074,231	5,737,845	625,430	35,873,272
Debt securities	-	-	-	3,728,941	3,728,941
Total allocated resources	**2,435,766**	**27,074,231**	**5,737,845**	**4,354,371**	**39,602,213**
Total non-allocated Liabilities					9,068,297
Total Liabilities					**48,670,510**
Guarantees and sureties given	**285,882**	**576,451**	**714,469**	**-**	**1,576,802**

	31-12-2018				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	19,462,199	-	-	19,462,199
Consumer loans	-	1,634,821	-	-	1,634,821
Other loans	3,643,925	6,105,996	8,782,330	-	18,532,251
Total allocated assets	**3,643,925**	**27,203,016**	**8,782,330**	**-**	**39,629,271**
Total non-allocated assets					11,651,691
Total Assets					**51,280,962**
Liabilities					
Resources in the balance sheet					
Resources from customers and other debts	1,853,859	26,240,113	5,378,931	467,198	33,940,102
Debt securities	-	-	-	4,611,944	4,611,944
Total allocated resources	**1,853,859**	**26,240,113**	**5,378,931**	**5,079,142**	**38,552,046**
Total non-allocated Liabilities					9,176,617
Total Liabilities					**47,728,663**
Guarantees and sureties given	**303,378**	**541,721**	**722,921**	**-**	**1,568,020**

As at December 31, 2019 & 2018, the Bank did not have relevant business in any geography other than that of the domestic business.

The accounting policies used in preparing the financial information by segments were consistent with those described in Note 1.3 of these Notes.

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

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

	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the year	
Company	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
BANCO SANTANDER TOTTA, S.A.	Headquarters	Headquarters	Headquarters	Headquarters	55,639,804	55,165,524	3,497,526	3,404,774	499,715	475,535
TOTTA IRELAND, PLC [(2)]	100.00	100.00	100.00	100.00	579,674	491,050	458,974	460,759	1,457	2,790
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. [(1)]	100.00	100.00	100.00	100.00	148,280	239,145	131,505	25,662	6,083	(4,092)
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,751	55,740	55,747	55,739	8	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	78.74	79.80	78.74	79.80	312,552	356,122	303,994	344,366	5,750	8,685
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,166	7,130	6,747	6,807	228	62
HIPOTOTTA NO. 4 PLC	-	-	-	-	622,446	700,965	(4,697)	(3,481)	(958)	1,011
HIPOTOTTA NO. 5 PLC	-	-	-	-	616,581	679,746	(11,309)	(7,007)	(4,005)	(2,678)
HIPOTOTTA NO. 4 FTC	-	-	-	-	561,424	632,736	560,487	633,160	(740)	(2,196)
HIPOTOTTA NO. 5 FTC	-	-	-	-	550,361	612,496	549,042	610,576	(1,171)	(2,451)
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	-	80,717	-	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	-	62,624	-	60,737	-	127
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	3,157,980	3,591,682	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	25.79	-	25.79	-	n.d.	-	n.d.	-	n.d.
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	374,480	347,331	96,688	107,282	16,194	20,234
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.76	25.76	25.76	25.76	106,281	105,824	100,597	100,304	292	2,010
BANIF INTERNACIONAL BANK, LTD	-	100.00	-	100.00	-	596	-	96	-	36
PRIMESTAR SERVICING, S.A.	-	79.96	-	79.96	-	1,539	-	1,269	-	(169)

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

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

Company	Activity	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Headquarters
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Property management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate management	Portugal	-
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE NO 1 PLC	Investment management	Portugal	-
ATLANTES MORTGAGE NO 1 FTC	Securitized loans fund	Portugal	-
BANIF INTERNATIONAL BANK	Banking	Bahamas	-
PRIMESTAR SERVICING, S.A.	Investment management	Portugal	-
Operações de Securitização geridas pela GAMMA, STC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real Estate Fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real Estate Fund	Portugal	Equity

(1) As at December 31, 2019, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k granted during the first half of 2019.

(2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2019, and December 31, 2019.

During 2019, the Group sold the holding in Benim-Sociedade Imobiliária, SA, and wound up the following companies:

- Atlantes Mortgage No. 1 FTC
- Banif International Bank, LTD
- Primestar Servicing, SA

In keeping with IFRS 10, which superseded IAS 27 and SIC 12, the Group includes in its consolidated financial statements the special purpose entities (SPEs) created within the scope of the securitisation operations when it controls them, that is, when it has the majority of the risks and benefits associated with their business, in particular the bonds that they issued with a higher degree of subordination – equity pieces.

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

As at December 31, 2019 & 2018, the Novimovest Fund balance sheet was as follows:

	31-12-2019	31-12-2018
Securities portfolio	-	3,379
Real estate portfolio	252,513	297,625
Accounts receivable	6,672	8,221
Cash and banks	53,312	46,844
Accruals and deferrals	55	54
	312,552	356,123
Fund capital	303,994	344,366
Adjustments and provisions	3,802	4,917
Accounts payable	2,973	4,540
Accruals and deferrals	1,783	2,300
	312,552	356,123

As at December 31, 2019 & 2018, the consolidated net income includes a profit of €4,528k and €6,931k, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Cash	354,664	287,669
Demand deposits in central banks		
European Central Bank	2,798,891	1,368,061
	3,153,555	1,655,730

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

On September 12, 2019, the ECB Council decided to introduce a two-tier system for the remuneration of excess reserves, exempting part of the surplus liquidity of the institutions, that is, the part of the reserves that exceeds the mandatory reserves, of the negative remuneration at the interest rate applicable to the permanent deposit facility. The ECB Council decided, inter alia, to exempt a multiple the mandatory reserves of the institutions and decided to fix at six initial multiplier 'm' of the mandatory reserves of the institutions that is used to calculate the portion exempt from the excess reserves of the institutions in relation to all eligible institutions, and at zero per cent the initial interest rate applicable to the on exempt excess reserves. The said multiplier 'm' and the interest rate applicable to the exempt free reserves can be adjusted over time of by the ECB Council (on December 31, 2018 the penalty rate on the excess was 0.4%).

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Balances due from domestic banks		
Demand deposits	13,798	189,872
Balances due from foreign banks		
Demand deposits	325,311	655,131
	339,109	845,003

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets held for trading		
Derivatives with positive fair value	1,085,927	1,212,577
Securities - Participating units - Maxirent	-	3,379
	1,085,927	1,215,956
Financial liabilities held for trading		
Derivatives with negative fair value	(1,114,703)	(1,242,475)

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

As at December 31, 2019 & 2018, the following derivatives are recorded:

	31-12-2019			31-12-2018		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	3,363	3,215	148	2,157	1,817	340
Swaps						
Cross currency swaps	-	-	-	692	688	4
Currency swaps	93	8,255	(8,162)	7	7,055	(7,048)
Interest rate swaps	1,004,267	1,025,517	(21,250)	1,120,138	1,143,613	(23,475)
Equity swaps	21,612	21,342	270	9,676	9,932	(256)
Options						
Foreign exchange options	540	540	-	1,877	1,846	31
Equity options	2,873	2,871	2	2,186	2,216	(30)
Caps & Floors	53,179	52,963	216	75,844	75,308	536
	1,085,927	1,114,703	(28,776)	1,212,577	1,242,475	(29,898)

As at December 31, 2019, the assets and liabilities headings relating to "Derivative financial instruments" are reduced by the amounts of approximately €7,120k and €7,141k of "Credit Value Adjustments" and "Debit Value Adjustments", respectively (€15,550k and €22,716k as at December 31, 2018, respectively), in accordance with the method described in Note 41.

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

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

As at December 31, 2019 & 2018, the composition of this heading is as follows:

	Fair value	
Description	31-12-2019	31-12-2018
Equity Instruments		
Issued by residents	144,372	175,181
Issued by non-residents	626	1,697
	144,998	176,878

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

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

The breakdown of this heading is as follows:

	31-12-2019								
	Acquisition cost	Interest receivable	Hedge adjustment	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 22)	Other	Impairment (Note 19)	Book Value
Debt instruments									
Issued by residents									
Public residentes	4,680,416	75,853	48,352	648,093	(56)	648,037	(2,860)	-	5,449,798
Other residents									
Non subordinated debt	2,327	-	-	-	-	-	-	(89)	2,238
Issued by non-residents									
Foreign public issuers	310,338	1,412	-	24,662	-	24,662	-	-	336,412
	4,993,081	77,265	48,352	672,755	(56)	672,699	(2,860)	(89)	5,788,448
Equity instruments									
Measured at fair value	73,183	-	-	718	-	718	-	-	73,901
	5,066,264	77,265	48,352	673,473	(56)	673,417	(2,860)	(89)	5,862,349

	31-12-2018								
	Acquisition cost	Interest receivable	Hedge adjustment	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 22)	Other	Impairment (Note 19)	Book Value
Debt instruments									
Issued by residents									
Public residentes	4,329,379	80,969	4,493	382,440	-	382,440	(3,198)	-	4,794,083
Other residents									
Non subordinated debt	53,100	1,443	-	29	-	29	-	(3)	54,569
Issued by non-residents									
Foreign public issuers	311,428	1,416	-	5,614	-	5,614	-	-	318,458
Other non-residents	37	-	-	-	(1)	(1)	-	-	36
	4,693,944	83,828	4,493	388,083	(1)	388,082	(3,198)	(3)	5,167,146
Equity instruments									
Measured at fair value	79,725	-	-	581	-	581	-	-	80,306
	4,773,669	83,828	4,493	388,664	(1)	388,663	(3,198)	(3)	5,247,452

The public issuers headings had the following characteristics:

	31-12-2019				31-12-2018			
Description	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Book value
National public issuers								
Maturing between three and five years	23,008	184	914	24,106	23,796	184	467	24,447
Maturing between five and ten years	4,600,348	73,967	682,619	5,356,934	4,079,071	74,071	374,429	4,527,571
Maturing in more than 10 years	57,060	1,702	9,996	68,758	226,512	6,714	8,839	242,065
Foreign public issuers								
Maturing between three and five years	1,505	4	22	1,531	1,507	4	13	1,524
Maturing between five and ten years	308,833	1,408	24,640	334,881	309,921	1,412	5,601	316,934
	4,990,754	77,265	718,191	5,786,210	4,640,807	82,385	389,349	5,112,541

As at December 31, 2019 & 2018, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €445,207k and €311,387k respectively, used as collateral in funding operations (Note 18).

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

The other issuers headings had the following characteristics:

	31-12-2019					31-12-2018				
Description	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value
Non subordinated debt										
CGD 3% 2014/2019	-	-	-	-	-	50,000	1,443	29	(3)	51,469
OB.HEFESTO STC SA SERIE-1 CL-R	2,327	-	-	(89)	2,238	3,100	-	-	-	3,100
Other	-	-	-	-	-	37	-	(1)	-	36
	2,327	-	-	(89)	2,238	53,137	1,443	28	(3)	54,605

As at December 31, 2019 & 2018, "Equity instruments" included the following securities:

	31-12-2019			31-12-2018		
Description	Acquisition cost	Gains	Book value	Acquisition cost	Gain/losses reflected in reserves	Book value
SIBS - SGPS, S.A.	68,313	-	68,313	68,313	-	68,313
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	-	-	-	3,218	-	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	-	-	-	3,218	-	3,218
VISA INC series C	1,432	-	1,432	1,431	-	1,431
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	850	-	850	850	-	850
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	491	765	274	491	765
GARVAL - SOC.DE GARANTIA MUTUA S	249	68	317	287	27	314
NORGARANTE - SOC. GARANTIA MUTUA S.A.	460	-	460	1,296	-	1,296
LISGARANTE - SOC. GARANTIA MUTUA S.A.	298	-	298	517	-	517
AGROGARANTE-SOC.GARANTIA MUTUA S	1,058	159	1,217	106	50	156
OTHER	249	-	249	215	13	228
	73,183	718	73,901	79,725	581	80,306

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

	31-12-2019				31-12-2018		
	Acquisition cost	Interest receivable	Negative reserve	Book value	Acquisition cost	Negative reserve	Book value
Debt instruments							
. Between 0% and 25%	367	2	(56)	313	37	(1)	36
	367	2	(56)	313	37	(1)	36

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

10. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2019	31-12-2018
Loans and advances to other domestic banks		
Deposits	1	102,218
Loans	55	87,851
	56	190,069
Loans and advances to other foreign banks		
Very short term loans and advances	-	66,292
Deposits	17,609	270,562
Other applications	709,836	148,180
Interest receivable	14	12
	727,459	485,046
	727,515	675,115
Impairment of loans and advances to customers (Note 19)	(29)	(84)
	727,486	675,031

As at December 31, 2019 & 2018, “Investments at credit institutions abroad – Other investments” includes margin accounts of €507,569k and €147,927k, respectively.

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

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

	31-12-2019	31-12-2018
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	195,390	208,795
Loans	9,027,202	9,326,549
Current account loans	1,027,892	1,126,534
Overdrafts	120,796	139,344
Factoring	1,486,356	1,506,932
Finance leasing	1,121,687	1,158,855
Other credits	45,646	43,384
To individuals		
Mortgage loans	15,179,957	14,514,864
Consumer credit and other loans	2,218,293	2,148,694
Foreign loans		
To corporate clients		
Loans	528,190	394,738
Current account loans	5,172	10,002
Overdrafts	348	646
Factoring	54,677	65,353
Finance leasing	2,708	3,708
Other credits	6,595	7,254
To individuals		
Mortgage loans	495,514	437,347
Consumer credit and other loans	73,110	64,694
	31,589,533	31,157,693
Non-subordinated debt securities	3,765,428	4,081,130
Non-derecognized securitized assets		
.Hipototta No. 4 PLC	3,865,680	4,419,096
Overdue loans and interest	504,040	623,128
	39,724,681	40,281,047
Accrued interest		
Loans and advances	70,379	75,177
Loans represented by securities	15,453	16,463
Non-derecognized securitized assets	2,239	3,138
Values adjustments of hedged assets	219,139	47,162
Deferred expenses	94,969	86,999
Checks payable	60,591	75,423
Debtors	223,470	290,564
Commissions associated with amortized cost (net)	(149,262)	(138,118)
	536,978	456,808
	40,261,659	40,737,855
Impairment of loans and advances to customers (Note 19)	(921,479)	(1,108,584)
	39,340,180	39,629,271

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

In the periods ended December 31, 2019 & 2018, portfolios of loans granted to individuals and companies were sold, with a carrying amount of €167,241k and €723,987k, respectively. As a result of these transactions, in 2019 and 2018 gains were recorded in the net amount of €4,028k as were losses of €12,480k, respectively (Notes 19 and 32).

As at December 31, 2019 & 2018, "Domestic loans – To individuals - Residential" included loans assigned to the autonomous property of the mortgage loans issued by the Bank in the amounts of €9,345,054k and €8,937,341k, respectively (Note 18).

Movement under impairments losses during 2019 and 2018 is presented in Note 19.

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

	31-12-2019	31-12-2018
Up to three months	23,106	23,767
Between three and six months	24,530	28,287
Between six months and one year	88,965	61,971
Between one year and three years	207,774	312,347
More than three years	159,665	196,756
	504,040	623,128

As at December 31, 2019 & 2018, the breakdown by stage of the portfolio of loans and other receivable balances at amortised cost is as follows:

	31-12-2019			31-12-2018		
	Gross value	Impairment	Coverage	Gross value	Impairment	Coverage
Stage 1	36,616,680	(64,526)	0.18%	36,740,255	(78,690)	0.21%
Stage 2	2,022,651	(72,855)	3.60%	1,962,197	(96,651)	4.93%
Stage 3	1,622,328	(784,098)	48.33%	2,035,403	(933,243)	45.85%
	40,261,659	(921,479)		40,737,855	(1,108,584)	

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

The evolution that occurred in the exposure and in the impairment for financial assets at amortized cost in 2019 and 2018 exercise was as follows:

	Credit granted and other balances receivable				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01-01-2018	34,974,375	3,681,036	2,718,666	41,374,077	81,123	118,658	1,541,084	1,740,865
Transfers								
Stage 1 to 2	(689,996)	689,996	-	-	(2,177)	27,522	-	25,345
Stage 1 to 3	(142,356)	-	142,356	-	(12,998)	-	35,735	22,737
Stage 2 to 3	-	(247,128)	247,128	-	-	(19,469)	50,274	30,805
Stage 2 to 1	1,738,320	(1,738,320)	-	-	(1,183)	(21,511)	-	(22,694)
Stage 3 to 1	44,853	-	(44,853)	-	674	-	(12,449)	(11,775)
Write offs and sales	-	-	(938,155)	(938,155)	-	-	(773,473)	(773,473)
Origination net of amortization	815,059	(519,501)	6,375	301,933	13,251	(14,682)	119,232	117,801
Balance as at 31-12-2018	36,740,255	1,962,197	2,035,403	40,737,855	78,690	96,651	933,243	1,108,584
Transfers								
Stage 1 to 2	(925,665)	925,665	-	-	(4,544)	27,068	-	22,524
Stage 1 to 3	(81,163)	-	81,163	-	(13,261)	-	43,723	30,462
Stage 2 to 3	-	(107,057)	107,057	-	-	(7,736)	30,262	22,526
Stage 2 to 1	772,355	(772,355)	-	-	3,291	(37,561)	-	(34,270)
Stage 3 to 2	-	100,926	(100,926)	-	-	6,467	(33,142)	(26,675)
Stage 3 to 1	87,493	-	(87,493)	-	471	-	(9,420)	(8,949)
Write offs and sales	-	-	(233,531)	(233,531)	-	-	(173,210)	(173,210)
Origination net of amortization	23,405	(86,725)	(179,345)	(242,665)	(121)	(12,034)	(7,358)	(19,513)
Balance as at 31-12-2019	36,616,680	2,022,651	1,622,328	40,261,659	64,526	72,855	784,098	921,479

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	31-12-2019			31-12-2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	2,187	294,068	(291,881)	10,079	67,509	(57,430)
Equity swaps	135	765	(630)	20	1,714	(1,694)
Cash-flows hedge						
Interest rate swaps	52,795	-	52,795	63,365	332	63,033
Forward sale	1,129	98,998	(97,869)	-	21,001	(21,001)
	56,246	393,831	(337,585)	73,464	90,556	(17,092)

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

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

	31-12-2019								
		Notional amounts						Notional amounts	
Type of financial instrument	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	148	158,523	128,320	44,165	17,004	-	348,012	171,477	176,535
Sold		158,485	128,275	44,144	16,987	-	347,891	173,562	174,329
Currency swaps									
Purchased	(8,162)	1,768,634	431	-	-	-	1,769,065	277,004	1,492,061
Sold		1,776,141	441	-	-	-	1,776,582	1,499,960	276,622
Interest rate swaps	(21,250)	87	40,654	1,628,509	3,217,543	20,814,764	25,701,557	25,665,576	35,981
Equity swaps	270	-	-	-	92,542	639,203	731,745	731,745	-
Currency options									
Purchased	-	24,936	19,630	27,850	-	-	72,416	72,416	-
Sold		24,936	19,630	27,850	-		72,416	72,416	-
Equity options									
Purchased	2	49,919	97,007	-	-	-	146,926	146,926	-
Sold		49,919	97,007	-	-	-	146,926	146,926	-
Caps & Floors	216	40,031	7,151	72,589	756,271	197,373	1,073,415	1,073,415	-
	(28,776)	4,051,611	538,546	1,845,107	4,100,347	21,651,340	32,186,951	30,031,423	2,155,528
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Other financial assets at fair value									
through other comprehensive income	(49,904)	-	-	-	-	2,080,000	2,080,000	2,080,000	-
Liabilities and loans	(241,977)	4,004	13,086	98,158	691,752	3,648,372	4,455,372	4,044,224	411,148
Equity swaps	(630)	10,781	7,945	17,381	34,112	8,227	78,446	8,227	70,219
Cash flow hedge									
Interest rate swaps									
Cash flows	52,795	-	4,000,000	2,000,000	3,000,000	-	9,000,000	9,000,000	-
Forwards sale	(97,869)	1,061,803	222,519	1,182,316	326,558	-	2,793,196	2,793,196	-
	(337,585)	1,076,588	4,243,550	3,297,855	4,052,422	5,736,599	18,407,014	17,925,647	481,367

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

	31-12-2018								
		Notional amounts							
Type of financial instrument	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts EUR	Notional amounts Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	340	183,469	118,303	10,622	32,524	136	345,054	171,021	174,033
Sold		183,335	118,190	10,600	32,503	136	344,764	171,619	173,145
Currency swaps									
Purchased	(7,048)	744,584	-	400	-	-	744,984	1,301	743,683
Sold		750,876	-	417	-	-	751,293	749,943	1,350
Interest rate swaps									
Cross currency swaps									
Purchased	4	7,631	-	-	-	-	7,631	7,631	-
Sold		7,631	-	-	-	-	7,631	7,631	-
Interest rate swaps	(23,475)	41,837	1,881,966	263,484	2,562,893	21,459,887	26,210,067	26,173,246	36,821
Equity swaps	(256)	138,295	-	-	-	757,869	896,164	896,163	1
Cross currency swaps									-
Purchased	31	52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold		52,232	50,646	101,607	5,240	-	209,725	-	209,725
Equity options									
Purchased	(30)	64,728	49,450	90,693	146,926	-	351,797	351,797	-
Sold		64,728	49,450	90,693	146,926	-	351,797	351,797	-
Caps & Floors	536	257,600	773,409	440,105	265,011	889,193	2,625,318	2,625,318	-
	(29,898)	2,549,222	3,092,017	1,110,228	3,197,263	23,107,221	33,055,951	31,507,467	1,548,484
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Other financial assets at fair value through other comprehensive income	(5,795)	-	-	-	-	80,000	80,000	80,000	-
Liabilities and loans	(51,635)	-	19,078	58,152	804,385	2,504,626	3,386,241	3,200,390	185,851
Equity swaps	(1,694)	26,619	16,136	30,126	35,565	-	108,446	140	108,306
Cash flow hedge									
Interest rate swaps									
Cash flows	63,033	56,746	192,081	1,102,594	9,000,000	-	10,351,421	10,351,421	-
Forwards sale	(21,001)	377,402	-	558,511	-	-	935,913	935,913	-
	(17,092)	460,767	227,295	1,749,383	9,839,950	2,584,626	14,862,021	14,567,864	294,157

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

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

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

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

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

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

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

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

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

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

12. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2019 & 2018, the composition of this heading is as follows:

	31-12-2019		31-12-2018	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	-	-	25.81	1,918
Lusimovest - Fundo de Investimento Imobiliário	25.77	25,923	25.77	25,847
Unicre - Instituição Financeira de Crédito, S.A.	21.86	33,317	21.86	35,634
		59,240		63,399
Impairment of investments in associates (Note 19)				
Benim - Sociedade Imobiliária, S.A.		-		(1,918)
		-		(1,918)
		59,240		61,481

The holding in Benim – Sociedade Imobiliária, SA, was indirectly held by the Bank through Totta Urbe – Empresa de Administração e Construções, SA (Totta Urbe). In September 2018 the Bank acquired this holding for its portfolio and in sold it in October 2019 to a company external to the group.

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

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

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

13. INVESTMENT PROPERTIES

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Real estate properties held by Novimovest Fund	252,513	297,625

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

As at December 31, 2019 & 2018, the properties held by the Novimovest Real Estate Fund had the following characteristics:

	31-12-2019	31-12-2018
Land		
Urbanized	13,972	14,643
Non-urbanized	1,128	1,141
Finished constructions		
Rented	190,611	222,946
Not rented	29,060	41,070
Construction projects	17,742	17,825
	252,513	297,625

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

	31-12-2019	31-12-2018
Rents (Note 33)	13,437	15,252
Taxes	(137)	-
Condominium expenses	(1,108)	(1,166)
Maintenance and repair expenses	(1,077)	(12)
Insurances	(156)	(197)
	10,959	13,877

Movement under Investment properties in 2019 and 2018 was as follows:

	31-12-2019				
	Balances at 31-12-2018	Increases	Fair value valuation	Sales	Balances at 31-12-2019
Real estate properties held by Novimovest Fund	297,625	2,929	(2,916)	(45,125)	252,513

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

	31-12-2018				
	Balances at 31-12-2017	Increases	Fair value valuation	Sales	Balances at 31-12-2018
Real estate properties held by Novimovest Fund	353,957	2,399	(2,290)	(56,441)	297,625

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under Other operating results – Gains / Losses on investment properties (Note 33).

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

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

	Level 3	
	31-12-2019	31-12-2018
Investment properties	252,513	297,625

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

Description of the property	Use	Value on 31-12-2019	Value on 31-12-2018	Valuation technique	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Leased out	-	34,447	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3					
Plots in Matosinhos	Leased out	34,586	41,694	Comparative market method / Residual value method	Lease value per m2 Capitalization rate
Galerias Saldanha Residence					
Shopping Center in Lisbon	Leased out	26,975	26,365	Income method / Comparative market method	Lease value per m2 Capitalization rate
Warehouse in Perafita					
Warehouse in Matosinhos	Leased out	15,820	15,896	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9					
Offices and store in Ponta Delgada	Leased out	11,431	11,699	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide					
Offices in Oeiras	Leased out	11,636	11,878	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2 Golf courses in Loulé	Leased out	12,067	12,128	Income method / Cost method	Lease value per m2 Capitalization rate
Plots in Valongo	Construction in course	10,500	10,576	Comparative market method / Cost method Residual value method	Land value and cost of construction and marketing per m2
		123,015	164,683		

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

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during 2019 and 2018 can be presented as follows.

	31-12-2019															
	31-12-2018					Write-offs and sales		Transfers From/to non-current assets held for sale		Transfers other		Depreciation	31-12-2019			
	Gross amount	Accumulated depreciation	Impairment (Note 19)	IFRS 16	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 19)	Net amount
Tangible assets																
Reak estate properties																
Real estate properties for own use	432,057	141,813	6,146	-	11,430	21,454	10,508	(8,583)	(3,078)	264	-	9,171	413,714	137,398	6,146	270,170
Leasehold expenditure	28,310	21,143	-	-	532	308	252	(141)	(133)	(182)	-	1,578	28,211	22,336	-	5,875
Other property	167	78	-	-	-	-	-	-	-	-	-	1	167	79	-	88
Rights of use (IFRS 16 - Note 18)	-	-	-	37,997	5,182	1,891	-	-	-	-	-	6,190	41,288	6,190	-	35,098
Unfinished tangible assets																
Property for own use	88 -	-	-	-	-	-	-	-	-	(88)	-	-	-	-	-	-
	460,622	163,034	6,146	37,997	17,144	23,653	10,760	(8,724)	(3,211)	(6)	-	16,940	483,380	166,003	6,146	311,231
Equipment																
Furniture and fixtures	10,793	4,012	-	-	1,824	581	579	-	-	(47)	(43)	1,255	11,989	4,645	-	7,344
Machinery and tools	1,860	840	-	-	743	313	312	-	-	6,274	6,279	376	8,564	7,183	-	1,381
Computer hardware	68,144	59,009	-	-	11,243	1,394	1,391	-	-	(6,062)	(6,062)	4,062	71,931	55,618	-	16,313
Indoor facilities	34,879	11,911	-	-	7,382	397	275	(113)	(49)	(386)	(194)	4,325	41,365	15,718	-	25,647
Vehicles	17,856	7,017	-	-	2,116	2,025	1,247	-	-	88	(85)	2,034	18,035	7,719	-	10,316
Security equipment	6,098	4,971	-	-	464	949	949	-	-	(185)	(182)	504	5,428	4,344	-	1,084
Other equipment	2,196	856	-	-	141	106	87	-	-	243	238	313	2,474	1,320	-	1,154
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	141,835	88,616	-	-	23,913	5,765	4,840	(113)	(49)	(75)	(49)	12,869	159,795	96,547	-	63,248
Other tangible assets																
Work of Art	2,059	-	-	-	48	-	-	-	-	-	-	-	2,107	-	-	2,107
Other	51	38	-	-	-	-	-	-	-	26	26	6	77	70	-	7
	2,110	38	-	-	48	-	-	-	-	26	26	6	2,184	70	-	2,114
	604,567	251,688	6,146	37,997	41,105	29,418	15,600	(8,837)	(3,260)	(55)	(23)	29,815	645,359	262,620	6,146	376,593
Intangible assets																
Software purchased	62,830	36,497	-	-	17,962	-	-	-	-	4,027	22	18,960	84,819	55,479	-	29,340
Unfinished intangible assets	492	-	-	-	3,715	-	-	-	-	(3,973)	-	-	234	-	-	234
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Other	1,040	547	-	-	-	-	-	-	-	-	-	493	1,040	1,040	-	-
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	68,868	40,390	-	-	21,677	-	-	-	-	54	22	19,453	90,599	59,865	-	30,734

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

	31-12-2018															
								Transfers								
								From/to non-current assets held for sale		Transfers other						
	31-12-2017				Write-offs and sales							Depreciation	31-12-2018			
	Gross amount	Accumulated depreciation	Impairment (Note 19)	Acquisitions	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 19)	Net amount
Tangible assets																
Reak estate properties																
Real estate properties for own use	469,425	166,816	6,281	34,449	41,521	24,287	135	(26,270)	(8,354)	(4,026)	(1,075)	8,713	432,057	141,813	6,146	284,098
Leasehold expenditure	161,641	154,846	-	8	136,158	136,158	-	(1,201)	(879)	4,020	1,075	2,259	28,310	21,143	-	7,167
Other property	308	11	20	-	-	(9)	20	(141)	-	-	-	58	167	78	-	89
Unfinished tangible assets																
Property for own use	88	-	-	-	-	-	-	-	-	-	-	-	88	-	-	88
	631,462	321,673	6,301	34,457	177,679	160,436	155	(27,612)	(9,233)	(6)	-	11,030	460,622	163,034	6,146	291,442
Equipment																
Furniture and fixtures	28,370	22,867	-	2,385	19,962	19,960	-	-	-	-	-	1,105	10,793	4,012	-	6,781
Machinery and tools	6,936	5,883	-	234	5,555	5,555	-	-	-	245	238	274	1,860	840	-	1,020
Computer hardware	106,268	95,568	-	2,607	40,731	40,731	-	-	-	-	-	4,172	68,144	59,009	-	9,135
Indoor facilities	36,979	19,745	-	8,808	10,867	10,850	-	(35)	(15)	(6)	(11)	3,042	34,879	11,911	-	22,968
Vehicles	19,531	8,776	-	3,673	5,348	3,841	-	-	-	-	-	2,082	17,856	7,017	-	10,839
Security equipment	19,514	18,187	-	241	13,657	13,657	-	-	-	-	-	441	6,098	4,971	-	1,127
Other equipment	7,556	6,369	-	444	5,528	5,528	-	-	-	(276)	(258)	273	2,196	856	-	1,340
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	225,163	177,395	-	18,392	101,648	100,122	-	(35)	(15)	(37)	(31)	11,389	141,835	88,616	-	53,219
Other tangible assets																
Leased equipment	281	281	-	-	281	281	-	-	-	-	-	-	-	-	-	-
Work of Art	2,048	-	-	11	-	-	-	-	-	-	-	-	2,059	-	-	2,059
Other	3,463	3,462	-	-	3,455	3,455	-	-	-	43	31	-	51	38	-	13
	5,792	3,743	-	11	3,736	3,736	-	-	-	43	31	-	2,110	38	-	2,072
	862,417	502,811	6,301	52,860	283,063	264,294	155	(27,647)	(9,248)	-	-	22,419	604,567	251,688	6,146	346,733
Intangible assets																
Software purchased	438,890	406,376	-	10,835	388,712	388,711	-	-	-	1,817	-	18,832	62,830	36,497	-	26,333
Unfinished intangible assets	61	-	-	2,248	-	-	-	-	-	(1,817)	-	-	492	-	-	492
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Other	1,040	476	-	-	-	-	-	-	-	-	-	71	1,040	547	-	493
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	444,497	410,198	-	13,083	388,712	388,711	-	-	-	-	-	18,903	68,868	40,390	-	28,478

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

15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

As at December 31, 2019 & 2018, the composition of these headings is as follows:

	31-12-2019	31-12-2018
Current tax assets	27,869	21,334
Deferred tax assets	556,113	640,061
	583,982	661,395
Current tax liabilities	87,171	7,589
Deferred tax liabilities	290,091	237,233
	377,262	244,822

Deferred taxes	266,022	402,828

As at December 31, 2019 & 2018, the composition of the taxes in the income statement is as follows:

	31-12-2019	31-12-2018
Current taxes	(133,655)	(11,804)
Deferred assets	(75,107)	143,069
	(208,762)	131,265

Movement under deferred tax assets and liabilities in the periods ended December 31, 2019 & 2018, is as follows:

	Balances at 31-12-2018	Other Comprehensive Income	Income statement	Other	Balances at 31-12-2019
Provisions/Impairment temporarily not accepted for tax purposes					
.Deferred tax assets	229,023	-	(40,762)	-	188,261
.Deferred tax liabilities	(5,243)	-	21	-	(5,222)
Revaluation of tangible assets					
.Deferred tax assets	2,140	-	(572)	-	1,568
.Deferred tax liabilities	(2,983)	-	860	-	(2,123)
Reportable tax losses	219,136	-	(33,628)	-	185,508
Pensions:					
.Actuarial deviations	55,112	-	(16,954)	-	38,158
.Early retirement pensions	37,465	-	2,338	-	39,803
Transfer of pension liabilities to the Social Security	4,201	-	(323)	-	3,878
Other financial assets at fair value through other comprehensive income	(141,477)	(88,822)	4,248	-	(226,051)
Hedging derivatives - cash flows	(9,901)	26,337	-	-	16,436
Other financial assets designated at fair value through profit or loss	21,240	-	16,277	-	37,517
Securitization operations:	(24,701)	-	581	-	(24,120)
Integration costs	17,735	-	(7,205)	-	10,530
Other	1,081	-	12	786	1,879
	402,828	(62,485)	(75,107)	786	266,022

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

	Balances at 31-12-2017	IFRS9	Other Comprehensive Income	Income statement	Other	Balances at 31-12-2018
Provisions/Impairment temporarily not accepted for tax purposes						
.Deferred tax assets	288,998	19,593	-	(79,568)	-	229,023
.Deferred tax liabilities	(5,243)	-	-	-	-	(5,243)
Revaluation of tangible assets						
.Deferred tax assets	2,140	-	-	-	-	2,140
.Deferred tax liabilities	(3,193)	-	-	210	-	(2,983)
Reportable tax losses	-	-	-	219,136	-	219,136
Pensions:						
.Actuarial deviations	71,964	-	-	(16,852)	-	55,112
.Early retirement pensions	27,825	-	-	9,640	-	37,465
.Long service bonuses	516	-	-	(516)	-	-
Transfer of pension liabilities to the Social Security	4,714	-	-	(513)	-	4,201
Other financial assets at fair value through other comprehensive income	(90,982)	(22,159)	(21,521)	(176)	(6,639)	(141,477)
Hedging derivatives - cash flows	4,309	-	(14,210)	-	-	(9,901)
Other financial assets designated at fair value through profit or loss	-	8,671	-	12,569	-	21,240
Securitization operations	(22,252)	-	-	(2,448)	(1)	(24,701)
Integration costs	13,536	-	-	4,201	(2)	17,735
Other	(1,096)	-	-	(2,614)	4,791	1,081
	291,236	6,105	(35,731)	143,069	(1,851)	402,828

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

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

The Bank was subject to a tax inspection up to and including 2015. As a result of the inspection, it was subject to an additional IRC assessment related with the autonomous taxation and with sundry corrections to the tax loss determined that year. In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections to the taxable income covered several matters, including, *inter alia*, adjustments to tax recognition of actuarial deviations and adjustments relating to uses of non-performing loans. Some of these corrections are merely temporary.

As for the assessments received, the Bank made payment of the amounts assessed. Nevertheless, the majority of the additional assessments were subject to administrative claim and/or judicial review.

The Bank records under Provisions under Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 19).

Of the Bank's tax losses €27,655k can be used up until 2026 and €157,843k up until 2027.

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

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

16. OTHERS ASSETS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Debtors and other applications	-	447
Gold, other precious metals, coins and medals	3,145	3,145
Promises and other assets received as settlement in lieu of payment	255,543	356,659
Income receivable and deferred income	24,095	29,294
Deferred costs	1,350	2,850
Other assets pending regularization	52,430	53,382
	336,563	445,777
Impairment losses (Note 19):		
Debtors, other investments and other assets		
Own properties for sale	(88,192)	(109,334)
	(88,192)	(109,334)
	248,371	336,443

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

As at December 31, 2019 & 2018, Loan operations pending settlement includes loan/borrowing operations pending settlement as detailed below:

	31-12-2019		31-12-2018	
	Other assets	Other liabilities (Note 21)	Other assets	Other liabilities (Note 21)
Values in transit and other transactions to be settled	34,280	(25,858)	29,309	(58,888)
Transfers within SEPA	130	(126,562)	-	(117,895)
Balances to be settled in ATM's	2,504	(6)	2,720	-
Other	15,516	(32,277)	21,353	(17,353)
	52,430	(184,703)	53,382	(194,136)

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

Movement under Payment-in-kind promises, auctions and other assets received in lieu of payment during 2019 and 2018 was as follows:

	December 31, 2018					Transfers to non-current assets held for sale		Tranfers /tangible assets	Impairment (Note 19)			December 31, 2019		
	Gross amount	Impairment (Note 19)	Net amount	Increases	Sales	Capital	Impairment	Capital	Increases	Reversals	Utilisation	Gross amount	Impairment (Note 19)	Net amount
Assets received as settlement of defaulting														
Real estate	109,320	(52,155)	57,165	-	-	(45,294)	-	-	-	24,014	-	64,026	(28,141)	35,885
Lieu of payment	11,435	(43)	11,392	40	-	(9,499)	-	-	(45)	2	-	1,976	(86)	1,890
Auctions	22,574	(5,952)	16,622	13,279	-	(19,379)	-	-	(76)	825	-	16,474	(5,203)	11,271
Other	39,966	(27,560)	12,406	3,542	(5,107)	(4,947)	-	-	(623)	1,272	-	33,454	(26,911)	6,543
Own real estate properties for sale	44,773	(23,624)	21,149	188	(8,131)	-	-	5,577	(7,328)	678	2,807	42,407	(27,467)	14,940
Other real estate properties for sale	128,591	-	128,591	-	(31,385)	-	-	-	(470)	86	-	97,206	(384)	96,822
	356,659	(109,334)	247,325	17,049	(44,623)	(79,119)	-	5,577	(8,542)	26,877	2,807	255,543	(88,192)	167,351

	December 31, 2017					Transfers		Impairment (Note 19)			December 31, 2018		
	Gross amount	Impairment	Net amount	Increases	Sales	Capital	Impairment	Increases	Reversals	Utilisation	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting													
Real estate	261,866	(116,109)	145,757	9,348	(141,194)	(20,700)	5,441	(3,194)	5,565	56,142	109,320	(52,155)	57,165
Lieu of payment	12,315	(37)	12,278	987	(1,867)	-	-	(6)	-	-	11,435	(43)	11,392
Auctions	17,244	(4,135)	13,109	18,169	(14,529)	1,690	-	(1,847)	30	-	22,574	(5,952)	16,622
Other	62,402	(7,878)	54,524	29,748	(48,852)	(3,332)	(4,711)	(23,831)	8,562	298	39,966	(27,560)	12,406
Own real estate properties for sale	44,061	(29,282)	14,779	4,495	(18,920)	15,137	-	(6,648)	291	12,015	44,773	(23,624)	21,149
Other real estate properties for sale	100	-	100	241,344	(112,994)	141	-	-	-		128,591	-	128,591
	397,988	(157,441)	240,547	304,091	(338,356)	(7,064)	730	(35,526)	14,448	68,455	356,659	(109,334)	247,325

The determination of impairment losses is performed according to the methodology described in Note 17.

17. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Real estate properties received in lieu of payment	74,822	46,277
Equipment	2,047	1,913
	76,869	48,190
Impairment losses (Note 19)	(32,826)	(18,168)
	44,043	30,022

Movement under Non-current assets held for sale in 2019 and 2018 was as follows:

	31-12-2018				Transfer of other assets	Impairment (note 19)			31-12-2019		
	Gross amount	Accumulated impairment (Note 19)	Increases	Sales	Capital	Increases	Reversals	Utilisation	Gross amount	Accumulated impairment (Nota 19)	Net value
Real estate properties	46,277	(16,599)	994	(51,568)	79,119	(38,432)	13,724	10,084	74,822	(31,223)	43,599
Equipment	1,913	(1,569)	1,269	(1,135)	-	(953)	706	213	2,047	(1,603)	444
	48,190	(18,168)	2,263	(52,703)	79,119	(39,385)	14,430	10,297	76,869	(32,826)	44,043

	31-12-2017					Impairment (note 19)			31-12-2018		
	Gross amount	Accumulated impairment (Note 19)	Increases	Sales	Transfers	Increases	Reversals	Utilisation	Gross amount	Accumulated impairment (Note 19)	Net value
Real estate properties	128,551	(41,576)	22,075	(126,690)	22,341	(18,654)	9,862	33,769	46,277	(16,599)	29,678
Equipment	1,574	(1,280)	486	(147)	-	(425)	85	51	1,913	(1,569)	344
	130,125	(42,856)	22,561	(126,837)	22,341	(19,079)	9,947	33,820	48,190	(18,168)	30,022

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

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

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

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

a) Market method

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

b) Income method

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

c) Cost method

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

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

18. FINANCIAL LIABILITIES AT AMORTISED COST

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

	31-12-2019	31-12-2018
Resources from Bank of Portugal		
Deposits	3,033,002	3,045,472
Resources from other Central Banks		
Deposits	4,522	4,568
	3,037,524	3,050,040

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

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

	31-12-2019	31-12-2018
Resources from domestic credit institutions		
Deposits	162,910	192,141
Other resources	1,833	792
Interest payable	16	6
Revenue with deferred income	50	44
	164,809	192,983
Resources from foreign credit institutions		
Consigned resources	900,000	900,000
Short-term resources	152,216	76,856
Deposits	316,070	376,488
Sale operations with repurchase agreement	1,654,668	1,957,342
Other resources	7,738	35,995
Interest payable	495	180
	3,031,187	3,346,861
	3,195,996	3,539,844

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

	31-12-2019			
Tipe of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	445,207	(1,342)	(6)	443,859
Non-subordinated debt	797,112	(137)	(44)	796,931
Bonds issued by non-residents	413,878	-	-	413,878
	1,656,197	(1,479)	(50)	1,654,668

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

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

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

	31-12-2019	31-12-2018
Term deposits	16,986,546	16,615,519
Demand deposits	17,787,089	15,412,253
Other Clients Resources	217,162	951,499
Savings deposits	800,057	875,550
Other	69,629	66,982
	35,860,483	33,921,803
Interest payable	12,420	15,954
Value adjustments for hedging operations	369	2,345
	12,789	18,299
	35,873,272	33,940,102

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

The debt securities sub-heading comprises the following:

	31-12-2019	31-12-2018
Bonds in circulation		
Covered bonds		
Issued	8,050,000	7,700,000
Repurchased	(5,300,000)	(4,200,000)
Interest payable and another deferred costs and income	(14,846)	(11,222)
Bonds issued in securitization operations		
Issued	4,269,015	4,898,562
Repurchased	(3,525,534)	(4,010,288)
Interest payable and another deferred costs and income	(55,140)	(62,903)
	3,423,495	4,314,149
Other		
EMTN Programme	-	711
Structured bonds	8,227	-
Interest payable	3	2
Value adjustments for hedging operations	152	
	8,382	713
Subordinated liabilities		
Subordinated Perpetual Bonds Totta 2000		
Issued	284,315	284,315
Repurchased	(13,868)	(13,868)
Subordinated Perpetual Bonds BSP 2001		
Issued	172,833	172,833
Repurchased	(159,015)	(159,015)
Subordinated Perpetual Bonds CPP 2001		
Issued	54,359	54,359
Repurchased	(50,084)	(50,084)
Banco Santander Totta SA 7.5%	7,599	7,599
Subordinated MC factor Bonds		
Issued	2,993	2,993
Repurchased	(2,394)	(2,394)
	296,738	296,738
Interest payable	326	344
	3,728,941	4,611,944

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, of the bonds issued within the scope of securitisation operations and cash bonds are described in Annex I, and those of the subordinated liabilities in Annex II.

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

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

	31-12-2019	31-12-2018
Loans and advances (Note 10)	9,345,054	8,937,841
Credit interests	7,038	7,220
Commissions	(52,346)	(46,134)
Deferred costs	2,605	2,518
Derivatives	(178,272)	(65,587)
	9,124,079	8,835,858

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

	Bonds outstanding		EMTN Programme
	Issued	Repurchased	and other
Balances as at December 31, 2017	7,701,072	(4,200,000)	25,744
.Issues repurchased	(1,072)	-	(25,033)
Balances as at December 31, 2018	7,700,000	(4,200,000)	711
.Issues made	1,100,000	(1,100,000)	8,227
.Issues repurchased	(750,000)	-	(711)
Balances as at December 31, 2019	8,050,000	(5,300,000)	8,227

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

	Bonds	
	Issued	Repurchased
Balances as at December 31, 2017	3,249,292	(2,121,485)
. Issued	2,266,000	-
. Repurchased	(616,730)	550,539
. Reacquired		
. Hipototta13	-	(2,266,000)
. Hipototta 4 e 5	-	(172,842)
. Azor mortgages	-	(500)
Balances as at December 31, 2018	4,898,562	(4,010,288)
. Repurchased	(629,547)	484,754
Balances as at December 31, 2019	4,269,015	(3,525,534)

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

The debt Other financial liabilities sub-heading comprises the following:

	31-12-2019	31-12-2018
Cheques and orders payable	63,307	56,413
Creditors and other resources		
Creditors resulting from operations with futures	5,418	3,457
Public sector	32,071	30,633
Creditors under factoring contracts	44,257	50,442
Creditors for supplies of goods	5,090	7,544
Other	32,522	27,717
Future income commitments (IFRS 16 application)	35,356	-
	218,021	176,206

Commitments with future rents corresponds to the adoption of IFRS 16 and their movement during the 2019 was as follows:

	Subject to rent	Right to use (Note 14)
Balances as at January 1, 2019	**37,997**	**37,997**
Depreciation 2019	(6,603)	(6,190)
Outs	(1,220)	(1,891)
Ins	3,238	3,238
Rent extentions and modification	1,944	1,944
Balances as at December, 2019	**35,356**	**35,098**

19. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during 2019 and 2018 was as follows:

	2019					
	31-12-2018	Increases	Reversals	Utilization	Others	31-12-2019
Provisions for tax contingencies	10,796	-	-	-	(207)	10,589
Provisions for pensions and other charges	129,353	519	-	(51,756)	-	78,116
Impairment and provisions for guarantees and other sureties given	53,159	89	-	-	-	53,248
Other provisions	93,138	21,460	(21,072)	(3,358)	(9,092)	81,076
	286,446	22,068	(21,072)	(55,114)	(9,299)	223,029

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

	2018						
	31-12-2017	IFRS 9	Increases	Reversals	Utilization	Others	31-12-2018
Provisions for tax contingencies	11,023	-	711	(248)	(690)	-	10,796
Provisions for pensions and other charges	39,931	-	148,601	-	(60,863)	1,684	129,353
Impairment and provisions for guarantees							
and other sureties given	24,021	35,062	6,688	(12,612)	-	-	53,159
Other provisions	92,575	-	200,469	(92,584)	(25,638)	(81,684)	93,138
	167,550	35,062	356,469	(105,444)	(87,191)	(80,000)	286,446

	2019						
	31-12-2018	Increases	Reversals of impairment losses	Utilization and others	31-12-2019	Recoveries of past due loans	Gain/loss from loan sales
Impairment losses							
Impairment in loans and advances to credit institutions (Note 10)	84	14	(69)	-	29	-	-
Impairment in loan granted to customers and other debtors (Note 10)	1,108,584	244,810	(244,103)	(187,812)	921,479	(3,673)	(4,028)
Impairment in financial assets at fair value							
through other comprehensive income (Note 9)	3	86	-	-	89	-	-
Investment in associates (Note 12)	1,918	-	-	(1,918)	-	-	-
	1,110,589	244,910	(244,172)	(189,730)	921,597	(3,673)	(4,028)
Tangible assets (Note 14)	6,146	-	-	-	6,146	-	-
Other asserts (Note 16)	109,334	8,542	(26,877)	(2,807)	88,192	-	-
Non-current assets held for sale (Note 17)	18,168	39,385	(14,430)	(10,297)	32,826	-	-
	133,648	47,927	(41,307)	(13,104)	127,164	-	-
	1,244,237	292,837	(285,479)	(202,834)	1,048,761	(3,673)	(4,028)

	2018						
Impairment losses	31-12-2017	IFRS 9	Increases	Reversals of impairment losses	Utilization and others	31-12-2018	Recoveries of past due loans
Assets at amortized cost (Note 10)	1,740,865	28,142	963,727	(951,519)	(672,547)	1,108,668	(9,176)
Impairment in financial assets at fair value							
through other comprehensive income (Note 9)	63,174	-	3,708	(3,797)	(63,082)	3	-
Investment in associates (Note 12)	5,532	-	1,918	(1,853)	(3,679)	1,918	-
	1,809,571	28,142	969,353	(957,169)	(739,308)	1,110,589	(9,176)
Tangible assets (Note 14)	6,301	-	4,665	(4,044)	(776)	6,146	-
Other asserts (Note 16)	200,212	-	35,526	(14,448)	(111,956)	109,334	-
Non-current assets held for sale (Note 17)	42,856	-	19,079	(9,947)	(33,820)	18,168	-
	249,369	-	59,270	(28,439)	(146,552)	133,648	-
	2,058,940	28,142	1,028,623	(985,608)	(885,860)	1,244,237	(9,176)

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

	31-12-2019	31-12-2018
Restructuring plans	62,278	102,948
BAPOP retirement prize	1,684	1,684
Supplementary pension plan		
of the Board of Directors (Note 39)	14,154	24,721
	78,116	129,353

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

20. EQUITY REPRESENTATIVE INSTRUMENTS

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

21. OTHER LIABILITIES

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Relating to personnel		
Vacation and vacation subsidies	39,325	39,044
Other variable remuneration	29,470	29,698
Other personnel costs	698	263
Other charges	143,947	170,693
Liabilities with pensions (Note 38)		
Pension fund of BST	1,131,980	972,776
Bank pension fund book value	(1,160,573)	(979,892)
London branch liabilities	51,848	44,509
London branch pension fund book value	(44,654)	(38,891)
Former Banif liabilities	161,803	133,084
Former Banif pension fund book value	(101,126)	(100,641)
Former Popular liabilities	181,503	163,111
Former Popular pension fund book value	(185,459)	(163,475)
Other deferred income	2,433	2,596
Liability operations to be settled	7,413	9,657
Other (Note 16)	184,703	194,136
	443,311	476,668

22. EQUITY

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

	31-12-2019		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Own shares	15,010,898	1.19%	15,011
Other	532,873	0.05%	532
	1,256,723,284	100.00%	1,256,723

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

	31-12-2018		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Own shares	15,000,445	1.19%	15,000
Other	543,326	0.05%	543
	1,256,723,284	100.00%	1,256,723

In 2019 and 2018, the Bank acquired 10,453 and 7,915 treasury shares for the amounts of €43k and €31k, respectively.

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

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

In 2018 the Bank distributed dividends in the amount of €618,597k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.492 per share.

In 2019 the Bank distributed dividends in the amount of €422,873k (net amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.336 per share.

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

As at December, 2019 & 20188, the breakdown of reserves for accumulated comprehensive income was as follows:

	31-12-2019	31-12-2018
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Financial assets at fair value through other comprehensive income (Note 9)	673,417	388,663
Revaluation reserves of companies under the equity method	3,575	1,668
Cash-flow hedging instruments	(53,018)	31,936
Actuarial gains and losses (Note 38)		
Pension Fund of BST	(799,225)	(686,172)
Pension Fund of the London branch of BST	(13,447)	(12,109)
Pension fund of Former Banif	(36,753)	(8,515)
Pension fund of Former BAPOP	(8,037)	(753)
Actuarial gains and losses of companies under the equity method	(4,034)	(3,033)
	(237,522)	(288,315)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Other financial assets at fair value trough other comprehensive income	(207,650)	(119,314)
Revaluation reserves of companies under the equity method	(911)	(425)
Cash-flow hedging instruments	16,436	(9,901)
Tax impact of actuarial gains and losses	204,286	181,691
Tax impact from the change in accounting policies	938	942
	13,099	52,993
	(224,423)	(235,322)

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.

As at December 31, 2019 & 2018, the breakdown of Other reserves and retained earnings was as follows:

	31-12-2019	31-12-2018
Legal reserve	461,864	414,311
Other reserves		
Reserves of consolidated companies	164,605	165,615
Reserves of companies consolidated under the equity method	8,822	5,064
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	(8,411)
Other reserves	20,840	20,580
Retained earnings	513,134	511,242
	1,828,113	1,775,660

Legal reserve

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

Merger reserve

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

Other reserves

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

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

23. CONSOLIDATED PROFIT FOR THE PERIOD

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

	31-12-2019		31-12-2018	
	Net Income for the year	Contribution to the consolidated net income	Net Income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	499,715	499,715	475,535	475,535
Net income of other Group companies:				
Totta (Ireland), Plc.	10,086	10,086	9,902	9,902
Novimovest - Fundo de Investimento Imobiliário Aberto	5,750	4,528	8,685	6,931
Unicre, Instituição Financeira de Crédito, S.A.	16,194	3,540	20,234	4,423
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	228	228	62	62
Totta Urbe, Empresa de Administração e Construções, S.A.	6,083	6,083	(4,092)	(4,092)
Banif International Bank, LTD	-	-	36	36
Lusimovest Fundo de Investimento Imobiliário	292	75	2,010	518
Taxagest, S.A.	8	8	(3)	(3)
Primestar Serving	-	-	(169)	(135)
	38,641	24,548	36,665	17,642
Elimination of dividends:				
Totta (Ireland), Plc.		(12,490)		-
Unicre, Instituição Financeira de Crédito, S.A.		(5,202)		(3,454)
		(17,692)		(3,454)
Adjustments related with securitization operations		(16,588)		(18,003)
Other		(532)		(1,769)
Consolidated net income for the period		489,451		469,951

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

	31-12-2019	31-12-2018
Consolidated net income attributable to the shareholders of BST	489,451	469,951
Weighted average number of ordinary shares issued	1,256,723,284	1,256,723,284
Weighted average number of own shares	15,000,817	15,000,445
Weighted average number of ordinary shares outstanding	1,241,722,467	1,241,728,211
Basic earnings per share attributable to the shareholders of BST (Euros)	0.39	0.38

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.

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

24. NON-CONTROLLING INTERESTS

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

	31-12-2019	31-12-2018
Taxagest, S.A.	557	557
Other	70	362
	627	919

25. OFF-BALANCE-SHEET ACCOUNTS

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

	31-12-2019	31-12-2018
Guarantees given and other contingent liabilities		
Guarantees and sureties	563,159	565,049
Commitments for credit granted		
Revocable	5,166,328	5,307,745
Irrevocable	1,000,630	1,035,032
	6,166,958	6,342,777
Other commitments granted		
Non-financial guarantees and sureties	1,013,643	1,002,971
Documentary credits	374,410	388,488
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,817	7,954
Other commitments granted	215	216
	1,464,054	1,468,598
	8,194,171	8,376,424
Assets pledged as collateral		
Bank of Portugal	165,818	166,024
Deposit Guarantee Fund	85,447	88,059
Investor Indemnity System	9,114	8,903
Assets pledged as guarantees in monetary policy operations	11,621,096	10,227,930
	11,881,475	10,490,916

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

Liabilities for services rendered		
Deposit and custodial services	36,555,568	32,462,095
Amounts received for collection	161,128	172,451
Other values	76,780	33,686
	36,793,476	32,668,232

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

Guarantees and contingent commitments have the following exposure per stage:

	31-12-2019							
	Exposure				Impairment (Note 19)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total (Nota 19)
Commitments for credit granted	5,391,943	768,621	6,394	6,166,958	3,040	1,403	9	4,452
Financial guarantees	394,581	127,140	41,438	563,159	482	329	21,562	22,373
Other commitments granted	1,186,718	114,059	163,277	1,464,054	1,262	183	24,978	26,423
	6,973,242	1,009,820	211,109	8,194,171	4,784	1,915	46,549	53,248

	31-12-2018							
	Exposure				Impairment (Note 19)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total (Nota 19)
Commitments for credit granted	5,587,147	736,637	18,993	6,342,777	4,417	689	39	5,145
Financial guarantees	509,205	12,186	43,658	565,049	1,021	561	22,525	24,107
Other commitments granted	1,258,875	29,062	180,661	1,468,598	590	213	23,104	23,907
	7,355,227	777,885	243,312	8,376,424	6,028	1,463	45,668	53,159

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 an expense 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, 2019 & 2018, for which this commitment was entered into amounts to €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2019 and 2018, the Bank paid 100% of the annual contribution in the amounts of €50k and €44k, respectively (Note 33).

Investor Compensation System (SII)

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

Liabilities to the Investor Compensation System are not recognised as expense. 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, 2019 & 2018, these liabilities amounted to €6,817k and €7,954k, respectively.

26. INTEREST INCOME

The breakdown of this heading is as follows:

	2019	2018
Interest on cash and deposits		
In foreign credit institutions	707	817
Interest on applications		
In domestic credit institutions	4,289	2,853
In foreign credit institutions	5,174	3,334
Interest on loans and advances to customers		
Domestic loans	584,851	624,843
Foreign loans	18,751	15,913
Other loans and receivables	66,711	78,999
Interest from securitized assets not derecognized	38,656	40,894
Income from comissions received associated to amortized cost	53,895	61,646
Interest on overdue loans	6,400	8,075
Interest and similar income on other financial assets		
through other comprehensive income	121,342	114,430
Hedging derivatives	293,584	245,244
Other	17,414	32,300
	1,211,774	1,229,348

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

27. INTEREST CHARGE

The breakdown of this heading is as follows:

	2019	2018
Interest on resources from Central Banks	-	64
Interest on resources from credit institutions		
Domestic	213	289
Foreign	5,770	3,851
Interest on customers' deposits		
Residents	41,296	52,381
Non-residents	5,672	5,357
Interest on debt securities issued		
Bonds	37,179	46,066
Other debt securities	5	89
Interest on subordinated liabilities	4,990	1,775
Interest on hedging derivatives	242,647	239,221
Other interest	19,531	13,527
	357,303	362,620

28. INCOME FROM EQUITY INSTRUMENTS

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

	2019	2018
SIBS – Sociedade Interbancária de Serviços, S.A.	1,634	1,159
Other	155	442
	1,789	1,601

29 RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	2019	2018
Unicre - Instituição Financeira de Crédito, S.A.	2,471	6,605
Lusimovest - Fundo de Inv. Imobiliario	75	518
Others	-	65
	2,546	7,188

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

30. INCOME FROM SERVICES & COMMISSIONS

The breakdown of this heading is as follows:

	2019	2018
On guarantees given		
Guarantees and secureties	14,920	16,244
Documentary credits	3,156	3,360
On commitments to third parties		
Irrevocable	298	377
Revocable	669	837
By banking services provided		
Deposit and custodial services	6,223	5,221
Asset management and collection	11,965	12,636
Real estate and mutual fund management	27,879	26,983
Transfers	1,829	2,464
Card transactions	92,593	89,487
Annuities	29,694	27,256
Credit operations	53,341	50,736
Other	14,718	10,359
On operations carried out on behalf of third parties		
On securities	14,451	16,260
Other	195	614
Other commission received		
Insurance companies (Note 37)	101,680	98,432
Deposits	83,598	65,720
Cheques	9,082	9,303
Other	23,937	17,481
	490,228	453,770

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

31. CHARGES WITH SERVICES & COMMISSIONS

The breakdown of this heading is as follows:

	2019	2018
On guarantees received		
Guarantees and sureties	5,031	3,101
On banking services rendered by third parties		
Funds for collection and management	1,570	1,514
Transactions with customers	2,606	2,045
Credit operations	74,296	58,753
Other services rendered	4,382	5,367
On operations carried out by third parties		
Securities	2,348	2,819
Other	6,181	2,108
Other commission paid	8,953	1,867
	105,367	77,574

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

32. GAINS/LOSSES ON FINANCIAL ASSETS

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

	2019	2018
Financial assets held for trading		
Equity instruments	90	228
Derivative instruments:		
Swaps:		
Currency swaps	73	(512)
Interest rate swaps	(1,226)	(3,243)
Equity swaps	63	1,898
Options:		
Currency swaps	58	98
Equity swaps	(13)	(1,437)
Interest rate guarantee contracts	20	209
	(935)	(2,759)
Other financial assets mandatory at fair value through P&L accounts		
Equity instruments	1,255	(35,155)
Hedging derivatives:		
Swaps		
Interest rate swaps	(218,729)	(38,407)
Equity swaps	1,015	525
Autocallable options	-	134
Value adjustments of hedged assets and liabilities	217,714	37,733
	-	(15)
	320	(37,929)

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

	2019	2018
Debt instruments		
National public issuers	59,301	25,529
Foreign public issuers	-	775
Other	255	(1,017)
	59,556	25,287

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

The currency revaluation sub-heading comprises the following:

	2019	2018
Gains on the revaluation of the foreign exchange position	279,668	206,177
Losses on the revaluation of the foreign exchange position	(268,415)	(196,653)
	11,253	9,524

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

	2019	2018
Gains on the sale of loans and advances to customers (Note 10)	-	43,511
Gains on tangible assets	-	2,268
Other gains on non financial operations	1,114	1,175
	1,114	46,954
Losses on the sale of loans and advances to customers (Note 10)	-	(55,991)
Other losses on financial operations	-	(2,167)
Other losses on non-financial operations	(396)	(3,329)
	(396)	(61,487)
	718	(14,533)

During 2019, the Bank performed a series of reclassifications between items of the income statement.

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

33. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	2019	2018
Other Operating income		
Rents received	14,118	16,031
Reimbursement of expenses	-	2,710
Income from rendering of services	2,292	2,792
Rents of automatic payment terminals	-	19,654
Other	4,502	5,016
	20,912	46,203
Other operating expenses		
Subscriptions and donations	-	(7,335)
Contributions to the Deposit Guarantee Fund (Note 25)	(50)	(44)
Contributions to the Resolution Fund		
National Resolution Fund	(12,261)	(7,554)
Single Resolution Fund	(20,336)	(14,666)
Change in fair value ofn investment properties	(2,916)	(1,188)
Charges related to transactions made by customers	-	(6,239)
Charges related to ATMs	-	(14,430)
Other charges and operating expenses	(7,575)	(10,607)
Other taxation		
Direct	-	(3,185)
Indirect	-	(2,793)
	(43,138)	(68,041)
	(22,226)	(21,838)

The concepts missing in the year 2019 were reclassified to other items of the income statement.

During 2019 and 2018, Rents earned includes the amounts of €13,437k and €15,252k, respectively, in respect of the rents received by the Novimovest Real Estate Fund (Note 13).

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the 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 No. 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. The Bank's periodic contribution in 2019 and 2018 amounted to €12,261k and €7,554k, respectively.

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

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

34. STAFF COSTS

The composition of this heading is as follows:

	2019	2018
Remuneration		
Management and supervisory boards (Note 40)	5,953	9,549
Employees	225,255	231,139
Stock option plans	-	332
Other variable remuneration	33,076	34,501
	264,284	275,521
Mandatory social charges		
Charges on remuneration	60,719	62,705
Pension Funds (Note 38)	6,698	6,375
Other mandatory social charges	987	1,129
	68,404	70,209
Other staff costs		
Complementary pension plan (Note 38)	559	307
Staff transfers	1,356	1,388
Other	7,650	5,448
	9,565	7,143
	342,253	352,873

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

35. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	2019	2018
External services		
Specialized services	67,624	83,928
Maintenance of software and hardware	56,235	45,175
Rent and leases	-	15,150
Other lease operations (short-term and low-value leases)	6,150	-
Communications	12,475	14,330
Advertising and publishing	13,496	13,434
Travel, lodging and representation expenses	5,313	6,196
Maintenance and repairs	5,394	7,494
Transportation	5,132	4,660
Insurance	1,364	1,828
Staff training	-	1,654
Other	6,227	9,034
External supplies	12,055	12,921
Subscriptions and donations	7,080	-
Other taxes	4,642	-
	203,187	215,804

During 2019, the Bank performed reclassifications between items of the income statement.

Firm of Chartered Accountants

The fees billed or to be billed by the audit firm and respective firms of the same network in 2019 and 2018, excluding value added tax, were as follows:

	2019			2018		
	Bank	Group	Total	Bank	Group	Total
Audit and statutory audit [(a)]	1,284	79	1,363	1,284	100	1,384
Other services and reliability guarantee [(a)]	863	-	863	766	-	766
Tax consulting services [(b)]	-	-	-	-	-	-
Other services [(b)]	120	-	120	163	-	163
	2,267	79	2,346	2,213	100	2,313

(a) Corresponds to the amounts contracted for the year, irrespective of their billing date.
(b) Corresponds to the amounts billed during the year.

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

Other reliability assurance services include fees for the following services:

(i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2013;
(ii) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2008;
(iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2019) prepared for the purpose of consolidation of Banco Santander, SA;
(iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
(v) Verification of the information on covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
(vi) Verification of the information on monetary policy operations, as required by Bank of Portugal Instruction 3/2015;
(vii) Review of the internal control system for the prevention of money laundering and terrorist financing, as required by Bank of Portugal Notice 2/2018.
(viii) Agreed procedures on the information of the loans included in a synthetic securitisation operation; and
(ix) Procedures for validation of the annual report of financial flows for the purpose of IFRRU 2020 certification.

Other services includes fees related to the following services:

(i) Issuance of comfort letter for the update of the prospects regarding the covered bonds and EMTN programme;
(ii) Review of the information presented in the 2019 sustainability report;
(iii) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

36. RESULTS OF NON-CURRENT ASSETS HELD FOR SALE

The composition of this heading is as follows:

	2019			2018		
	Gain	Loss	Net	Gain	Loss	Net
Assets received in lieu of payment	5,381	(932)	4,449	31,357	(10,250)	21,107
Other non-financial assets	54,697	(30,440)	24,257	-	-	-
	60,078	(31,372)	28,706	31,357	(10,250)	21,107

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

37. PROVISION OF INSURANCE MEDIATION SERVICES

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

	2019			2018		
	Life Products	Non-Life Products	Total	Life Products	Non-Life Products	Total
			(Note 30)			(Note 30)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	46,522	-	46,522	47,015	-	47,015
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	34,020	-	34,020	30,586	-	30,586
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	19,724	19,724	-	11,824	11,824
Liberty Seguros	-	-	-	-	6,629	6,629
Others	-	1,414	1,414	1,440	938	2,378
	80,542	21,138	101,680	79,041	19,391	98,432

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

	2019	2018
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	10,653	13,093
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	3,407	2,375
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	1,766	1,585
Outros	11	11
	15,837	17,064

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

38. EMPLOYEE POST-EMPLOYMENT BENEFITS

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

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

The Bank's liabilities for retirement pensions, health care and death benefits as at December 31, 2019, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

	2019	2018	2017	2016	2015
Estimate of liabilities for past services:					
- Pensions					
.Current employees	314,702	264,141	289,518	314,119	303,523
.Pensioners	46,489	38,877	34,059	31,526	26,928
.Retired staff and early retired staff	584,284	509,295	475,916	424,970	399,942
	945,475	812,313	799,493	770,615	730,393
- Healthcare systems (SAMS)	171,834	148,351	147,942	147,207	151,544
- Death subsidy	6,349	5,076	5,132	6,372	5,759
- Retirement bonus	8,322	7,036	6,802	8,082	-
	1,131,980	972,776	959,369	924,194	887,696
Coverage of liabilities:					
- Net assets of the Fund	1,160,573	979,892	996,786	932,465	914,204
Excess / insufficient funding (Note 21)	28,593	7,116	37,417	26,508	26,508
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	150,685	2,958	-	30,579	-
- Experience adjustments:					
.Other actuarial (gains) / losses	12,609	(4,872)	(4,319)	23,815	(9,857)
.Financial (gains) / losses	(50,241)	29,753	(32,933)	2,050	(17,675)
	(37,632)	24,881	(37,252)	25,865	(27,532)
	113,053	27,839	(37,252)	56,444	(27,532)

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

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

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

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

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

	2019	2018
Mortality Table		
Female	TV 88/90 (-1)	TV 88/90 (-1)
Male	TV 88/90	TV 88/90
Rate of return on pension fund assets	1.10%	2.10%
Technical actuarial rate (discount rate)	1.10%	2.10%
Wage growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Inflation rate	0.75%	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years (in 2019 the normal retirement age is 66 years and 5 months), though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

Movement under liabilities for past services during the years ended December 31, 2019 and 2018, can be detailed as follows with regard to the Bank pension plan:

	31-12-2019	31-12-2018
Liabilities at the beginning of year	972,776	959,369
Cost of current services	3,712	4,075
Cost of interests	19,609	18,418
(Actuarial Gains / Losses)	163,294	(1,914)
Early retirements	23,891	39,021
Amounts paid	(53,794)	(48,637)
Employee Contributions	2,492	2,444
Liabilities at the end of period	1,131,980	972,776

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

The expense for the year relating to pensions includes the cost of current service and the interest expense, deducted from the expected return of the assets of the Pension Fund. In the years ended December 31, 2019 & 2018, the breakdown of pension expenses is as follows (Note 34):

	31-12-2019	31-12-2018
Cost of current services	3,712	4,075
Cost of interests	19,609	18,418
Income from assets using discount rate	(19,609)	(18,418)
Defined benefit plan	3,712	4,075
Defined contribution plan	1,487	722
London branch plan	608	1255
Former BAPOP plan	891	323
	6,698	6,375

The Bank's 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 Bank transfers his or her contribution.

Movement under actuarial deviations during 2019 & 2018 was as follows:

Balance as at December 31, 2017	658,333
Actuarial gains on pensions	(2,389)
Financial losses on pensions generated	24,699
Actuarial losses on health care, death benefit and retirement premium	475
Financial loss on healthcare, death benefit and retirement premium	5,054
Balance as at December 31, 2018 (Note 22)	686,172
Actuarial gains on pensions	136,208
Financial losses on pensions generated	(41,588)
Actuarial losses on health care, death benefit and retirement premium	27,086
Financial loss on healthcare, death benefit and retirement premium	(8,653)
Balance as at December 31, 2019 (Note 22)	799,225

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

Actuarial deviations with pensions in 2019 and 2018 are detailed as follows:

	31-12-2019	31-12-2018
Change in actuarial assumptions	124,679	2,619
Change in the salary table with impact on pensions and wages	10,322	(1,708)
Changes in population	1,139	(630)
Mortality deviations		
. By leaving	(6,834)	(5,757)
. By permanence	3,025	1,789
For survivor's pensions and orphanhood	6,607	4,949
Changeover from early retirees to retirees	(2,730)	(3,651)
	136,208	(2,389)

Estimated salary and pension growths take into account the country's current situation and the consequent perspectives of smaller increases in the future, or even maintenance of current values.

Actuarial deviations with health care, death benefit and retirement bonus in 2019 and 2018 can be detailed as follows:

	31-12-2019	31-12-2018
Changes in assumptions	26,006	339
Salary and level changes	119	88
Others	961	48
	27,086	475

In 2019 Bank expects to make a contribution of €7,234k to its defined-benefit plan.

The average duration of pension liabilities of the employees of the Bank, of Bapop and of Banif 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, 2019 & 2018, the number of participants of the Fund was as follows:

	31-12-2019	31-12-2018
Current employees(1)	4,444	4,582
Pensioners	1,242	1,175
Retired staff and early retired staff	5,731	5,689
	11,417	11,446

(1) Of whom 389 and 340 employees belong to the defined-contribution plan as at December 31, 2019 & 2018, respectively.

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

The main demographic changes during 2019 & 2018 were as follows:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number as at December 31, 2017	274	4,515	5,561	1,123
Leavers:				
. Current employees	(7)	(40)	-	(9)
. Due to mortality	-	(6)	(119)	(29)
Transfers	-	(228)	228	-
Joiners	73	1	19	90
Total number as at December 31, 2018	340	4,242	5,689	1,175
Leavers:				
. Current employees	(18)	(45)	-	(2)
. Due to mortality	(1)	(2)	(128)	(33)
Transfers	-	(142)	142	-
Joiners (net)	68	2	28	102
Total number as at december 31, 2019	389	4,055	5,731	1,242

Movement occurred in the Bank's Pension Fund during 2019 and 2018 was as follows.

Book value as at December 31, 2017	996,786
Bank contribution (monetary)	40,634
Employee contribution	2,444
Net income of the fund:	
Income from assets using discount rate	18,418
Income of the fund above the discount rate	(29,753)
Amount paid	(48,637)
Book value as at December 31, 2018	979,892
Bank contributions (monetary)	162,133
Employee contribution	2,492
Net income of the fund:	
Income from assets using discount rate	19,609
Income of the fund above the discount rate	50,241
Amount paid	(53,794)
Book value as at december 31, 2019	1,160,573

The rates of return of the Pension Fund in 2019 and 2018 amounted to 7.25%percent and (0.98%), respectively.

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

The investments and allocation policy of the Bank's 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 Bank's Pension Fund in force provides for the following limits:

Asset Class	expected buckets
Bonds	40% a 95%
Real estate	0% a 25%
Equities	0% a 20%
Liquidity	0% a 15%
Alternatives	0% a 10%
Commodities	0% a 5%

As at December 31, 2019 & 2018, the composition of the Bank's Pension Fund was as follows:

	31-12-2019	31-12-2018
Debt instruments:		
. Rating A	69,147	26,262
. Rating BBB	522,599	407,452
. Rating BB	3,999	14,055
. Without rating to the issuance and issuer	62,640	53,931
Real estate funds	123,925	154,781
Mutual funds	245,157	175,316
Deposits	67,828	68,387
Real estate funds		
. Commercial spaces	19,238	21,313
. Land	1,142	844
Equity instruments:		
. Portuguese shares – listed	187	161
. Portuguese shares – not listed	36,955	34,030
Derivative financial instruments		
. Options listed	(149)	2,288
Others	7,905	21,072
	1,160,573	979,892

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

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

	31-12-2019				31-12-2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	595,745	-	62,640	658,385	447,769	-	53,931	501,700
Investment Funds	217,131	-	151,951	369,082	164,181	-	165,916	330,097
Equity instruments	37,142	-	-	37,142	34,191	-	-	34,191
Derivative financial instruments	(149)	-	-	(149)	2,288	-	-	2,288
Real estate properties	-	-	20,380	20,380	-	-	22,157	22,157
	849,869	-	234,971	1,084,840	648,429	-	242,004	890,433

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

	31-12-2019	31-12-2018
Rented real estate properties	13,192	14,841
Securities (including units in funds managed)	184,964	151,881
	198,156	166,722

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In 2019 and 2018 the premium paid by the Bank amounted to €559k and €307k respectively (Note 34).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

As at December 31, 2019 & 2018, 87 and 88 employees, respectively, were covered by this plan.

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

Defined benefit pension plan – London Branch

As at December 31, 2019 & 2018, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of Bank's London Branch were as follows:

	31-12-2019	31-12-2018
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	1.9%	2.7%
Wage growth rate	2.2%	2.5%
Pension growth rate	1.8%	2.0%
Inflation rate	2.2%	2.5%

As at December 31, 2019 & 2018, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	31-12-2019	31-12-2018
Estimated liabilities for past-services	51,848	44,509
Coverage – Pension Fund asset value	44,654	38,891
Amount not funded – London Branch	(7,194)	(5,618)

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2019 and 2018 is as follows:

Liabilities as at December 31, 2017	47,440
Cost of current services	163
Interest cost	1,120
Actuarial gains	(3,327)
Amounts paid	(887)
Liabilities as at December 31, 2018	44,509
Cost of current services	432
Interest cost	1,252
Actuarial gains	7,384
Amounts paid	(1,729)
Liabilities as at December 31, 2019	51,848

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

Movement in the Pension Fund of the London Branch in 2019 and 2018 was as follows:

Book value as at December 31, 2017	40,711
Net income of the Fund:	
Return on assets calculated with the discount rate	960
Income of the Fund below the discount rate	(2,030)
Contribution of the Branch	137
Amounts paid	(887)
Book value as at December 31, 2018	38,891
Net income of the Fund:	
Return on assets calculated with the discount rate	1,076
Income of the Fund below the discount rate	6,046
Contribution of the Branch	370
Amounts paid	(1,729)
Book value as at December 31, 2019	44,654

The breakdown of the expense of the defined-benefit plan of the London Branch in 2019 and 2018 is as follows:

	31-12-2019	31-12-2018
Cost of current services	432	163
Interest cost	1,252	1,120
Return on assets calculated using a rate equal to the discount rate	(1,076)	(960)
	608	323

Movement under actuarial deviations of the London Branch in 2019 and 2018 was as follows:

Balance as at December 31, 2017	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030
Balance as at December 31, 2018 (Note 22)	12,109
Actuarial gains with pensions	7,384
Financial losses with pensions	(6,046)
Balance as at December 31, 2019 (Note 22)	13,447

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

As at December 31, 2019 & 2018, the portfolio of the Pension Fund of the London Branch included the following assets:

	31-12-2019	31-12-2018
Debt instruments	25,159	20,908
Equity instruments	19,773	17,798
Deposits	(278)	185
Fund value	44,654	38,891

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.

- Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.

- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.

- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

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

On December 31, 2019 & 2018, 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):

	2019		2018	
	(Reduction)/ Addition		(Reduction)/ Addition	
	%	value	%	value
Change of discount rate				
. Increase of 0,5%	(7.1%)	(79,766)	(6.7%)	(65,035)
. Reduction of 0,5%	8.0%	90,041	7.5%	72,998
Change in the wage growth rate				
. Increase of 0,5%	5.1%	57,069	5.0%	48,876
. Reduction of 0,5%	(4.2%)	(47,275)	(4.1%)	(40,070)
Change in the pension growth rate				
. Increase of 0,5%	8.8%	98,060	9.4%	91,311
. Reduction of 0,5%	(7.9%)	(88,701)	(8.5%)	(82,610)
Change in the mortality table				
. More two years	(6.9%)	(77,679)	(6.3%)	(61,300)
. Less two years	7.1%	79,015	6.3%	61,408

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

Pension Fund – Banif

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

Banif employees were covered by different types of pension plans:

a) The first pension plan, defined-benefit, was subdivided between the Banif population and the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS, the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.

b) Defined-benefit pension plan I – BBCA subpopulation: (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

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

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

The Bank assumed Banif's liabilities in the three pension plans. As at December 31, 2019 & 2018, the population covered is as follows:

	31-12-2019			31-12-2018		
	Sub-population of former Banif	Sub-population of former BBCA	Total	Sub-population of former Banif	Sub-population of former BBCA	Total
Current employees	716	160	876	727	174	901
Retired staff and pensioners	105	171	276	96	161	257
Early retired staff	14	167	181	10	171	181
Former participants with vested rights	-	47	47	-	69	69
Retired of the defined contribution plan	181	-	181	175	-	175
Total number	1,016	545	1,561	1,008	575	1,583

Defined contribution pension plans - employees covered

	31-12-2019	31-12-2018
Plan II	462	470
Plan III	254	257
Total number	716	727

The breakdown of the estimated liabilities for past services as at December 31, 2019 & 2018, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA sub-populations):

	31-12-2019				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	22,837	8,436	133	1,086	32,492
Retired staff and pensioners	84,462	6,918	229	-	91,609
Early retired staff	26,977	4,271	246	-	31,494
Former participants with vested rigths	3,714	2,494	-	-	6,208
Total liabilities for past services	137,990	22,119	608	1,086	161,803
Book value of the pension fund					101,126
Insufficient fund					(60,677)

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

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

As at December 31, 2019 & 2018, the breakdown of the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	31-12-2019		31-12-2018	
Assets	Total	Relative weight	Total	Relative weight
Debt Instruments	47,884	46.14%	64,385	62.49%
Securities investment funds	4,381	4.22%	7,908	7.68%
Real estate fund	1,160	1.12%	1,946	1.89%
Real estate properties	13,722	13.22%	13,744	13.34%
Equity instruments	31,733	30.58%	6,665	6.47%
Deposits	83	0.08%	6,111	5.93%
Other	4,811	4.64%	2,266	2.20%
	103,774		103,025	
Assets to be transfered	(2,648)		(2,384)	
	101,126		100,641	

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

Pension Fund – BAPOP

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

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

As at December 31, 2019 & 2018, the population covered is as follows:

	31-12-2019	31-12-2018
Current employees	862	929
Retired staff and pensioners	139	138
Early retired staff	33	23
Former employees (management)	2	2
Total	1,036	1,092

The breakdown of the estimated liabilities for past services as at December 31, 2019 & 2018, using the Bank assumptions, is as follows:

	31-12-2019			31-12-2018		
	Pensions	SAMS and Death subsidy	Total	Pensions	SAMS and Death subsidy	Total
Current employees	63,195	9,189	72,384	49,183	6,804	55,987
Retired staff and pensioners	52,204	2,824	55,028	57,755	2,529	60,284
Early retired staff	18,609	1,109	19,718	12,352	663	13,015
Former employees (management)	3,257	52	3,309	2,718	43	2,761
Former employees	31,064	-	31,064	31,064	-	31,064
Total liabilities for past services	168,329	13,174	181,503	153,072	10,039	163,111
Book value of the pension fund			185,459			163,475
Over financing			3,956			364

Movement under liabilities for past services during the year ended December 31, 2019 can be detailed as follows:

Liabilities at the beginning of the year	163,111
Cost of current services	891
Interest costs	3,382
Actuarial (Gains)/losses	14,454
Early retirements	2,673
Amounts paid	(3,665)
Employee contributions	657
Liabilities at the end of the year	181,503

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

Movement under actuarial deviations during 2017 2019 was as follows:

Balances as at December 31, 2018 (Note 22)	753
Actuarial losses on pensions	14,454
Financial gains from pensions	(7,170)
Balances as at December 31, 2019 (Note 22)	8,037

Movement in the Pension Fund in 2019 was as follows:

Book value as at December 31, 2018	163,475
Bank contribution (monetary)	14,440
Employee contribution	657
Net income of the fund:	
. Income from assets using discount rate	3,382
. Income of the fund above the discount rate	7,170
Amount paid	(3,665)
Book valueas at December 31, 2019	185,459

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

	31-12-2019		31-12-2018	
	Total	Relative weight	Total	Relative weight
Assets				
Debt instruments	109,931	59.28%	83,324	50.97%
Mutual fund	62,478	33.69%	54,277	33.20%
Real estate fund	1,246	0.67%	3,242	1.98%
Equity instruments	157	0.08%	-	0.00%
Options	36	0.02%	-	0.00%
Deposits	9,592	5.17%	22,611	13.83%
Others	2,019	1.09%	21	0.01%
	185,459		163,475	

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

39. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta nº 4 and Hipototta nº 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma – Sociedade de Titularização de Créditos (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. All these bonds were acquired by the Bank.

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

As a form of funding, Hipototta Funds (nº 4 and nº 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.

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

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

As at December 31, 2019, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

	Amount		Rating			Remuneration	
Issued Debt	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	489,899	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	17,823	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	56,288	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	564,010					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitized portfolio	
	2,814,000	571,010					

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

Hipototta nº 5 PLC

	Amount		Rating				Remuneration	
Issued Debt	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 months + 0,05%	Euribor 3 meses + 0,10%
Class A2	1,693,000	445,505	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,13%	Euribor 3 meses + 0,26%
Class B	26,000	26,000	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,17%	Euribor 3 meses + 0,34%
Class C	24,000	24,000	A	A1	February, 2060	February, 2014	Euribor 3 months + 0,24%	Euribor 3 meses + 0,48%
Class D	26,000	26,000	A	Baa2	February, 2060	February, 2014	Euribor 3 months + 0,50%	Euribor 3 meses + 1,00%
Class E	31,000	31,000	BBB	Ba2	February, 2060	February, 2014	Euribor 3 months + 1,75%	Euribor 3 meses + 3,50%
	2,000,000	552,505						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitized portfolio	
	2,010,000	558,505						

The bonds issued by Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on March, June, September and December 28 each year.

The Bank has an option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, BST has call option to repurchase in advance the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

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

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

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

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

Banif securitisation operations

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

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

Azor Mortgage nº 1

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

Azor Mortgage nº 1

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	-	AA	A1	September, 2047	Euribor 3 months + 0.3%
Class B	19,000	16,159	AA	Aa3	September, 2047	Euribor 3 months + 0.76%
Class C	9,000	9,000	A	Aa3	September, 2047	Euribor 3 months + 1.75%
	281,000	25,159				
Class D	10,000	10,000	NR	NR	September, 2047	Residual income of the securitized portfolio
	291,000	35,159				

Azor Mortgage No. 2

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

Atlantes Mortgage nº 2

			Rating			Remuneration
Issued Debt			S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	111,440	AA	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	13,069	AA(sf)	A+	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	5,327	BBB	BBB+	September, 2060	Euribor 3 months + 1.65%
	375,000	129,836				
Class D	16,125	11,336	NR	NR	September, 2060	Residual income of the securitized portfolio
	391,125	141,172				

Azor Mortgage nº 2

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

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

Azor Mortgage nº 2

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,500	84,636	AA (sf)	A (sf)	December, 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 months + 0.8%
	300,000	127,716				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income of the securitized portfolio
	306,750	134,466				

Azor Mortgage No. 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 3, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	558,600	191,303	AA	AA (sf)	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	27,435	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	218,738				
Class C	57,668	48,445	NR	NR	August, 2061	Residual income of the securitized portfolio
	657,668	267,183				

Azor Mortgage No. 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	514,250	215,953	AA(sf)	AA	December, 2064	Euribor 3 months + 0.15%
Class B	35,750	23,782	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	239,735				
Class C	74,250	65,559	NR	NR	December, 2064	Residual income of the securitized portfolio
	624,250	305,294				

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

Azor Mortgage No. 5

Operation carried out in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 5, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	455,000	174,676	AA	AA	November, 2068	Euribor 3 months + 0.15%
Class B	45,000	32,250	NR	NR	November, 2068	Euribor 3 months + 0.3%
	500,000	206,926				
Class C	66,250	55,708	NR	NR	November, 2068	Residual income of the securitized portfolio
	566,250	262,634				

Azor Mortgage No. 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 7, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	139,426	AA	AA	August, 2066	Euribor 3 months + 0.15%
Class B	39,700	25,909	NR	NR	August, 2066	Euribor 3 months + 0.3%
	397,000	165,335				
Class C	63,550	53,821	NR	NR	August, 2066	Residual income of the securitized portfolio
	460,550	219,156				

Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. All these bonds were acquired by the Bank.

Hipototta 13

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	1,236,871	NR	A+(sf)	October, 2072	Euribor 3 months + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 months + 1%
	2,200,000	1,720,871				
Class C	66,000	53,565	NR	NR	October, 2072	Residual income of the securitized portfolio
	2,266,000	1,774,436				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

During 2019 the Atlantes Mortgage No. 1 operation was wound up.

40. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in 2019 are as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Companies that directly or indirectly are under common control by the Bank	
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
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Santander Global Operation, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Ativos	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Santander Consumer Service, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	United States
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Thechnology, S.L.	Spain
Santander Investment Securities,Inc	United States
Santander Investment, S.A.	Espanha
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	Reino Unido
Santander Global Facilities,SL	United States
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Companies that directly or indirectly are under common control by the Bank	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Consulteam - Consultores de gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Santander Global Operations, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Ativos	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Santander Consumer Service, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Global Thechnology, S.L.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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

As at December 31, 2019 & 2018, the balances and transactions maintained during these years with related parties were as follows:

	2019		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	54,959	-	1,115
Financial assets held for trading	250,471	-	12,497
Loans and advances to credit institutions	578,742	54	1
Credit granted and other balances receivable at amortized cost	5,418	55,659	98,885
Hedging derivatives	2,322	-	-
Investment in associated companies	-	59,240	-
Current Tax Assets	3	-	18,199
Other assets	87	-	-
Liabilities:			
Financial liabilities held for trading	1,064,339	-	20,280
Resources from other credit institutions	717,174	-	4,422
Resources from customers and other debts	100,788	17,811	654,923
Debt securities	46,576	-	8,382
Hedging derivatives	55,620	-	-
Subordinated liabilities	335,033	-	4,295
Current tax liabilities	85,981	-	-
Other liabilities	7,422	-	10,828
Costs:			
Interest charge	284,759	-	10,650
Charges with services and commissions	3,570	-	3,625
Results from assets and liabilities at fair value through profit or loss	783,908	-	166,055
Exchange revaluation reserves	2,649	-	-
General administrative costs	7,157	-	34,607
Other operating results			
Income:			
Interest income	262,746	390	234
Income from services and commissions	358	286	123,162
Results from assets and liabilities at fair value through profit or loss	710,439	-	157,072
Results from foreign exchange revaluation	-	-	15
Result from associates	-	2,546	-
Other operating results	-	-	339
Off balance sheet items:			
Guarantees provided and other contingent liabilities	48,037	22	189,198
Guarantees received	1	-	162
Commitments to third parties	114,170	514	103,172
Currency operations and derivatives	26,522,471	-	482,186
Liabilities for services rendered	3,596,890	-	5,822,454

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

	2018		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	91,713	-	6,633
Financial assets held for trading	162,071	-	11,289
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	15	60,145
Hedging derivatives	9,970	-	-
Investment in associated companies	-	61,481	-
Current Tax Assets	228	-	-
Other assets	3,482	-	18,429
Liabilities:			
Financial liabilities held for trading	1,197,394	-	2,762
Resources from other credit institutions	290,308	-	21,771
Resources of customers and other debts	61,399	4,048	517,822
Debt securities	63,824	-	-
Hedging derivatives	21,242	-	5,795
Subordinated liabilities	335,049	-	4,297
Current tax liabilities	10,404	-	-
Other liabilities	7,061	-	3,772
Costs:			
Interest charge	223,607	-	19,326
Charges with services and commissions	872	-	2,753
Results from assets and liabilities at fair value through profit or loss	586,111	-	195,805
Results from other financial assets at fair value through comprehensive income	1,318	-	-
General administrative costs	7,061	-	36,010
Other operating results	-	-	7,170
Impairment of investments in associates	-	65	-
Results from other assets	-	-	2,168
Income:			
Interest income	213,471	1,318	3,232
Income from services and commissions	409	283	64,864
Results from assets and liabilities at fair value through profit or loss	482,511	-	190,779
Results from foreign exchange revaluation	1,176	-	-
Disposal of other assets	1,756	-	-
Result from associates	-	7,188	-
Other operating results	-	-	793
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	79,452
Guarantees received	1	-	162
Commitments to third parties	110,000	29,500	105,718
Currency operations and derivatives	26,406,931	-	581,731
Responsibilities for services rendered	3,578,893	1,027	5,451,192

Transactions with related parties arise from normal business and are carried out under market conditions.

GOVERNING BODIES

Board of Directors

As at December 31, 2019 & 2018, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €735k and €533k respectively. As at December 31, 2019 & 2018, the fixed and variable remuneration totalled €5,953k and €9,549k respectively (Note 34).

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3.j).

The General Meeting of Bank shareholders on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former Totta Board of Directors who came to be executive members (executive committee) of the Bank's Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the remuneration committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years and 75% of the annual gross salary, for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at December 31, 2019 & 2018, liabilities with this plan amounted to €14,154k and €24,721k, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 19). The total number of beneficiaries of the Regulation was four in 2019 and six in 2018, and during 2019 two beneficiaries exercised the option for remission and one beneficiary exercised the right to payment of the supplementary pension.

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

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

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

BALANCE SHEET

Categories of financial instruments

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

	31-12-2019			
	Measured at fair value	Measured at amortized cost	Impairment	Net Value
Assets				
Cash and deposits at central banks	-	3,153,555	-	3,153,555
Balances due from other banks	-	339,109	-	339,109
Financial assets held for trading	1,085,927	-	-	1,085,927
Other financial assets mandatory at fair value through profit or loss	144,998	-	-	144,998
Other financial assets at fair value through other comprehensive income	5,862,438	-	(89)	5,862,349
Loans and advances to credit institutions	-	727,515	(29)	727,486
Credit granted and other balances receivable at amortized cost	4,654,112	35,607,547	(921,479)	39,340,180
Hedging derivatives	56,246	-	-	56,246
	11,803,721	39,827,726	(921,597)	50,709,850
Liabilities				
Financial liabilities held for trading	1,114,703	-	-	1,114,703
Resources from central banks	-	3,037,524	-	3,037,524
Resources from other credit institutions	-	3,195,996	-	3,195,996
Resources from customers and other debts	104,695	35,768,577		35,873,272
Debt securities	8,382	3,720,559	-	3,728,941
Other financial liabilities	-	218,021	-	218,021
Hedging derivatives	393,831	-	-	393,831
	1,621,611	45,940,677	-	47,562,288

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

	31-12-2018			
	Measured at fair value	Measured at amortized cost	Impairment	Net Value
Assets				
Cash and deposits at central banks	-	1,655,730	-	1,655,730
Balances due from other banks		845,003	-	845,003
Financial assets held for trading	1,215,956	-	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,247,455	-	(3)	5,247,452
Loans and advances to credit institutions	-	675,115	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,328,662	37,409,193	(1,108,584)	39,629,271
Hedging derivatives	73,464	-	-	73,464
	10,042,415	40,585,041	(1,108,671)	49,518,785
Liabilities				
Financial liabilities held for trading	1,242,475	-	-	1,242,475
Resources from central banks	-	3,050,040	-	3,050,040
Resources from other credit institutions	-	3,539,844	-	3,539,844
Resources from customers and other debts	361,816	33,578,286		33,940,102
Debt securities	-	4,661,944	-	4,661,944
Other financial liabilities	-	176,206	-	176,206
Hedging derivatives	90,556	-	-	90,556
	1,694,847	45,006,320	-	46,701,167

The items credit extended and other receivables at amortised cost customer funds and liabilities represented by securities include financial assets and liabilities to which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged. On December 31, 2018 these balances were presented in the balance sheet as a separate item.

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

INCOME STATEMENT

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

	2019					
	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	1,298,329	(1,299,264)	(935)	-	-	-
Other financial assets mandatory at fair value through profit or loss	11,705	(10,163)	1,542	-	-	-
Other financial assets at fair value through other comprehensive income	226,551	(91)	226,460	284,753	-	284,753
Cash and deposits at central banks and credit institutions	10,170	-	10,170	-	-	-
Credit granted and other balances receivable at amortized cost	1,274,612	(270,557)	1,004,055	-	-	-
Hedging derivatives	294,599	(461,376)	(166,777)	-	(84,954)	(84,954)
Resources of central banks and from credit institutions	-	(5,983)	(5,983)	-	-	-
Resources from customers and other debts	112,984	(47,837)	65,147	-	-	-
Debt securities	-	(50,019)	(50,019)	-	-	-
	3,228,950	(2,145,290)	1,083,660	284,753	(84,954)	199,799
Guarantees given	18,076	(5,031)	13,045			
Credit lines	967	-	967			

	2018					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,229,735	(1,232,493)	(2,758)	-	-	-
Other financial assets mandatory at fair value through profit or loss	6,888	(41,745)	(34,857)	-	-	-
Other financial assets at fair value through other comprehensive income	150,930	(6,948)	143,982	72,635	-	72,635
Cash and deposits at central banks and credit institutions	7,004	-	7,004	-	-	-
Credit granted and other balances receivable at amortized cost	1,914,130	(1,023,479)	890,651	-	-	-
Hedging derivatives	246,991	(278,716)	(31,725)	45,837	-	45,837
Resources of central banks and from credit institutions	-	(4,204)	(4,204)	-	-	-
Resources of customers and other debts	98,079	(58,412)	39,667	-	-	-
Debt securities	3,049	(56,210)	(53,161)	-	-	-
	3,656,806	(2,702,207)	954,599	118,472	-	118,472
Guarantees given	19,604	(3,101)	16,503			
Credit lines	1,214	-	1,214			

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, 2019 & 2018, corresponded to net gains in the amounts of €11,253k and 9,524k, respectively (Note 32).

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

In the periods ended on December 31, 2019 & 2018, the breakdown of 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:

	31-12-2019			31-12-2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Balances due from other banks	707	-	707	817	-	817
Other financial assets at fair value through other comprehensive income	121,342	-	121,342	114,430	-	114,430
Loans and advances to credit institutions	9,463	-	9,463	6,187	-	6,187
Credit granted and other balances receivable at amortized cost	769,263	(14)	769,249	830,369	(21)	830,348
	900,775	(14)	900,761	951,803	(21)	951,782
Liabilities						
Resources from central banks	12,470	(6,249)	6,221	29,324	-	29,324
Resources from other credit institutions	-	(5,983)	(5,983)	-	(4,140)	(4,140)
Resources from customers and other debts	-	(46,974)	(46,974)	-	(57,738)	(57,738)
Debt securities	-	(42,174)	(42,174)	-	(47,930)	(47,930)
	12,470	(101,380)	(88,910)	29,324	(109,808)	(80,484)
Guarantees given	18,076	(5,031)	13,045	19,604	(3,101)	16,503
Credit Lines	967	-	967	1,214	-	1,214

In 2018 and 2019, the breakdown of commission income and expenses, 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:

	2019			2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Credit granted and other balances receivable al amortized cost	65,623	(13,583)	52,040	60,095	(17,137)	42,958
Liabilities						
Resources from customers and other debts	110,092	-	110,092	92,920	-	92,920

During 2019 and 2018 the Bank recognised financial income in respect of Interest income on non-performing loans, or in situations of impairment, in the amounts of €6,400k and €8,075k, respectively (Note 26).

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

OTHER DISCLOSURES

Hedge accounting

As at December 31, 2019 & 2018, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2019					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge						
Credit granted and other balances receivable at amortized cost	4,423,905	4,433,058	219,139	4,652,197	4,423,419	(243,098)
Other financial assets at fair value through other comprehensive income	2,080,000	2,129,252	48,352	2,177,604	2,080,000	(49,905)
Resources from customers and other debts	(103,979)	(104,325)	(370)	(104,695)	102,172	368
Debt securities	(8,227)	(8,230)	(152)	(8,382)	8,227	124
Cash flow hedge						
Other financial assets at fair value through other comprehensive income	2,466,500	2,466,500	-	2,466,500	2,793,196	(97,869)
Credit granted and other balances receivable at amortized cost	9,000,000	9,000,000	-	9,000,000	9,000,000	52,795
	17,858,199	17,916,255	266,969	18,183,224	18,407,014	(337,585)

	31-12-2018					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Credit granted and other balances receivable at amortized cost	3,274,106	3,279,651	47,162	3,326,813	3,283,020	(55,944)
Other financial assets at fair value through other comprehensive income	80,000	89,046	4,493	93,539	80,000	(5,795)
Resources of customers and other debts	(358,688)	(359,471)	(2,345)	(361,816)	211,667	2,615
Cash flow hedge						
Other financial assets at fair value through other comprehensive income	850,000	850,000	-	850,000	935,913	(21,001)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	63,365
Resources from customers and other debts	351,421	351,421	-	351,421	351,421	(332)
	14,196,839	14,210,647	49,310	14,259,957	14,862,021	(17,092)

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:

	31-12-2019					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	5,957	13,049	17,604	16,185	-	52,795

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

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

Gains and losses recognised in the 2019 and 2018 income statements with fair-value hedge transactions were as follows:

	31-12-2019			31-12-2018		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	171,977	(171,977)	-	28,754	(28,754)	-
Other financial assets at fair value through other comprehensive income	43,859	(43,859)	-	4,493	(4,493)	-
Resources from customers and other debts	2,030	(2,030)	-	4,486	(4,501)	(15)
Debt securities	(152)	152	-	-	-	-
	217,714	(217,714)	-	37,733	(37,748)	(15)

Fair value of financial instruments

As at December 31, 2019 & 2018the detail of the financial instruments was as follows:

	31-12-2019			31-12-2018		
	Measured at fair value	Not measured at fait value	Total	Measured at fair value	Not measured at fait value	Total
Assets						
Cash and deposits at central banks	-	3,153,555	3,153,555	-	1,655,730	1,655,730
Balances due from other banks	-	339,109	339,109	-	845,003	845,003
Financial assets held for trading	1,085,927	-	1,085,927	1,215,956	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	144,998	-	144,998	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	5,862,349	-	5,862,349	5,247,452	-	5,247,452
Loans and advances to credit institutions		727,486	727,486		675,031	675,031
Credit granted and other balances receivable at amortized cost	4,652,197	34,687,983	39,340,180	3,326,813	36,302,458	39,629,271
Hedging derivatives	56,246	-	56,246	73,464	-	73,464
	11,801,717	38,908,133	50,709,850	10,040,563	39,478,222	49,518,785
Liabilities						
Financial liabilities held for trading	1,114,703	-	1,114,703	1,242,475	-	1,242,475
Resources from central banks	-	3,037,524	3,037,524	-	3,050,040	3,050,040
Resources from other credit institutions	-	3,195,996	3,195,996	-	3,539,844	3,539,844
Resources from customers and other debts	104,695	35,768,577	35,873,272	361,816	33,578,286	33,940,102
Debt securities	8,382	3,720,559	3,728,941	-	4,661,944	4,661,944
Other financial liabilities	-	218,021	218,021	-	176,206	176,206
Hedging derivatives	393,831	-	393,831	90,556	-	90,556
	1,621,611	45,940,677	47,562,288	1,694,847	45,006,320	46,701,167

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

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

As at December 31, 2019 & 2018, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	31-12-2019					
	Acquisition cost	Accruals interest	Valuation	Value adjustments from hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	-	-	1,085,927	-	-	1,085,927
Other financial assets mandatory at fair value through profit or loss	144,998	-	-	-	-	144,998
Other financial assets at fair value through other comprehensive income	5,066,264	77,265	670,557	48,352	(89)	5,862,349
Credit granted and other balances receivable at amortized cost	4,423,905	11,068	-	219,139	(1,915)	4,652,197
Hedging derivatives	-	-	56,246	-	-	56,246
	9,635,167	88,333	1,812,730	267,491	(2,004)	11,801,717
Liabilities						
Financial liabilities held for trading	-	-	1,114,703	-	-	1,114,703
Resources from customers and other debts	103,979	346	-	370	-	104,695
Debt securities	8,227	3	-	152	-	8,382
Hedging derivatives	-	-	393,831	-	-	393,831
	112,206	349	1,508,534	522	-	1,621,611

	31-12-2018					
	Acquisition cost	Accruals interest	Valuation	Value adjustments from hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	2,500	-	1,213,456	-	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	-	-	176,878
Other financial assets at fair value through other comprehensive income	4,709,341	83,828	452,991	1,295	(3)	5,247,452
Credit granted and other balances receivable at amortized cost	3,274,106	7,394	-	47,162	(1,849)	3,326,813
Hedging derivatives	-	-	73,464	-	-	73,464
	8,162,825	91,222	1,739,911	48,457	(1,852)	10,040,563
Liabilities						
Financial liabilities held for trading	-	-	1,242,475	-	-	1,242,475
Resources from customers and other debts	358,688	783	-	2,345	-	361,816
Hedging derivatives	-	-	90,556	-	-	90,556
	358,688	783	1,333,031	2,345	-	1,694,847

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.

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

As at December 31, 2019 & 2018, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by valuation methodology:

	31-12-2019			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,085,927	-	1,085,927
Other financial assets mandatory at fair value through profit or loss	754	-	144,244	144,998
Other financial assets at fair value through other comprehensive income	3,627,955	2,228,001	6,393	5,862,349
Credit granted and other balances receivable at amortized cost	-	4,652,197	-	4,652,197
Hedging derivatives	-	56,246	-	56,246
	3,628,709	8,022,371	150,637	11,801,717
Liabilities				
Financial liabilities held for trading	-	1,114,703	-	1,114,703
Resources from customers and other debts	-	104,695	-	104,695
Debt securities	-	8,382	-	8,382
Hedging derivatives	-	393,831	-	393,831
	-	1,621,611	-	1,621,611

	31-12-2018			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,212,577	3,379	1,215,956
Other financial assets mandatory at fair value through profit or loss	10,503	-	166,375	176,878
Other financial assets at fair value through other comprehensive income	3,100,100	2,136,790	10,562	5,247,452
Credit granted and other balances receivable at amortized cost	-	3,326,813	-	3,326,813
Hedging derivatives	-	73,464	-	73,464
	3,110,603	6,749,644	180,316	10,040,563
Liabilities				
Financial liabilities held for trading	-	1,242,475	-	1,242,475
Resources from customers and other debts	-	361,816	-	361,816
Hedging derivatives	-	90,556	-	90,556
	-	1,694,847	-	1,694,847

The valuation at fair value of the Bank's financial assets and liabilities comprises three levels under the terms of IFRS 7 and IFRS 13:

- Level 1 – Financial instruments carried at fair value based on prices published in active markets, comprising mainly public debt, some private debt, some investment funds and equities.

- Level 2 – Financial instruments carried at fair value through the use of prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed on the market, either directly (as prices) or indirectly (derived from prices). This category includes some securities of the portfolio of other financial assets at fair value through other comprehensive income measured as indicative market bids or based on internal valuation models and the whole of the derivative financial hedging and trading instruments. It should be pointed out that the internal valuation models used mainly involve future cash-flow updating models and valuation methods based on the Black-Scholes model for options and structured products. The future cash-flow updating models ("present value method") update the future contractual cash flows using the interest-rate curves of each currency observable on the market, increased by the credit spread of the issuer or of the entity with a similar rating.

The main valuation techniques for derivative financial instruments, are provided hereunder:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate swaps	Black-Scholes model, Heath-Jarrow-Morton model
Options-other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

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

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

- Counterparties with credit default swaps listed on active markets;

- Counterparties without listed credit default swaps:
- Prices published on active markets for similar-risk counterparties; or

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

- Probability of default determined taking into account the internal rating assigned to the customer (see the credit-risk section of these Notes) x loss given default (specific to project finance customers and 60% for other clients).

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

In 2019 and 2018, the movement under financial instruments classified as Level 3 was as follows:

	Financial assets held for trading trading	Other financial assets mandatory at fair value through profit or loss	Other financial assets at fair value through comprehensive income	Available-for-sale financial assets	Total
December 31, 2017	3,740	-	-	78,417	82,157
First implementation of IFRS9	(530)	77,613	1,334	(78,417)	-
Acquisitions	-	120,249	4,757	-	125,006
Sales	-	(897)	(3,993)	-	(4,890)
Reclassifications	-	36,624	13,510	-	50,134
Changes in fair value	169	(67,214)	(5,046)	-	(72,091)
December 31, 2018	3,379	166,375	10,562	-	180,316
Acquisitions	-	127	4,309	-	4,436
Sales	(3,379)	-	(10,852)	-	(14,231)
Reimbursement	-	(17,636)	(774)	-	(18,410)
Reclassifications	-	-	3,100	-	3,100
Changes in fair value	-	(4,622)	137	-	(4,485)
Impairment	-	-	(89)	-	(89)
December 31, 2019	-	144,244	6,393	-	150,637

The interest-rate curves for the most representative maturities and currencies used in the valuation of the financial instruments were as follows:

	31-12-2019		31-12-2018	
	EUR	USD	EUR	USD
Overnight	-0.34%	2.09%	-0.25%	2.75%
1 month	-0.34%	2.09%	-0.25%	2.76%
3 months	-0.33%	1.91%	-0.24%	2.76%
6 months	-0.33%	1.82%	-0.24%	2.74%
9 months	-0.32%	1.78%	-0.23%	2.73%
1 year	-0.32%	1.75%	-0.23%	2.73%
3 years	-0.24%	1.67%	-0.07%	2.60%
5 years	-0.11%	1.71%	0.20%	2.61%
7 years	0.02%	1.78%	0.47%	2.66%
10 years	0.21%	1.88%	0.81%	2.75%

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

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

	31-12-2019		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	3,153,555	3,168,987	15,432
Balances due from other banks	339,109	339,109	-
Loans and advances to credit institutions	727,486	726,874	(612)
Credit granted and other balances receivable at amortized cost	34,687,983	35,203,844	515,861
	38,908,133	39,438,814	530,681
Liabilities			
Resources from central banks	3,037,524	3,035,739	(1,785)
Resources from other credit institutions	3,195,996	3,199,609	3,613
Resources from customers and other debts	35,768,577	35,778,194	9,617
Debt securities	3,720,559	3,801,210	80,651
Other financial liabilities	218,021	218,021	-
	45,940,677	46,032,773	92,096

	31-12-2018		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,655,730	1,640,365	(15,365)
Balances due from other banks	845,003	845,003	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,302,458	35,954,166	(348,292)
	39,478,222	39,115,105	(363,117)
Liabilities			
Resources from central banks	3,050,040	3,038,968	(11,072)
Resources from other credit institutions	3,539,844	3,544,490	4,646
Resources from customers and other debts	33,578,286	33,599,176	20,890
Debt securities	4,661,944	4,664,850	2,906
Other financial liabilities	176,206	176,206	-
	45,006,320	45,023,690	17,370

To determine the fair value of financial instruments carried at amortised cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

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

As at December 31, 2019 & 2018, details of the valuation methods used to determine the carrying amount of financial instruments recorded at amortised cost were as follows:

	31-12-2019			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	3,168,987	-	3,168,987
Balances due from other banks	-	339,109	-	339,109
Loans and advances to credit institutions	-	726,874	-	726,874
Credit granted and other balances receivable at amortized cost	-	1,608,467	33,595,377	35,203,844
	-	5,843,437	33,595,377	39,438,814
Liabilities				
Resources from central banks	-	3,035,739	-	3,035,739
Resources from other credit institutions	-	3,199,609	-	3,199,609
Resources from customers and other debts	-	-	35,778,194	35,778,194
Debt securities	-	2,622,113	1,179,097	3,801,210
Other financial liabilities	-	218,021	-	218,021
	-	9,075,482	36,957,291	46,032,773

	31-12-2018			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,640,365	-	1,640,365
Balances due from other banks	-	845,003	-	845,003
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	497,136	35,457,030	35,954,166
	-	3,658,075	35,457,030	39,115,105
Liabilities				
Resources from central banks	-	3,038,968	-	3,038,968
Resources from other credit institutions	-	3,544,490	-	3,544,490
Resources from customers and other debts	-	-	33,599,176	33,599,176
Debt securities	-	4,664,850	-	4,664,850
Other financial liabilities	-	-	176,206	176,206
	-	11,248,308	33,775,382	45,023,690

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;

- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted was determined taking into account the average spread of the production of the last quarter of the year;

- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last quarter of the year were used, taking into account the various types;

- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the yearend;

- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

RISK MANAGEMENT

CREDIT RISK

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

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

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

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

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

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

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

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, is underlaid by the degree of risk inherent in the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis.

In concrete terms, the rating is determined by the analysis of the following factors to which are assigned a rating from 1.0 (minimum) to 9.3 (maximum), in accordance with the following weighting:

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

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

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

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

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

As at December 31, 2019 & 2018, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	31-12-2019		31-12-2018	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	3,153,555	3,153,555	1,655,730	1,655,730
Balances due from other banks	339,109	339,109	845,003	920,425
Financial assets held for trading	1,085,927	1,085,927	1,215,956	1,215,956
Other financial assets mandatory at fair value through profit or loss	144,998	144,998	176,878	179,978
Other financial assets at fair value through other comprehensive income	5,862,349	5,862,349	5,247,452	5,245,647
Loans and advances to credit institutions	727,486	727,486	675,031	675,031
Credit granted and other balances receivable at amortized cost	39,340,180	45,507,138	39,629,271	45,972,048
Hedging derivatives	56,246	56,246	73,464	73,464
Investment in associated companies	59,240	59,240	61,481	61,481
	50,769,090	56,936,048	49,580,266	55,999,761
Guarantees provided	1,951,212	1,951,212	1,956,508	1,956,508

The maximum exposure in “Loans granted and other balances receivable at amortised cost as at December 31, 2019, included €1,000,630k and €5,166,328k relating to irrevocable credit lines and revocable credit lines respectively, (€1,035,032k and €5,307,745 k as at December 31, 2018, respectively) (Note 25).

In accordance with the requirements set out in Bank of Portugal Instruction No. 4/2018, the Bank began to publish Non-Performing Exposures and Deferred Exposures.

In this sense, as at December 31, 2019 & 2018, the breakdown of performing and non-performing exposures was as follows:

	31-12-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,639,331	(137,381)	0.4%	38,702,452	(175,341)	0.5%
Non-performing exposures						
. Loans represented by securities	-	-	0.0%	619	(494)	79.8%
. Households	477,921	(195,016)	40.8%	601,095	(233,314)	38.8%
. Corporates	1,144,407	(589,082)	51.5%	1,433,689	(699,435)	48.8%
	1,622,328	(784,098)		2,035,403	(933,243)	
	40,261,659	(921,479)		40,737,855	(1,108,584)	

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

As at December 31, 2019 & 2018, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2019			31-12-2018		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
. Loans represented by securities	-	-	-	619	-	-
. Households	477,921	243,917	51.0%	601,095	319,151	53.1%
. Corporates	1,144,407	363,235	31.7%	1,433,689	381,567	26.6%
	1,622,328	607,152		2,035,403	700,718	

Deferred exposures

In accordance with Bank of Portugal Instruction nº 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at December 31, 2019 & 2018, the breakdown of deferred exposures was as follows:

	31-12-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	568,508	(25,098)	4.4%	866,312	(39,221)	4.5%
Non-performing exposures						
. Households	304,344	(123,671)	40.6%	378,604	(139,785)	36.9%
. Corporates	830,634	(439,479)	52.9%	1,048,822	(517,521)	49.3%
	1,134,978	(563,150)		1,427,426	(657,306)	
	1,703,486	(588,248)		2,293,738	(696,527)	

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, of January 15, 2015, the Bank now provides information on the encumbered assets.

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

As at December 31, 2019 & 2018, the breakdown of encumbered and unencumbered assets is as follows:

	2019			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due from central banks other credit institutions	-	-	3,492,664	-
Equity instruments	-	-	218,899	218,899
Debt securities	2,313,060	2,313,060	7,240,817	7,240,817
Loans and advances to customers in credit institutions	9,916,619	-	26,385,618	-
Ohter assets	-	-	2,737,649	-
	12,229,679	2,313,060	40,075,647	7,459,716

	2018			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due from central banks other credit institutions	-	-	2,500,733	-
Equity instruments	-	-	257,184	257,864
Debt securities	2,076,282	2,076,282	7,170,699	7,170,699
Loans and advances to customers in credit institutions	11,553,395	-	25,732,009	-
Other assets	-	-	1,999,660	-
	13,629,677	2,076,282	37,660,285	7,428,563

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

As at December 31, 2019 & 2018, liabilities associated with encumbered assets and collaterals received are as follows:

	2019	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	5,630,717	7,240,455
Other	603,000	693,445
	6,233,717	7,933,900

	2018	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	6,732,748	8,503,740
Other	635,000	725,178
	7,367,748	9,228,918

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

As at December 31, 2019 & 2018, the main headings of assets had the following breakdown by external rating (internal rating for credit extended), in keeping with the rating assigned by Standard & Poor's:

	31-12-2019	31-12-2018
Cash and deposits at central banks		
Rating S&P		
AAA+ /AAA /AAA-	2,798,891	1,368,061
Not subject	354,664	287,669
	3,153,555	1,655,730
Balances due from other banks		
Rating S&P		
AAA+ /AAA /AAA-	-	180,861
AA+ /AA /AA-	89,717	173,921
A+ /A /A-	159,092	384,205
BBB+ / BBB / BBB-	49,642	88,300
BB+ / BB / BB-	3,611	-
No external rating	37,047	17,716
	339,109	845,003
Other assets at fair vlue through other comprehensive income		
Rating S&P		
A+ /A /A-	336,412	318,459
BBB+ / BBB / BBB-	5,449,799	4,792,824
CCC+ / CCC / CCC-	-	51,468
No external rating	2,326	4,398
	5,788,537	5,167,149
Loans and advances to credit institutions		
Rating S&P		
AA+ /AA /AA-	42,897	-
A+ /A /A-	652,523	516,036
BBB+ / BBB / BBB-	32,042	88,146
No external rating	53	70,933
	727,515	675,115
Loans to customers		
Internal Rating		
Low credit risk	27,233,727	25,261,445
Medium credit risk	9,926,930	11,344,107
High credit risk	2,202,813	2,667,778
No rating	898,189	1,464,525
	40,261,659	40,737,855
	50,270,375	49,080,852

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

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

<u>LIQUIDITY RISK</u>

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

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

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

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

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

As at December 31, 2019 & 2018, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	31-12-2019								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash and deposits at central banks	354,664	-	-	-	2,798,891	-	-	-	3,153,555
Balances due from other banks	339,109	-	-	-	-	-	-	-	339,109
Financial assets held for trading	-	-	-	-	-	-	-	1,085,927	1,085,927
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	-	144,998	-	144,998
Other financial assets at fair value through other comprehensive income	427,295	614,073	1,298,752	444,759	141,742	2,531,428	73,183	-	5,531,232
Loans and advances to credit institutions	-	(817)	(2,470)	704,012	(710)	21,065	-	-	721,080
Credit granted and other balances receivable at amortized cost	667,025	2,258,718	4,610,173	8,709,243	5,787,266	22,705,267	-	-	44,737,692
Hedging derivatives	-	-	-	-	-	-	-	56,246	56,246
Investments in associates	-	-	-	-	-	-	59,240	-	59,240
	1,788,093	2,871,974	5,906,455	9,858,014	8,727,189	25,257,760	277,421	1,142,173	55,829,079
Liabilities									
Resources from central banks	4,522	-	2,406,429	618,686	-	-	-	-	3,029,637
Financial liabilities held for trading	-	-	-	-	-	-	-	1,114,703	1,114,703
Resources from other credit institutions	1,110,449	818,069	116,443	552,801	299,892	300,000	-	-	3,197,654
Resources from customers and other debts	18,024,379	6,815,393	7,190,489	2,493,161	1,428,846	56,111	-	-	36,008,379
Debt securities	-	28,846	872,483	286,477	1,318,338	2,150,509	-	-	4,656,653
Hedging derivatives	-	-	-	-	-	-	-	393,831	393,831
	19,139,350	7,662,308	10,585,844	3,951,125	3,047,076	2,506,620	-	1,508,534	48,400,857

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

	31-12-2018								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash and deposits at central banks	287,669	-	-	-	1,368,061	-	-	-	1,655,730
Balances due from other banks	845,003	-	-	-	-	-	-	-	845,003
Financial assets held for trading	-	-	-	-	-	-	-	1,215,956	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	2	474,354	568,589	205,728	227,222	4,056,132	82,825	-	5,614,852
Loans and advances to credit institutions	93,029	4,663	114,770	440,916	28	21,199	-	-	674,605
Credit granted and other balances receivable at amortized cost	144,638	2,585,775	4,673,292	9,208,935	5,884,763	22,278,643	-	-	44,776,046
Hedging derivatives	-	-	-	-	-	-	-	73,464	73,464
Investments in associates	-	-	-	-	-	-	63,399	-	63,399
	1,370,341	3,064,792	5,356,651	9,855,579	7,480,074	26,355,974	323,102	1,289,420	55,095,933
Liabilities									
Resources from central banks	4,517	-	-	3,025,116	-	-	-	-	3,029,633
Financial liabilities held for trading	-	-	-	-	-	-	-	1,242,475	1,242,475
Resources from other credit institutions	499,400	1,316,413	575,107	352,944	499,809	300,000	-	-	3,543,673
Resources from customers and other debts	15,729,416	6,233,232	8,169,095	3,400,782	494,453	1,929	-	-	34,028,907
Debt securities	-	9,528	822,353	863,699	139,172	3,287,249	-	-	5,122,001
Other liabilities	176,206	-	-	-	-	-	-	-	176,206
Hedging derivatives	-	-	-	-	-	-	-	90,556	90,556
	16,409,539	7,559,173	9,566,555	7,642,541	1,133,434	3,589,178	-	1,333,031	47,233,451

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

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

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

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

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

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

MARKET RISK

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

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

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

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

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

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

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

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

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

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

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

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

INTEREST-RATE RISK

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

	31-12-2019				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2,798,891	354,664	-	3,153,555
Balances due from other banks	-	-	339,109	-	339,109
Financial assets held for trading	-	-	-	1,085,927	1,085,927
Other financial assets mandatory at fair value through profit or loss	-	-	144,998	-	144,998
Other financial assets at fair value through other comprehensive income	4,993,081	-	869,268	-	5,862,349
Loans and advances to credit institutions	-	727,474	12	-	727,486
Credit granted and other balances receivable at amortized cost	8,319,687	30,900,954	119,539	-	39,340,180
Hedging derivatives	-	-	-	56,246	56,246
	13,312,768	34,427,319	1,827,590	1,142,173	50,709,850
Liabilities					
Financial liabilities held for trading	-	-	-	1,114,703	1,114,703
Resources from central banks	3,079,382	-	(41,858)	-	3,037,524
Resources from other credit institutions	227,251	2,968,234	511	-	3,195,996
Resources from customers and other debts	17,841,369	18,019,114	12,789	-	35,873,272
Debt securities	2,765,826	1,032,620	(69,505)	-	3,728,941
Other financial liabilities	-	-	218,021	-	218,021
Hedging derivatives	-	-	-	393,831	393,831
	23,913,828	22,019,968	119,958	1,508,534	47,562,288

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

	31-12-2018				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,368,061	287,669	-	1,655,730
Balances due from other banks	-	-	845,003	-	845,003
Financial assets held for trading	-	-	3,379	1,212,577	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	4,693,944	-	553,508	-	5,247,452
Loans and advances to credit institutions	102,310	572,263	458	-	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,325,205	(28,648)	-	39,629,271
Hedging derivatives	-	-	-	73,464	73,464
	13,128,968	33,265,529	1,838,247	1,286,041	49,518,785
Liabilities					
Financial liabilities held for trading	-	-	-	1,242,475	1,242,475
Resources from central banks	3,079,377	-	(29,337)	-	3,050,040
Resources from other credit institutions	153,057	3,386,601	186	-	3,539,844
Resources from customers and other debts	17,442,358	16,479,445	18,299	-	33,940,102
Debt securities	3,507,599	1,228,124	(73,779)	-	4,661,944
Other financial liabilities	-	-	176,206	-	176,206
Hedging derivatives	-	-	-	90,556	90,556
	24,182,391	21,094,170	91,575	1,333,031	46,701,167

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

	2019							
	Rate buckets					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	2,798,891	-	-	-	-	354,664	-	3,153,555
Balances due from other banks	-	-	-	-	-	339,109	-	339,109
Financial assets held for trading	-	-	-	-	-	-	1,085,927	1,085,927
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	144,998	-	144,998
Other financial assets at fair value through other comprehensive income	3,832	2,781,249	2,179,123	28,877	-	869,268	-	5,862,349
Loans and advances to credit institutions	727,444	-	-	-	-	42	-	727,486
Credit granted and other balances receivable at amortized cost	14,731,003	17,930,244	4,848,988	1,265,294	445,112	119,539	-	39,340,180
Hedging derivatives	-	-	-	-	-	-	56,246	56,246
	18,261,170	20,711,493	7,028,111	1,294,171	445,112	1,827,620	1,142,173	50,709,850
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,114,703	1,114,703
Resources from central banks	3,079,382	-	-	-	-	(41,858)	-	3,037,524
Resources from other credit institutions	3,019,234	176,251	-	-	-	511	-	3,195,996
Resources from customers and other debts	34,829,224	958,238	67,902	5,119	-	12,789	-	35,873,272
Debt securities	2,486,980	1,303,867	-	7,599	-	(69,505)	-	3,728,941
Other financial liabilities	-	-	-	-	-	218,021	-	218,021
Hedging derivatives	-	-	-	-	-	-	393,831	393,831
	43,414,820	2,438,356	67,902	12,718	-	119,958	1,508,534	47,562,288

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

	2018							
	Rate buckets					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	1,368,061	-	-	-	-	287,669	-	1,655,730
Balances due from other banks	-	-	-	-	-	845,003	-	845,003
Financial assets held for trading	-	-	-	-	-	3,379	1,212,577	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	1,507	2,190,033	2,466,634	35,769	-	553,508	-	5,247,452
Loans and advances to credit institutions	538,555	136,018	-	-	-	458	-	675,031
Credit granted and other balances receivable at amortized cost	13,064,545	19,105,978	5,616,926	1,368,973	501,497	(28,648)	-	39,629,271
Hedging derivatives	-	-	-	-	-	-	73,464	73,464
	14,972,668	21,432,030	8,083,560	1,404,742	501,497	1,838,247	1,286,041	49,518,786
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,242,475	1,242,475
Resources from central banks	3,074,860	-	-	-	-	(24,820)	-	3,050,040
Resources from other credit institutions	3,436,563	103,057	-	-	-	224	-	3,539,844
Resources from customers and other debts	32,237,412	1,359,174	255,368	85,804	-	2,345	-	33,940,102
Debt securities	2,878,444	1,773,000	2,500	8,000	-	-	-	4,661,944
Other financial liabilities	-	-	-	-	-	176,206	-	176,206
Hedging derivatives	-	-	-	-	-	-	90,556	90,556
	41,627,279	3,235,230	257,868	93,804	-	153,955	1,333,031	46,701,167

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 points (bp's) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

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

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

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

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

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

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

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

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

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

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and

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

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

General assumptions of this Interest-rate sensitivity analysis

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

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

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

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

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

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

	31-12-2019		31-12-2018	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	(207)	91,492	577	54,845
Other financial assets at fair value through other comprehensive income	(190,829)	150,794	(321,428)	331,587
Loans and advances to credit institutions	(94)	2,207	(313)	702
Credit granted and other balances receivable at amortized cost	(948,191)	951,589	(742,446)	690,663
	(1,139,321)	1,196,082	(1,063,610)	1,077,797
Hedging derivatives	276,455	(363,242)	(9,444)	(159,475)
Liabilities				
Resources from central banks	(19,139)	8,281	(49,154)	15,495
Resources from other credit institutions	(4,861)	16,808	(9,095)	19,820
Resources from customers and other debts	(987,540)	714,077	(823,399)	654,418
Debt securities	(166,593)	157,667	(158,567)	144,213
	(1,178,133)	896,833	(1,040,215)	833,946

Financial Instruments – trading

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

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

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

- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.

The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and

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

- 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, 2019 & 2018, the VaR associated with the interest-rate risk corresponded to:

	31-12-2019	31-12-2018
VaR Percentil 99%	-	-
VaR Weighted Percentil 99%	-	-

Exchange-rate Risk

The profile defined for the exchange-risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury Area, so the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.

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

As at December 31, 2019 & 2018, the detail of the financial instruments by currency was as follows:

	31-12-2019			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	3,141,857	4,191	7,507	3,153,555
Balances due from other banks	125,572	75,536	138,001	339,109
Financial assets held for trading	1,083,105	2,570	252	1,085,927
Other financial assets mandatory at fair value through profit or loss	144,998	-	-	144,998
Other financial assets at fair value through other comprehensive income	5,862,292	57	-	5,862,349
Loans and advances to credit institutions	727,474	-	12	727,486
Credit granted and other balances receivable at amortized cost	38,871,306	436,817	32,057	39,340,180
Hedging derivatives	55,168	1,078	-	56,246
Investments in associates	59,240	-	-	59,240
	50,071,012	520,249	177,829	50,769,090
Liabilities				
Financial liabilities held for trading	1,111,881	2,570	252	1,114,703
Resources from central banks	3,037,524	-	-	3,037,524
Resources from other credit institutions	3,008,714	186,486	796	3,195,996
Resources from customers and other debts	34,152,470	1,471,381	249,421	35,873,272
Debt securities	3,728,941	-	-	3,728,941
Other fianncial libilities	218,021	-	-	218,021
Hedging derivatives	390,861	2,749	221	393,831
	45,648,412	1,663,186	250,690	47,562,288

	31-12-2018			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	1,648,952	2,785	3,993	1,655,730
Balances due from other banks	415,917	277,247	151,839	845,003
Financial assets held for trading	1,214,425	1,518	13	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,247,452	-	-	5,247,452
Loans and advances to credit institutions	608,706	17	66,308	675,031
Credit granted and other balances receivable at amortized cost	38,982,692	614,968	31,611	39,629,271
Hedging derivatives	67,718	5,746	-	73,464
Investments in associates	61,481	-	-	61,481
	48,424,221	902,281	253,764	49,580,266
Liabilities				
Financial liabilities held for trading	1,240,954	1,520	1	1,242,475
Resources from central banks	3,050,040	-	-	3,050,040
Resources from other credit institutions	3,411,006	128,496	342	3,539,844
Resources from customers and other debts	32,382,099	1,333,833	224,170	33,940,102
Debt securities	4,661,944	-	-	4,661,944
Other financial libilities	176,206	-	-	176,206
Hedging derivatives	88,714	1,728	114	90,556
	45,010,963	1,465,577	224,627	46,701,167

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

As at December 31, 2019 & 2018, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2019	31-12-2018
VaR Percentil 99%	(3)	(3)
VaR Weighted Percentil 99%	(2)	(3)

Asset price risk

Financial Instruments – trading

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

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

Offsetting financial assets and liabilities

As at December 31, 2019 & 2018, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

	31-12-2019			
	Financial assets/Liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(292,042)	-	371,927	79,885
Group Companies	(908,865)	-	301,500	(607,365)
	(1,200,907)	-	673,427	(527,480)

	31-12-2018			
	Financial assets/liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as garantee	Net Value
Financial Institutions	(859)	-	28,250	27,391
Group Companies	(1,312,470)	-	413,409	(899,061)
	(1,313,329)	-	441,659	(871,670)

As at December 31, 2019 & 2018, the value of the sale transactions with repo agreement, by type of counterparty, is as follows:

	31-12-2019			
	Financial liabilities	Related values not compensated in financial statement		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(1,654,668)	1,656,197	32,461	33,990
	(1,654,668)	1,656,197	32,461	33,990

	31-12-2018			
	Financial liabilities	Related values not compensated in financial statement		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(1,957,342)	1,957,494	25,700	25,852
	(1,957,342)	1,957,494	25,700	25,852

42. SHARE CAPITAL MANAGEMENT

The Bank seeks high financial soundness embodied in maintaining a capital adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets. The profit distribution policy is conditional on the maintenance of capital levels that allow the Group to sustain the performance of its operations within its risk policy.

The Bank uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for manual operations, Banif portfolio and BAPOP portfolio. The Bank uses the standard method to calculate the market risk. In June 2012, the Bank began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

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

On June 28, 2019, the Bank put into operation the first synthetic securitisation transaction originated by the Bank. The operation has as an underlying portfolio of Corporates, SMEs, Municipalities and independent professionals in the amount of €2.4 trillion, in respect of which the Bank buys protection corresponding to a mezzanine tranche with an attachment point of 1% and detachment point of 8.5%. The mezzanine tranche, amounting to €181.3 million was totally glued to foreign institutional investors, in the format of a CLN with a premium of 8.7%.

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

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

Amounts in million Euro

	dec 19	dec 18
A - BASE OWN FUNDS (TIER I)	2,858	2,758
Share Capital (includes addicional instruments elegible as Tier I)	1,541	1,541
Reserves and Retained earnings (excluding Non-controlling interests)	1,606	1,532
Non-controlling interests	-	-
Deduction to base own funds	(290)	(315)
B - LEVEL 2 OWN FUNDS (TIER II)	408	22
Perpetual subordinated liabilities	347	12
Eligable Non-controlling interests	-	-
Other elements/deductions to complementary own funds	61	10
C - DEDUCTIONS TO OWN FUNDS	-	-
D - TOTAL OWN FUNDS (A+B+C)	3,266	2,780
E - ASSETS WEIGHTED BY RISK	18,681	19,980
Ratios		
TIER I (A/E)	15.3%	13.8%
CORE CAPITAL (CET1)	15.3%	13.8%
TIER II (B/E)	2.2%	0.1%
CAPITAL ADEQUACY RATIO (D/E)	17.5%	13.9%
LEVERAGE	4.7%	4.6%

Note: the figures in the above table are unaudited

43. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012 of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the resolution measures implemented by the Bank of Portugal, in the capacity of national resolution authority, and to perform all other functions conferred by law within the scope of implementation of such measures.

The Bank, like the majority of financial institutions operating in Portugal, is one of the institutions taking part in the resolution fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal essentially on the basis of the amount of their liabilities. In 2019, the periodic contribution made by the Bank amounted to €12,261k, based on a contribution rate of 0.048%.

Resolution measure applied to Banco Espírito Santo, SA

Within the scope of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, SA ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital the Resolution Fund, as sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered each year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as are impairments, or their reversal, recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, by that date , the Resolution Fund made a payment of €1,914 million to Novo Banco in respect of the 2017 and 2018 accounts, having used for the purpose its own financial resources resulting from the contributions paid up, directly or indirectly, by the banking sector, complemented by a State loan of €430 million under the framework agreement between the Portuguese State and the Resolution Fund.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of €3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, SA

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, SA ("Banif") was "at risk of or was in a situation of insolvency" and began a process of urgent resolution of the institution in the form of partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta SA ("Santander Totta") of the rights and obligations constituting assets, liabilities, off-balance sheet items and assets under Banif management, for €150 million.

The greater part of the assets that were not sold was transferred to an asset-management vehicle called Oitante, SA ("Oitante"), created specifically for the purpose, which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of €746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved a public support estimated at €2,255 million which aimed to cover future contingencies, of which €489 million was financed by the Resolution Fund and €1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State in the amount of €136 million by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to fall from €489 million to €353 million.

To date the findings are not yet known of the independent evaluation exercise conducted to estimate the credit recovery level for each class of creditors in the hypothetical scenario of normal insolvency proceedings of Banif as of December 20, 2015. As mentioned above for BES, if it is found that creditors entail a larger loss than would hypothetically be the case if Banif had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for the Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used, these financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank's financial statements.

44. COMPETITION AUTHORITY

In 2012 administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the statement of objections issued by the AdC regarding the administrative-offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the Competition Authority issued the final decision, essentially maintaining the theory thesis presented in the 2015 statement of objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Credit and Loans to Companies. Banco Santander Totta was sentenced to a fine of €35 million, plus a fine of €650k applied to BAPOP.

The fine imposed, which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year next before the decision, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the Competition Authority, the case now pending before the Competition, Regulation and Supervision Court.

In line with what has been its position throughout the process, the Bank strongly refutes all the arguments underlying the decision of the Competition Authority, and its judicial challenges through the Competition, Regulation and Supervision Court been supported, in particular, by the opinion of eminent professors of law, attesting to the absence of any unlawful conduct by the institution.

The Bank will now await the judgement and subsequent decision on the judicial challenge presented and will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

taking the foregoing into consideration, the Bank's Board of Directors is convinced that probabilities of the Bank not being ordered to pay a fine are greater than being so ordered, and therefore no provision for this process has been recorded in the financial statements as at December 31, 2019.

45. 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, 2019, 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.

COVID-19

On January 30 2020, the World Health Organization declared the epidemic of the SARS-CoV-2 virus that causes the COVID-19 disease, a public health emergency of international scope. On March 11, 2020, the World Health Organization ranked the said virus as a pandemic, requesting of the states "urgent and aggressive action" to combat it, stating that "all countries should achieve a balance between protecting health, minimizing economic and social disruption and protecting human rights".

After its appearance in December 2019 in Wuhan City, Hubei Province, China, and its rapid spread to Asian countries, the epidemic quickly spread to the European and American continents, where there are the largest number of infections, and there are fears that it will begin to evolve very rapidly in the African content as well. As the pandemic is becoming increasingly global, the authorities, both at national and at global level, do not predict the time that the pandemic might continue nor their impact at economic and social level, since the existing estimates are subject to a multiplicity of variables not controlled by the authorities, starting with the effectiveness of the exceptional measures enacted in the meantime.

In this connection, given the exceptional situation faced and the proliferation of cases recorded of COVID-19 contagion in Portugal, the Portuguese authorities have established temporary and exceptional measures relating to the epidemiological situation, in particular the state of emergency declaration on March 18, 2020, by decree of the President of the Republic No. 14-A/2020 of March 18.

The measures taken to contain the spread of the virus and the spread of the disease seek to restrict to a minimum the contact between people and between them and exceptional goods or structures, imposing, in particular, restrictions on driving on the public highway, the exercise professional functions from the home and rules for the operation or suspension of certain plants, establishments and activities, regulating those which, for their essential nature, must remain in operation, including banking, financial and insurance services.

The Bank's priority in the short term was the safety and integrity of people, including employees, customers and suppliers, in order to mitigate the effects of the pandemic. Regarding protection of employees their physical presence at bank branches was limited, favouring the use of digital channels but not compromising attendance levels and the use of telework in the case of central-services employees. In the case of protection of customers and suppliers, the Bank complied with the moratorium regime enshrined in Decree-Law 10-J/2020 of March 26 and adopted an additional set of extraordinary and temporary measures, with emphasis on:

- In the case of individual customers, the renegotiation of loans, which are in good standing, with immediate waiver of capital repayment during 6 months without charging any contract-alteration commission;
- In the case of small and medium enterprises, the renegotiation of loans, which are in good standing, also offering waiver of capital, with no change in the spread of operations without charging any contract-alteration commission. The Bank also maintains unchanged all credit limits contracted, both of a revocable and of an irrevocable nature without any change of the spread conditions or other associated commissions. Procedures necessary for the ready availability of the support lines launched by the State were also adopted;
- Collection of the POS monthly payments was suspended the application was waived of a minimum charge on transactions made via this channel to facilitate the use of digital channels and the cost of its use. The Bank also suspended the collection of all MBWay service commissions in the POS in contactless transactions;
- To help the treasury of its suppliers the Bank came to make prompt payment of invoices received.

In this adverse situation, during the last two weeks of March, the Bank strengthened its liquidity reserve through additional mobilization of operations for the borrowing portfolios with Eurosystem and of the issuance of a covered bond withheld. These two measures added about €1.3 billion to the collateral pool available for use within the monetary policy of the European Central Bank which, at the end of March, had a total of €11,750 billion.

It can therefore be expected that economic activity is set to be strongly negatively affected, and may induce a recession at the level of the world economy and, consequently, in Portugal. Depending on the depth and extent over time of the disruptive impacts, the Bank’s business and profitability will be affected to a greater or lesser degree. Based on all the information available to date, including that relating to the situation of liquidity and capital, as well as on the value of the assets, it is considered that the principle of continuity of the operations underlying the preparation of the financial statements will continue to apply.

Reclassification of the business model

Following the developments in the matter of liquidity management by the supervisory authorities at the end of 2019 and beginning of 2020, the Bank's management bodies have reviewed the funding strategy and resource allocation, its guideline being the strategic plan and priority of growth of the core business, discontinuing activities that, due to their nature and duration could call into question the stability of the funding model and limit the ability to execute the said business growth plan.

In this connection, in March 2020 the Bank took the decision to discontinue its activity of granting loans granted to the Portuguese State, of large amounts and long terms, leading to the alteration of the strategy for receiving the principal and interest contractually established to a strategy that also includes the sale of the these assets, with consequent changes in terms of classification and accounting recognition of the financial assets that fall within that activity, which will be recorded and disclosed in the Bank’s financial statements for the next reporting period.

46. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on April 21, 2020.

47. 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 AS AT 31 DECEMBER 2019

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued: Total	Amount issued: Subscribed by the Group	Amount issued: Consolidated Balance sheet	Accrual	Value adjustment from hedge operations	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Structured bonds											
OB.BST INDEX LINKED NOTES 2024 23/12/2024	EUR	8,227	-	8,227	3	152	8,382	Floating	December 20, 2019	December 23, 2024	Index basket
Total		**8,227**	**-**	**8,227**	**3**	**152**	**8,382**				
Covered Bonds											
Hipotecária XIV	EUR	750,000	750,000	-	-	-	-	0.754%	March 04, 2015	March 04, 2022	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	(8,420)	-	741,580	0.875%	October 27, 2015	October 27, 2020	Fixed interest rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	-	0.842%	February 24, 2016	February 24, 2022	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	-	0.902%	April 15, 2016	April 15, 2023	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	-	0.652%	July 26, 2016	July 26, 2023	Fixed interest rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	-	-	-	1.201%	December 07, 2017	December 07, 2027	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	-	1.481%	April 10, 2017	April 10, 2027	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(627)	-	999,373	0.875%	April 25, 2017	April 25, 2024	Fixed interest rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(5,799)	-	994,201	1.250%	July 05, 2019	July 05, 2029	Fixed interest rate
Hipotecária XXIV		1,100,000	1,100,000	-	-	-	-	0.412%			
Total		**8,050,000**	**5,300,000**	**2,750,000**	**(14,846)**	**-**	**2,735,154**				
Bonds issued on securitization operations from mortgage credit											
Hipototta 4 - Class A - Notes	EUR	489,899	358,505	131,395	(434)	-	130,961	Floating	December 09, 2005	December 30, 2048	Euribor 3m+0.12% (up to early redemption date in December 2014); Euribor 3m+0.24% (After early redemption date)
Hipototta 4 - Class B - Notes	EUR	17,823	17,823	-	-	-	-	Floating	December 09, 2005	December 30, 2048	Euribor 3m+0.19% (up to early redemption date in December 2014); Euribor 3m+0.40% (After early redemption date)
Hipototta 4 - Class C - Notes	EUR	56,288	56,288	-	-	-	-	Floating	December 09, 2005	December 30, 2048	Euribor 3m+0.29% (up to early redemption date in December 2014); Euribor 3m+0.58% (After early redemption date)
Hipototta 4 - Class D - Notes	EUR	7,000	7,000	-	-	-	-	Floating	December 09, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	445,505	314,301	131,204	(202)	-	131,002	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.13% (up to early redemption date in February 2014); Euribor 3m+0.26% (After early redemption date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.17% (up to early redemption date in February 2014); Euribor 3m+0.34% (After early redemption date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	March 16, 2007	February 28, 2060	Euribor 3m+0.24% (up to early redemption date in February 2014); Euribor 3m+0.48% (After early redemption date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (After early redemption date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+1.75% (up to early redemption date in February 2014); Euribor 3m+3.50% (After early redemption date)
Hipototta 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
Azor Mortgages 1 - Class A	EUR	-	-	-	-	-	-	Floating	November 25, 2004	September 20, 2047	3m Euribor + 0.30%
Azor Mortgages 1 - Class B	EUR	16,159	850	15,308	239	-	15,547	Floating	November 25, 2004	September 20, 2047	3m Euribor + 0.,76%
Azor Mortgages 1 - Class C	EUR	9,000	2,500	6,500	298	-	6,798	Floating	November 25, 2004	September 20, 2047	3m Euribor + 1.75%
Azor Mortgages 1 - Class D	EUR	10,000	10,000	-	-	-	-	Floating	November 25, 2004	September 20, 2047	Residual return generated by securitized portfolio
Azor Mortgages 2 - Class A	EUR	84,636	84,636	-	-	-	-	Floating	July 24, 2008	December 14, 2065	3mth Euribor + 0.30%
Azor Mortgages 2 - Class B	EUR	43,080	43,080	-	-	-	-	Floating	July 24, 2008	December 14, 2065	3mth Euribor + 0.8%
Azor Mortgages 2 - Class C	EUR	6,750	6,750	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Residual return generated by securitized portfolio

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES AS AT 31 DECEMBER 2019

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued			Accrual	Value adjustment from hedge operations	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet							
Atlantes Mortage 2 - Class A	EUR	111,440	-	111,440	(14,497)	-	96,943	Floating	March 05, 2008	September 18, 2060	3m Euribor + 0.33%
Atlantes Mortage 2 - Class B	EUR	13,069	13,069	-	-	-	-	Floating	March 05, 2008	September 18, 2060	3m Euribor + 0.95%
Atlantes Mortage 2 - Class C	EUR	5,327	5,327	-	-	-	-	Floating	March 05, 2008	September 18, 2060	3m Euribor + 1.65%
Atlantes Mortage 2 - Class D	EUR	11,336	11,336	-	-	-	-	Floating	March 05, 2008	September 18, 2060	Residual return generated by securitized portfolio
Atlantes Mortage 3 - Class A	EUR	191,303	59,622	131,681	(10,450)	-	121,231	Floating	October 30, 2008	August 20, 2061	3m Euribor + 0.20%
Atlantes Mortage 3 - Class B	EUR	27,435	27,435	-	-	-	-	Floating	October 30, 2008	August 20, 2061	3m Euribor + 0.50%
Atlantes Mortage 3 - Class C	EUR	48,445	48,445	-	-	-	-	Floating	October 30, 2008	August 20, 2061	Residual return generated by securitized portfolio
Atlantes Mortage 4 - Class A	EUR	215,953	-	215,953	(30,094)	-	185,859	Floating	February 16, 2009	December 30, 2064	3m Euribor + 0.15%
Atlantes Mortage 4 - Class B	EUR	23,782	23,782	-	-	-	-	Floating	February 16, 2009	December 30, 2064	3m Euribor + 0.30%
Atlantes Mortage 4 - Class C	EUR	65,559	65,559	-	-	-	-	Floating	February 16, 2009	December 30, 2064	Residual return generated by securitized portfolio
Atlantes Mortage 5 - Class A	EUR	174,676	174,676	-	-	-	-	Floating	December 21, 2009	November 23, 2068	3m Euribor + 0.15%
Atlantes Mortage 5 - Class B	EUR	32,250	32,250	-	-	-	-	Floating	December 21, 2009	November 23, 2068	3m Euribor + 0.30%
Atlantes Mortage 5 - Class C	EUR	55,708	55,708	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Residual return generated by securitized portfolio
Hipototta nº13 Class A	EUR	1,236,871	1,236,871	-	-	-	-	Floating	January 09, 2018	October 23, 2072	3m Euribor + 0.60%
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	January 09, 2018	October 23, 2072	3m Euribor + 1%
Hipototta nº13 Class C	EUR	53,565	53,565	-	-	-	-	Floating	January 09, 2018	October 23, 2072	Residual return generated by securitized portfolio
Hipototta nº13 Class D	EUR	-	-	-	-	-	-	Floating	January 09, 2018	October 23, 2072	
Atlantes Mortage 7 - Class A	EUR	139,426	139,426	-	-	-	-	Floating	November 19, 2010	August 23, 2066	3m Euribor + 0.15%
Atlantes Mortage 7 - Class B	EUR	25,909	25,909	-	-	-	-	Floating	November 19, 2010	August 23, 2066	3m Euribor + 0.30%
Atlantes Mortage 7 - Class C	EUR	53,821	53,821	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Residual return generated by securitized portfolio
		4,269,015	**3,525,534**	**743,481**	**(55,140)**	**-**	**688,341**				
Total		**12,327,242**	**8,825,534**	**3,501,708**	**(69,983)**	**152**	**3,431,877**				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2019

(Amounts expressed in thousand euros)

		Amount issued			Accruals			Consolidated			
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Balance Sheet	Interest rate	Maturity	Early repayment as from
BST											
Obrigações Perpétuas Subordinadas 2000	EUR	284,315	13,868	270,447	104	-	104	270,551	1.403%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	54,359	50,084	4,275	20	-	20	4,295	1.32%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	172,833	159,015	13,818	65	-	65	13,883	1.32%	Perpetual	February 23, 2012
- MC Factor 2008	EUR	2,993	2,394	599	0	-	0	599	2.19%	Perpetual	-
-BANCO SANTANDER TOTTA BOND SA 7.5% 06/10/2026	EUR	7,599	-	7,599	136	-	136	7,735	7.50%	Perpetual	October 6, 2026
		522,099	**225,361**	**296,738**	**326**	**-**	**326**	**297,064**			

REPORTS AND OPINIONS ON THE CONSOLIDATED BUSINESS

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. (the "Group" or "Bank"), which comprise the consolidated balance sheet as at 31 December 2019 (which shows total assets of Euros 52.305.326 thousand and total shareholders' equity of Euros 3.634.189 thousand including a net profit of Euros 489.451 thousand), the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A. as at 31 December 2019, 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

We draw attention to the information disclosed in the Directors' report and note 45 of the annex containing the explanatory notes, regarding the possible impacts of the COVID-19 pandemic on the economy and, consequently, on the future activity of the Group.

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.

Key Audit Matter	***Summary of the Audit Approach***
Impairment losses on credit granted and other balances receivable at amortized cost *Measurement and disclosures related to impairment losses on credit granted and other balances receivable at amortized cost presented in notes 1.3 c), 2, 10, 19 and 41 attached to the Bank's consolidated financial statements*	
The significant expression of credit granted and other balances receivable at amortized cost and associated impairment losses, which require a set of complex assumptions and judgments from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit. As at 31 December 2019, the gross amount of credit granted and other balances receivable at amortized cost amounted to Euros 40.261.659 thousand and the corresponding impairment losses recognized at that date amounted to Euros 921.479 thousand. Impairment losses on credit granted and other balances receivable at amortized cost are determined by Bank's management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a collective analysis. For the most significant exposures classified in Stage 3, evaluated in terms of the total amount of responsibilities, the Bank performs an individual impairment measurement analysis ("IIA"), in which the amount of impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – going approach; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral, less the costs inherent to its recovery and sale – gone approach. For exposures not covered by the individual analysis, the Bank developed collective analysis models to calculate expected impairment losses, in light of the IFRS 9 requirements, namely the classification of exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the	The audit procedures developed included the identification, understanding and assessment of the policies and procedures established by the Bank for the purpose of measuring impairment losses for loans granted and other balances receivable at amortized cost as well as its key controls with respect to refers to the approval, recording and monitoring of credit risk, and the timely identification, recording and correct measurement of impairment losses. On a sample basis, we analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of impairment measurement; (ii) obtain our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures classified in stage 3, representative of the credit population subject to individual analysis by the Bank as at 31 December 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the financial plans used to determine impairment with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm the registration of them in favour of the Bank; (iv) analyse the most recent evaluations of these collaterals; (v) to examine the criteria for classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) a critical analysis of the discounted cash flows underlying the calculation of impairment; (viii) to assess the evolution of exposures; and (ix) understand the views of the Bank's management regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits.

Key Audit Matter	***Summary of the Audit Approach***
reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries and, in order to be representative of the current economic context but also to incorporate a perspective of future economic evolution, these models use forward looking prospective information such as (i) the GDP growth rate; (ii) the unemployment rate; (iii) the evolution of the interest rate; and/or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence. In this context, changes in the methodologies or assumptions used by the Bank in the analysis and quantification of impairment losses of the credit granted to clients and other balances receivable, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses recognized in each period.	Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible divergences. For the portfolio whose impairment is assessed through the collective analysis model, a set of specific procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historic performance and recoveries of the Bank's loan portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the backtesting exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loan portfolio, with reference to 31 December 2019. Our auditing procedures also included a review of the disclosures for credit granted and other balances receivable at amortized cost, as well as the related impairment losses, in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Provisions and contingent liabilities *Measurement and disclosures related to provisions and contingent liabilities presented in notes 1.3.i), 2, 19, 43 and 44 attached to the Bank's consolidated financial statements* As at 31 December 2019, the balance of the liability caption "Provisions" amounted to Euros 223.029 thousand and is intended to cover various liabilities, including post-employment benefits specific to certain Bank directors, restructuring plans, tax risks, legal proceedings in progress and other specific risks arising from the Bank's activity, as well as situations associated with the acquisition of a significant part of the activity of Banif – Banco Internacional do Funchal,	The audit procedures we have developed in this area included the identification and understanding of the key processes and controls established by the Bank with respect to the approval, registration and monitoring of these matters, as well as the analysis of the methodologies, data and assumptions adopted by the management in the assessment and quantification of contingencies and in the eventual recognition of provisions.

Key Audit Matter	*Summary of the Audit Approach*
S.A. ("Banif") and the totality of Banco Popular Portugal, S.A.. Among the contingent liabilities disclosed in notes 43 and 44 attached to the Bank's consolidated financial statements at 31 December 2019, the following stand out: • Resolution Fund The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, S.A. ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, S.A. ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: (i) effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would if it had entered into liquidation; (ii) legal proceedings against the Resolution Fund; (iii) negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; and (iv) the contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels. • Portuguese Competition Authority In 2012 the Portuguese Competition Authority (Autoridade da Concorrência) launched an offense claim against several banks, including Banco Santander Totta, S.A., for alleged restrictive competition practices. On 9 September 2019, the Competition Authority notified the banks of its decision, which points to their condemnation, with a penalty of Euros 36 million being applied to the Bank. The Bank understands that it did not commit the imputed infraction, so it filed on 21 October 2019 an appeal against that decision to the Competition, Regulation and Supervision Court.	In this context, due to the relevance and complexity of the judgments required by the management, in the scope of our audit, we carried out, among others, the following procedures in relation to the Resolution Fund: (i) monitoring of major changes to the simplified model of cash flow projections of the Resolution Fund presented by the Bank when renegotiating loans granted , based on the contractual conditions agreed between the banks and the Resolution Fund; (ii) appreciation of the relevant public communications on responsibilities and the contingent liabilities assumed by the Resolution Fund and / or the Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the views of the Bank's management regarding the Resolution Fund's economic and financial situation, and the predictability of expected cash flows from its regular revenues. With regard to the process initiated by the Portuguese Competition Authority, our work included (i) analysing the Bank's assessment of the nature and situation of said process, which underlies the non-constitution of provisions, and (ii) assessing the information obtained from the Bank external lawyers who follow the process. We also analysed the information available on developments after 31 December 2019 on the most relevant litigations. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
The consolidated financial statements as of 31 December 2019 reflect the Bank's management expectation that the Bank, as an entity participating in the Resolution Fund, will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to the BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. In addition, the Bank's management is also convinced that the probabilities that the process initiated by the Portuguese Competition Authority will end without the Bank having to pay a fine are higher than those of the opposite. Contingent liabilities may evolve differently than originally expected, so they are subject to continuous review to determine whether this eventuality of outflow of resources has become probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's management employs complex estimates and judgments regarding the probability of materializing and quantifying the amounts of liabilities that may result from 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.	
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 i), 2 and 38 attached to the Bank's consolidated financial statements* At 31 December 2019, the liabilities for past services of the Bank in relation to its pensioners, employees and directors amounted to Euros 1.527.134 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those provided for in the *Acordo Coletivo de Trabalho* ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and the population of managers, employees and pensioners, and the current and future behaviour of these variables.	The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund. The audit work included meetings with the Bank's management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain. A conformity review was performed to: (i) the employee information history used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, costs related

Key Audit Matter	Summary of the Audit Approach
In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on net liabilities as well as assets held to meet these liabilities, and this issue was considered a key matter for the purposes of our audit.	to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, independently for a sample of assets. Finally, we have developed the detailed analysis of the actuarial study prepared with reference to 31 December 2019, based on the results of the procedures referred to above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the Bank's consolidated financial statements, taking into account applicable and current accounting standards.
Fair value of financial instruments not quoted in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed on an active market classified at level 3 of the fair value hierarchy and presented in notes 1.3 c), 2, 8, 9 and 41 attached to the Bank's consolidated financial statements* Due to its relevance in the context of the Bank's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market classified at level 3 of the fair value was a relevant matter for the purposes of our audit. At 31 December 2019, the balance sheet balances of these financial instruments amount to Euros 150.637 thousand of assets, being composed by: (i) Other financial assets mandatory at fair value through profit and loss; and ii) Other financial assets at fair value through other comprehensive income. For these financial instruments classified at level 3 of the fair value hierarchy, and when observable market data are not available, the Bank determines fair value using estimates, namely through the use of valuation models based on discount cash flows techniques, which usually involve a high degree of judgment by the management in defining the assumptions and inputs to be used. In this context, changes in the assumptions used in the measurement techniques used by the Bank's management may give rise to material impacts in the determination of the fair value of the instruments recognized in the Bank's consolidated financial statements.	The audit procedures we have developed included the identification and understanding of key controls established by the Bank underlying fair value measurement methodologies. For a sample of instruments whose measurement consisted substantially of unobservable data, our procedures also included the assessment of whether the models developed by the Bank and the data and assumptions used are reasonable in the circumstances, having compared the data subject to observation with market information collected from external and independent sources, whenever available. Our audit procedures also included the review of disclosures about financial instruments not listed on an active market, included in the accompanying notes to the Bank's consolidated financial statements, taking into account applicable and current accounting standards.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, 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

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' 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 Directors' report that it will prepare a separate report of the Directors' report that will include the non-financial information set forth in article No. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

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 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco Santander Totta, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018 having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of 13 December 2018 for the period from 2019 to 2021.

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 29 April 2020.

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.

29 April 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]
Aurélio Adriano Rangel Amado, R.O.C.

Santander