

# 2015 Annual Report (Proposal)

We want to help  
people and  
businesses prosper



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**2015 was a year of impressive results both for the Santander Group and for Santander Totta.**

At a time when we are crossing such important changes and when the Banking of the future is under consideration, Santander aligned its corporate culture, focusing it on our **mission** – which is to contribute towards the development of people and companies – and on the **vision** of becoming the best commercial Bank, earning the trust and loyalty of our employees, customers, shareholders and society in general.

And we also insist that all that we do is **Simple, Personal and Fair**.

2015 was a year of impressive results both for the Santander Group and for Santander Totta.

Santander has a business model focused on the customer, with a geographic diversity balanced between mature and emerging markets, and is organized through a network of subsidiaries with their own autonomous capital and liquidity and subject to local supervision and regulation.

In Portugal, Banco Santander Totta, which has the best ratings of all the Portuguese Banks, attained this year a **result** on its recurring business activity amounting to 284.9 million euros, a 72.5% increase on the homologous period. This evolution results from a model of organic growth focused on recurring income from Commercial Banking and from sound risk management.

Following the resolution measure applied to Banif by the Bank of Portugal at the end of December, Santander Totta acquired assets and liabilities amounting to approximately 10 billion euros, mainly composed by a credit portfolio (gross) of 6.5 billion euros (3.2 billion euros credit granted to private individuals and 3.3 billion euros to companies), a deposit portfolio amounting to 4.5 billion euros, and a commercial network comprising 177 branches and respective employees, and a customer base numbering approximately 350,000 accounts.

With this acquisition Santander Totta strengthens its presence in the Portuguese financial system as well as its capability to continue supporting the Portuguese economy, and increasing its presence in the Madeira and Azores autonomous regions.

Regarding financial **soundness**, the Common Equity Tier 1 (CET 1) ratio became set at 13.9% and, in its turn, the CET 1 fully implemented ratio at 14.0%. As such, although the acquisition of the assets and liabilities of the former Banif had a negative impact on the phasing-in and fully-implemented CET1 base ratios, respectively, Santander Totta continues showing high capitalization levels, in excess of the minimum requisites demanded by the ECB.

I wish to thank all the Bank's employees for the effort and dedication that has allowed us to attain these excellent results.

*Antonio Basagoiti*



**We want to continue growing, along with the growth of the economy, supporting Portuguese companies and households**

**... and to consolidate our objective of more than ever being a Simple, Personal and Fair Bank.**

2015 was an unstable year in political and financial terms both in Portugal and in the World in general. It was a year featured by several important events for the financial sector. In Portugal we witnessed a gradual recovery of the economy but with no signs of a greater acceleration. GDP grew by 1.5%, exports and domestic demand recorded moderate growth and a slight reduction occurred in the rate of unemployment. Consequently, the financial system as a whole, similarly to previous years, recorded important losses.

In spite of this scenario in 2015, Banco Santander Totta obtained a net income from its recurring business activity amounting to 284.9 million euros, a 72.5% increase relative to the previous year, and continued to be the Bank with the best rating in the Portuguese financial system.

At the end of the year, as a consequence of the resolution measure applied by the Bank of Portugal, Santander Totta acquired a portfolio of Banif's assets and liabilities and a substantial part of its business, thus strengthening its presence in the Portuguese financial system as well as its capability to continue supporting the Portuguese economy and increasing its presence in the Madeira and Azores autonomous regions. Considering the impact of this acquisition, CET1 ratio became set at 13.9% and fully implemented set at 14.0%.

Banco Santander Totta was also recognized by the market and by its customers as a sound and trustful Bank, and received several prizes from many magazines covering the industry.

There are three differentiating factors in Banco Santander Totta that allow it to show consistently good results and to systematically present the better capital and liquidity ratios:

- A committed **Team**, motivated and well prepared;
- A strict **Risk** management and a culture of **Efficiency** through cost control and permanent digital innovation / CRM; and
- A **Customer-focused** business model.

Throughout the year we continued developing our multi-channel transformation plan. We installed wi-fi in all our branches and in all Netbanco outlets, and launched a new APP, with all the main functions and user-friendly, always with the objective to improve customer service. In the companies area we developed new technological solutions that allow improving the quality of the products, solutions and services we provide. Standing out amongst the improvements in electronic banking is the Trade Finance electronic platform for exporting companies.

We consolidated our customer segmentation model, with a **segment-differentiated** offer, service model and communication strategy. We altered our means of communication, which is now closer to the customers, with emotional and continuous digital presence.

In the private individuals area 2015 was highlighted by the launching of **Mundo 1|2|3**, a solution intended for the Bank's private individuals which, in addition to the advantages of a combined account, can provide a further set of benefits such as discounts on supermarket purchases, motor fuels, tolls and water/electric power/telephone services.

The Companies segment continued to deserve special attention in Santander Totta's global business activity. The consolidation of the **Santander Advance** programme, launched at the end of 2014, is an investment on the Bank's approach to companies. We want to be the companies' reference Bank, their business partner. Within the scope of this programme, with an innovating financial and non-financial offer in the market, we **provided 500 internships** in companies and **training courses** for their executive staff, in which more than 1,000 companies took part.

2015 was equally the year in which we continued investing in the development of **our teams** and in which we introduced new measures that allow improving our employees' lives by reconciling their professional and personal needs, amongst which stands out the implementation of the **Flexiwork** measure. We introduced the 8 corporate behaviours that will be part of our day-to-day activities from now on.

We are also terminating the construction of our **new building** where we will offer improved and new conditions for our employees.

## MESSAGE FROM THE CHAIRMAN OF THE EXECUTIVE COMMITTEE

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In terms of **Social Responsibility**, we have kept up our support to the Universities segment as the power behind the development of society, provided 900 mobility and social scholarships and increased the volunteering actions of our teams.

For 2016, we want to continue being the best Commercial Bank, continue investing in our multichannel and CRM transformation, hold an operational excellence with simpler and more agile procedures, and consolidate our

segmentation and the means of communication with our customers.

All this to continue being a **Simple, Personal and Fair** bank for our employees, customers, shareholder and society in general.

*António Vieira Monteiro*

BANCO SANTANDER TOTTA, S.A.

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**General Meeting**

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

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**Board of Directors**

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

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**Audit Board**

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Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Mazars & Associados, S.R.O.C.
Alternate	Ricardo Manuel Duarte Vidal Castro

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**Auditors**

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

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**Executive Committee**

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

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**Company Secretary**

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Active	Luís Manuel Baptista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

## GOVERNING BODIES

**Ignacio Centenera**  
Accounting and  
Management Control<sup>1</sup>

**João Baptista Leite**  
Technology, Operations,  
Data Integration, Computer  
Security and Technological  
Risk

**Pedro Castro e Almeida**  
Company Network, Control  
and Streamlining of  
Company Network,  
International Business,  
Institutional Bodies,  
Construction Development,  
Global Corporate Banking

**Manuel Preto**  
Financial, Multichannel and  
Strategy Management and  
Commercial Intelligence<sup>2</sup>

**Nuno Frias Costa**  
Human Resources,  
Organization, Costs, Real  
Estate and General Services<sup>3</sup>



**José Leite Maia**  
Households and Business  
Network, Private, Control  
and Streamlining of T&B  
Network, Real Estate  
Promotors and Brokers and  
International

**José Carlos Sítima**  
General Secretariat,  
Business Legal Consultancy,  
Compliance, Prevention of  
Money Laundering,  
Inspection, Recoveries and  
Divestment

**António Vieira Monteiro**  
Chairman of the Executive  
Committee, Risks, Risk  
Management and Internal  
Audit

**José Manuel Elias da  
Costa**  
Means of Payment,  
Insurance and relations with  
asset management within  
commercial banking

**Luís Bento dos Santos**  
Communication, Corporate  
Marketing, Universities,  
Quality and Public Policy

- (1) Accounts and Management Control are directly responsible to the Chairman of the Executive Committee and management is ensured by Dr. Ignacio Centenera, as Manager Aggregated to the Executive Committee.
- (2) The Commercial Intelligence area, which comprises strategic definition and management of segments and products, customer development and CRM and Marketing, is directly responsible to the Chairman of the Executive Committee, assisted by Dr. Manuel Preto.
- (3) The Human Resources, Organization, Costs, Real Estate and General Services area is directly responsible to the Chairman of the Executive Committee and management is ensured by Dr. Nuno Frias Costa, as Manager Aggregated to the Executive Committee.

## Prizes and distinctions in 2015



Banco Santander Totta was distinguished with the “Best Bank” and “Best Private Bank” in Portugal prizes by Euromoney magazine. Global Finance magazine again considered Santander Totta as the “Best Bank in Portugal”, within the scope of “The World’s Best Developed Markets Banks 2015”, also attributing it the prize for “Best Private Bank”. The same magazine equally attributed it the prize for “Best Trade Finance Bank 2015”. In its turn, within the scope of Banking and Insurance prizes, Exame magazine awarded Santander Totta the prizes for “Best Large Bank”, “Most Profitable”, “Most Sound” and “Greatest Growth”. Lastly, The Banker magazine highlights Santander Totta as the “Bank of the Year”.

### Other distinctions

- *Private Banking Survey*, services categories: “Best Bank in High Net Worth segment (\$5,000,000 - \$30,000,000 Dollars)”, “Asset Management”, “Commercial banking Capability”, “Research and Consultancy in Asset Allocation”, “Philanthropy and Investment in Social Impact” and “International Customers” – *Euromoney*
- Safest Bank in Portugal 2015 – *Global Finance*
- Best Foreign Exchange Provider 2015 Portugal – *Global Finance*
- Best Contact Centre of the Banking Industry 2015 – *Portuguese Contact Centre Association (APCC)*
- *CIO of the year*, Elsa Graça, Santander Totta Technology and Process Manager, in the category of Guidance for the

Customer, for innovation in account opening system via tablet – *CIONET*

- *CIO Awards 2015* – *International Data Corporation (IDC)*
- Healthy Work Station Prizes 2015, category Large Companies – 3rd place – *Society of Portuguese Psychologists*

## Other relevant facts in 2015

### January

- Santander Totta launches internship programme – *Santander Top Training*
- José Quitério is the winner of the 2015 Coimbra University Prize
- Santander Totta is the best *Trade Finance* in Portugal
- Santander, the company which best supports education in the world

### February

- *Euromoney* magazine elects Santander Totta *Private Banking* as the best in Portugal
- Santander Totta launches 200 mobility scholarships in Iberian American countries
- Elsa Graça, from Santander Totta, is “CIO of the Year”
- Mundo 1|2|3 provides integrated offer for mass market

### March

- *Global Finance* magazine elects Santander Totta as “Best Bank in Portugal”
- Banco Santander Totta promotes virtual entrepreneurial visits with Peru and Chile and supports entrepreneurial visit to the United States
- S&P reasserts rating of Santander Totta and upgrades Outlook from stable to positive
- Attendance model for Select customers celebrates 1 year

### April

- Top Exporta Conference distinguishes best Portuguese exporting companies
- Minister of Health attends award of Santander Totta/UNL Research prize, a project on late-stage Alzheimer disease
- Santander Asset Management and Pioneer Investments join forces to set up a leading global asset manager in Europe and Latin America

May

- Santander Totta supports investment opportunities in Poland
- Santander Totta improves offer of credit spread for mid and mass market customers
- Santander Totta is leader in SME Growth 2014
- New member of the Board of Directors in Santander Totta

June

- “Facedecode” is the winning project in the iUP25 entrepreneurship prize
- Gender equality and *flexiworking* under discussion “We are Santander Week”
- Moody’s improves rating for deposits with Santander Totta
- Santander Totta invests in digital with new APP
- Évora and Lusíada Universities are comprised in Santander Universities
- IDC rewards account opening with tablet as one of the most innovative projects in Portugal
- Santander Totta supports Very Rare Diseases Association
- Carolina Monteiro, from ISCTE, is the winner of the 12th edition of *Primus Inter Pares* prize

July

- Santander Totta invests 5.6 million euros in Higher Education, Environment and Social Activity projects
- Santander Totta chosen as “Best Bank in Portugal” by *Euromoney* magazine
- Santander Totta takes Mundo 1|2|3 to beaches in the North and South of the country
- Azores University receives Santander Universities programme
- 60 entrepreneurs are awarded full marks in the first edition of *Advance Management Programme*
- Agreement of cooperation between Banco Santander Totta and Euro-regional Galicia-North of Portugal Study Centre Foundation within the scope of Corporate Social Responsibility.

August

- Porto University research Centres awarded support of 500,000 euros

September

- Ana Botín steps up in Lisbon the stake placed on Portuguese market
- Santander Totta installs wi-fi in all branches
- Standard & Poor’s improves Santander Totta rating to ‘BB+’
- House of Latin America and Santander Totta reward Portuguese and Mexican PhD students

- Santander Totta is financial consultant to *First State Investments* in the acquisition of *Finerge* to *Enel Green Power*

October

- RedEmprendia Project to set up university backed companies receives approximately 1 million euros from EU
- Santander Totta is financial consultant to *Lancashire County Pension Fund* in asset purchasing
- Issue of covered bonds by Santander Totta was 40 points below current cost for issues of the Portuguese Republic
- Santander launches international competition for the resolution of conundrums by students

November

- Coimbra University celebrates Internationalization Day
- Santander Totta winner of “2016 Consumer Choice”
- Santander *Advance* model intended for companies celebrates 1st anniversary
- *Junior Achievement* Programme to promote financial education supports 1,780 students
- Human Resources launch 8 behaviours to be Simple, Personal and Fair
- Santander Totta *Private Banking* elected Best in Portugal by *Global Finance* magazine, after receiving same distinction from *Euromoney* and *The Banker/PWM magazines*

December

- Santander Totta is “Best Large Bank”, “Most Profitable”, “Most Sound” and that with “Greatest Growth”, in the Banking and Insurance range of *Exame* magazine
- *The Banker* magazine highlights Santander Totta as “Best Bank in Portugal”
- Christmas Campaign supports Lisbon Portuguese Oncology Institute with 30,000 euros
- Volunteer Day - *Open Day* brings together 360 students in the Bank’s facilities
- EIB and Banco Santander Totta enter agreement to finance SMEs and *mid-caps*

Our **mission** is to help people and business prosper

Our **Vision** is to be the best commercial bank

Gaining the trust and loyalty of our employees, customers, shareholders and society in general

**Best Bank for our employees**

Attract, retain and engage the best professionals capable of providing the best services to our customers and guarantee the business success and sustainability of the business.

**Best Bank for our customers**

Construct long-term customer relations of loyalty with our customers, offering them simple and tailored solutions fair and equal treatment, and an excellent service via our branches and digital channels, in order to enhance their satisfaction and engagement with the Bank.



**Best Bank for communities**

Conduct our banking activity contributing to the economic and social progress of the communities in which we operate, in a responsible and sustainable way, and particularly committed to the field of higher education.

**Best bank for our shareholders**

Generate an attractive and sustainable return for our shareholders based on a business model with a high degree of recurring revenues, prudent risks, efficient, with disciplined use of capital and financial strength.

We pursue our strategy of being a Bank more than ever

Simple, Personal and Fair

## Introduction

Santander Totta pursues a policy of social responsibility aligned with the Santander Group's policy, based upon a mission to contribute towards the development of people and companies. The main hub is Higher Education, through the promotion of knowledge and merit, development of international entrepreneurialism, employability and mobility, within the scope of the collaboration agreements it holds with the main Portuguese Universities and Polytechnic institutions.

Further to this, the bank also guides its actions towards the community in which it belongs, through supports and donations to several third sector institutions and with the participation of volunteer workers in various annual initiatives and cultural patronage for projects that promote Portuguese culture.

In the environmental field, Santander Totta has been developing measures of energy efficiency and reduction of wastage in its facilities, as well as promoting sustainable practices with its employees in order to guarantee a sustainable development of its business.

In 2015, the total investment in Portugal in activities directly concerned with corporate social responsibility amounted to approximately 6.8 million euros, a 21% increase relative to the previous year.

## Santander Universities

### Agreements, protocols, prizes and scholarships

In 2015, Santander Totta entered into new partnership agreement with higher education establishments, with special regard to the agreement with Évora and Azores Universities and the renewal of other agreements, 48 of which with the main Portuguese Universities and Polytechnic Institutions.

The protocols subscribed with Évora and Azores Universities establish partnerships through which the Bank, as patron, supports these higher education establishments in the carrying out of projects and activities aiming to their development, to strengthen their prestige and the excellence of their teaching and research, and also allowing its students access to a set of advantages, amongst which the Santander Universities internship programme, international mobility programmes, as well as the issue of the university student intelligent card for all the university community.

In supporting entrepreneurship, the Bank awarded 36 scientific and academic merit prizes and 384 social and curricular scholarships.

Outstanding scientific merit prizes were:

- Santander Totta/Lisbon NOVA University Research Prize which aims to distinguish research projects in the fields of Life Sciences, Social and Humanist Sciences and Exact and Engineering Sciences. The winner of the 8th edition was the work "Review of late starting Alzheimer disease using three-dimensional cultures of human neurons";
- Coimbra University/Santander Totta prize, which is one of the most relevant in national areas of science and culture. In 2015, rewarded the long and notable career of José Quitério in the preservation of the Portuguese gastronomic heritage;
- *Primus Inter Pares* Prize – This prize, which has existed throughout 12 years, and launched by Banco Santander Totta and Expresso weekly newspaper, is nowadays a prize for excellence, and has allowed distinguishing and rewarding the best economics, management and engineering students, providing them with a highly prestigious



supplementary academic training. The winner in 2015 was Carolina Monteiro, an ISTCE management student, who will have the opportunity to attend an MBA course in the nationally and internationally renowned Business Schools: IESE, in Barcelona, Instituto de Empresa, in Madrid, Lisbon MBA (Catholic University and NOVA University), ISCTE, ISEG and the Porto Business School;

- "Mário Quartin Graça" Scientific Prize, a House of Latin America and Santander Totta initiative that aims to distinguish PhD degrees obtained by Portuguese or Latin American researchers in universities on both sides of the Atlantic. Gustavo Miguel Guillemin, Érica Castanheira and Isabel Araújo Branco, were the winners of this prize in 2015;
- Lisbon NOVA University/Santander Totta prize for Economic Journalism(PJE). The PJE is a Santander Totta initiative in collaborating with the Faculty of Humanist and Social Sciences of Lisbon NOVA University, which aims to recognize quality in reporting creativity, distinguishing the best works in written and electronic press in 3 categories: Company and Business Management, Financial Markets and Entrepreneurial Sustainability.



The prize for entrepreneurship and innovation promoted by Porto University is backed by Santander Totta and its aim is to sensitize young people towards entrepreneurship and the setting up of new companies based on the exploit of knowledge and innovation. The "Facedecode – We make faces" project was the business idea that won the iUP25K entrepreneurial competition. This technology, which permits the simple and swift creation of avatars – graphic bodies that identify cybernauts -, promises to revolutionize the world of movies, animation and video games.

In partnership with Puzzle Idea, Santander Totta awarded, for the fourth consecutive year, the prize for the best PhD research design created with the Puzzle Idea software. Prize winner was researcher Maria João Gouveia, with the doctorate project "Mindful parentage in paediatric obesity: from parental practises to the psychologic adjustment of children and teenagers", developed in Coimbra University.

The FCSH/NOVA - Santander Totta entrepreneurship prize – Best Business Idea, which aims to encourage innovative entrepreneurship and promote the conception of new ideas, distinguished three projects. The first prize was awarded to "My Santo António", won by a project which intends to disseminate the Santo António da Sé Square, in Lisbon, as a centre for the inciting romantic love, as well as for the commercial exploit of products, services and events connected with the "*antoniano* phenomenon".

### Education and research

Santander Totta supported with 500,000 euros the research to be developed by several centres of Porto University during the next three years, within the scope of an agreement subscribed between the higher education establishment and the Bank, through Santander Universities.

The objective of this support is to guarantee an improved positioning of Porto University in the rankings that measure University performance, encouraging its research centres to increase their scientific production at SCOPUS level (professional data base for scientific references and quotes).

Within the scope of the agreement with Beira Interior University, the latter opted to use a large share of the agreement funds to support doctorate and post-doctorate projects developed in the several departments of that establishment. Thus, Santander Universities funds paid for, in 2015, fifteen scholarships for incentivizing doctorate degrees and two scholarships for incentivizing post-doctorate degrees.

The Agreement of cooperation between Banco Santander Totta and Euro-regional Galicia-North of Portugal Study Centre Foundation is a joint initiative comprises three Galician universities (Coruña, Santiago de Compostela and Vigo) and three Portuguese (Minho, Porto and Trás-os-Montes e Alto Douro). Its objective is the development of

tuition, research, training and documentation activities, within the scope of Corporate Social Responsibility.

### Programme of international mobility scholarships

More than 200 international mobility scholarships were made available during 2015, under the aegis of the programme for Luso-Brazilian and Iberian-American mobility scholarships and of the specific programmes of the higher education establishments which are partners in this project.

The Bank paid tribute to the students that took part this year in the international mobility programme between Porto University and Iberian-American universities. Set up in 2007 by Santander Totta, approximately one thousand students have crossed the Atlantic under this programme to study in a different country.

Banco Santander Totta also paid tribute to the Coimbra University students that took part in international mobility programmes. In addition to the 19 students that availed themselves of these scholarships, more than 30 students and researchers left Portugal within the scope of the Iberian-American and Luso-Brazilian scholarship programme.



In its turn, the Santander PKU Summer School scholarship provided four students of Lisbon NOVA University with the opportunity to enjoy an experience in

Beijing University.

### Employability

The Santander Universities internship scholarship programme is comprised in a three year initiative, through which 1,500 internship scholarships will be attributed to final year students during the next three years. Internship scholarships have three month duration, are worth 1,650 euros each (550 euros per month) and will be carried out in Portuguese SMEs. This programme will imply a total investment by the Bank, over three years, amounting to 2.5 million euros.

For the second year running, Santander Totta promoted in universities the "U2 Work" project, comprising a series of conferences and workshops on insertion in the labour market, intended for final year and graduate students. Conferences were held in the Setúbal and Porto Polytechnic Institutes and in Coimbra University. A survey made to participants revealed that 100% would recommend the event to their peers and 98% assessed the events positively.

### Support for higher education infrastructure

Santander Totta supported the refurbishment of the Gil Vicente Academic Theatre (TAGV), a Coimbra University building, classified as UNESCO world heritage. The project cost amounts to 180,000 euros and is totally patronized by Santander Totta, included in the existing protocol between the Bank and Coimbra University.



The Bank also supported the requalification of the new park in Lamas Estate, with three hectares of garden and sports areas located between the Faculties of Engineering and Economics. The project, for

which Porto University is responsible, implied an investment in excess of 1.1 million euros – co-financed as to 750,000 euros by Banco Santander Totta, included in a cooperation agreement between Santander Totta and Porto University.

### Universia

#### Academic projects

Universia kept alive the parameters of the strategic plan commenced in 2014, which is guided by two action lines: (1) academic projects related with the disclosure of knowledge and with the approach of the university to the company, which includes academic publications, reports and studies, MOOC's (open online massive courses), etc.; and (2) university services that promote employment and professional internships for students and recent graduates, entrepreneurial training via the link with the university and also online marketing actions specifically directed for young Iberian-Americans.

Within the scope of academic projects, NOVA University created the first MOOC in the platform focusing "Geographic Information Systems". Out of 1,423 enrolments, 1,156 initiated the course which was completed by 186 registered users.

Porto University launched its first MOOC in October: "Climate changes in school media". This first edition had 736 enrolments.

In the last quarter of 2015, Banco Santander, in partnership with Universia, launched Santander NEO's Challenge, an university talent international competition consisting of the resolution of a conundrum based on and empirically demonstrable case, which will tax university students from Portugal, Spain, USA, Argentina, Chile, and Mexico.

198 Teams enrolled in this first edition, of which 28 are Portuguese, representing the Madeira, Aveiro, Évora, Lisbon, Lisbon NOVA, Algarve, Porto universities and the Coimbra Polytechnic Institute.

### University services

2015 was the consolidation year for Working in Portugal network. With 30 fully functioning sites, 20 originate from higher education establishments. With this project, universities obtained professional insertion management platforms allowing them to manage their students' CVs, exclusive employment offers for the institution and also to receive shared offers in all the network's sites, if relevant. It should be emphasized that the major part of these universities had not yet implemented any system for the purpose.

The Working community exists in 11 Iberian-American countries and offers more than 200,000 working opportunities per month.

The II edition of *Jumping Talent* was held in March 2015 in the Lisbon Chamber of Commerce with the presence of 70 Portuguese university students, who had to show their competences before the coaches of the 9 participating companies including Santander Totta.

At the end of 2015, the Universia mobile platform, MARKETING - UNI>COM, included 9 participating higher education establishments: Portuguese Catholic U., NOVA SBE, Aveiro U., Porto P.I., Évora U., Algarve U., Lusíada U., Beja P.I. and Coimbra U. The last development, the "UCoimbra" app, was patronized by the Santander brand and, additionally, this app has a Santander Universities area intended for university members.

### Support for the Community and Environment

#### Volunteer work and employee involvement

During Christmas, Santander Totta employees aided the improvement of the facilities of the Paediatric Hospital of the Portuguese Oncology Institute (POI). Under the motto, "This Christmas give greater value to your gift and aid the POI", the bank and its employees obtained 30,000 euros to aid the work on the refurbishment and extension of the hospital.



During the initiative, employees purchased Christmas label kits, with drawings made by the POI children, costing 1 euro, which the Bank trebled. In addition to the Kits, employees

also donated to this cause, this showing admirably the commitment of the bank and its employees to the community in which it belongs.

Santander Totta and the National Association of Mental and Rare Diseases (Raríssimas Association), which aids young people and adults bearers of rare pathologies, with different grades of autonomy and with specific needs they are unable to fulfil without help, subscribed a protocol through which the Bank will sponsor and share the health expenses of two users of the Marcos Home throughout five years, within the scope of the "Look After Me" project. The total value of the support amounts to 50,000 euros.

In line with its policy of social responsibility and promotion of sports and healthy living habits Santander Totta sponsored



the Porto half marathon, one of the most important challenges in the country, and which celebrated this year its 9th edition. The Bank shared in the enrolment

of more than 1,000 employees and family members. The challenge also has a social feature which aided the Porto Volunteer Fire Brigade with a donation of 5,000 euros from the Organizing Committee.

Within the scope of the project that Santander Totta is developing with *Junior Achievement*, the Bank decided to commemorate the International Volunteering Day by sponsoring this project via an *Open Day* for secondary education students. Thus, on 4 December, Santander Totta welcomed 30 students in its central services and 330 in the commercial network, one per branch, from the North to the South of the Country. 665 Volunteer employees took part in this initiative, in a total 669 hours of volunteering work.

During 3 days, 24 volunteer Bank employees helped the readying of products to aid children and teenagers of the BIPP Institution (Parent to Parent Data Bank), which aims towards the full inclusion of people with special needs and which has regular support from the Bank's volunteer employees.

During the "We are Santander" week, under the day of solidarity, 4 employees aided the refurbishment work of the Crescer Ser Association, in Porto, whose mission is to promote, organize and streamline community aid services for children, teenagers and households.

Santander Totta, in partnership with Gertal (company that operates the restaurant in the Bank's head office) launched a campaign intending that, for each 100 meals totally consumed in its facilities, Gertal donates 1 Kg of food products to the Food Bank Against Hunger. In 2015, 414 Kg of

food products were donated to the Food Bank Against Hunger.

### Social Aid

Santander Totta sponsored the participation of 5 third sector institutions in the 7th fundraising seminar organized by *Call to Action*. The main objective of the seminar was to enable the participating institutions to sustainably manage and adequately collect their resources.

Santander Totta is a founder member of the CEBI Foundation since 1995. Its objective is to aid children, teenagers, the aged and the more disadvantaged households, participates in the Founder's assembly and is a member of its Board of Directors. Highlighted amongst its actions is the promotion of education covering 1,800 students, from kindergarten to the 9th school year; of the above total approximately 400 benefit from action and social promotion scholarships. Additionally support is provided to more than 250 aged persons every year and approximately 400 daily physiotherapy consultations.

Throughout 2015, several social institutions and associations were present in the solidarity area of the Bank's facilities, dedicated to the promotion of social solidarity projects and initiatives, with the support of volunteering employees in the promotion of the causes presented.

### Financial education

Santander Totta subscribed a collaboration agreement with *Junior Achievement* in order that the Bank's employees, together with those of other companies, become voluntary lecturers in country wide schools, to approach entrepreneurial, citizenry, economics, ethical and financial topics. The students also set up their own company with the help of a Bank volunteer, who guides them in the stages of setting up businesses. The project comprised 350 sessions totalling more than 2,000 hours of volunteering work. This project enabled the inclusion of 1,780 students.

Within the scope of the Santander *Advance* Programme, Santander Totta provides training for its customers through the *Advance Management* and the *Advance Journey*

Programmes intended for company employees without any costs attached.

Training sessions may have personal or online attendance, and are offered by Santander Totta to middle and higher ranking companies' staff with no costs attached and are rendered to the Bank by reputable higher education establishments, associated with the Bank in



this initiative: NOVA School of Business & Economics, in Lisbon, and Porto Business School. Throughout 2015 more than 1,000 companies were comprised in the courses made available by Santander Advance.

The Universities area, jointly with the Funds area and Commercial Departments, carried out information sessions on the offer of the bank's products for Universities, with which the Bank holds agreements.

Two sessions were carried out in 2015, in Beira Interior University and in the Castelo Branco Polytechnic Institute, with approximately 60 participants.

Santander Totta participates in the National Plan for Financial Education, developed by the Portuguese Banking Association, National Market Committee and Portuguese Insurance Institute, which aims to contribute towards increasing the level of financial knowhow of the people and to promote the adoption of adequate financial deports through several projects and initiatives, such as the "Fair Practises, Sound Accounts" site, which assumes the commitment to provide citizens with useful and accessible information on banking services using practical cases as examples that people may be able to identify.

### Culture

Within the scope of the Arts Festival, held in Coimbra, organized by the Inês de Castro Foundation, which in 2015 was dedicated to the topic "This is a Festivity Year", the Bank sponsored an exhibition in the Machado de Castro National Museum. Apart from the pecuniary support for the exhibition, Santander Totta temporarily assigned a work from its arts collection, *Instrument du Musique*, by Vieira da Silva. Also attributed were 50 free admissions for customers. The exhibition recorded more than 16,000 visitors.

The Bank also sponsors the holding of the Estoril Conferences, whose objective is the setting up of a centre of reflection at international level over the challenges of globalization, with particular regard to the relationship between global and local domains. The initiative aims to assert Portugal as a meeting place for some of the most highly regarded individualities, international organizations, universities, research and development centres, *think tanks* and non-governmental organizations.

Santander Totta sponsored the carrying out, for the second time, of the Forum for the Future – an international festival of thought, which is annually held in Porto – the main objective of which is to bring together guests with multiple interests to reflect over issues which affect contemporary societies. In 2015, the main topic was happiness.

Within the scope of cultural sponsorship, the Bank became associated with several initiatives that aimed to promote

Portuguese culture and, whenever possible, were also expanded to include the Bank's customers as was the case with the concerts held in Casa da Música (Porto) and in the Calouste Gulbenkian Foundation (Lisbon).

### Environment

A new process for the collection of paper and polythene packings was implemented in the Santander Totta Centre,



where 200 PAPEL collection boxes for paper waste and 100 PET collection boxes for plastic water bottles were distributed to replace waste recipients. With regard to remaining materials such as glass, other types of plastic and

other residues such as organic waste, collection boxes were placed in the pantry for separation and recycling.

Throughout the latter years the Bank has been implementing several measures to reduce usage and to improve energy efficiency, of which stand out:

#### In the branches:

- Installation of presence detection sensors in meeting rooms, offices, rest rooms, *back-offices*, records and storage facilities to switch off lighting when vacant;
- Replacement of obsolete air conditioners by others with lower consumption;
- Regulation of the set point in air-conditioning equipment;
- Regulation of lighting in line with natural light index;
- Change of illuminated signboards with LED systems.

#### In the buildings:

- Installation of free cooling systems to operate at external temperatures below 20°C by switching off the air conditioning system;
- Automation of lighting controls, installation of luminaries with regulated flow in order to take advantage of natural lighting;
- Regulation of the set point in air-conditioning equipment.



Equally reinforced has been the communication of policies that aim to reduce greenhouse gas effects, as is the case with mobility policy that advises the use of public transport instead of private cars and the use of videoconference as a means to reduce travelling.

The new Santander Totta building will have advanced efficiency in the heating, ventilation and air conditioning equipment. Among the new functionalities it will be possible for the air conditioning equipment to recover heat which will allow cooling and heating areas with high energy efficiency, to use rain to water the roof garden, and will also be provided with sensors for the measurement of natural lighting and movement to control illumination and reduce energy usage.

### **Sensitizing stakeholders towards sustainable practices and habits**

Within the scope of its policy for the protection and sustaining of the environment, Santander Totta was present at the 8th edition of Greenfest, with the “UniverCity”

initiative, in which some of the country’s main universities presented projects with social or environmental impact. The Bank also presented the “Networking Lounge” area, set up in order that companies, institutions, professionals and ordinary citizens are enabled to establish contacts and share knowledge.

GIRO is an entrepreneurial volunteering initiative in which several national interventions are carried out aiming to improve the quality of life of teenagers and children at risk, aged people, animal defence and recovery of nature. More than 20 of the Bank’s employees took part in this initiative of entrepreneurial volunteering jointly developed with GRACE – Group of Reflection and Support to Entrepreneurial Citizenship.

## International Economy

The World economy, in 2015, slowed down relative to the previous year with an expected growth only marginally above 3%, the slowest rate since the Great Recession. Similarly to the previous year, the slowdown resulted mainly from the worsening of the economic conditions in the emerging economies, not without a knock-on effect on the developed economies, especially those with greater volume of world trade with China, such as the USA and Japan.

The need for economic adjustment in the emerging economies to correct generated imbalances in the growth model or with public accounts, and the lowering of raw material prices are some of the risk factors considered by the IMF in its January 2016 forecasts.

### World Economic Growth

	2013	2014	2015
<b>World</b>	<b>3.3</b>	<b>3.4</b>	<b>3.1</b>
<b>Advanced Economies</b>	<b>1.1</b>	<b>1.8</b>	<b>1.9</b>
USA	1.5	2.4	2.5
Euro Area	-0.3	0.9	1.5
United Kingdom	1.7	2.9	2.2
Japan	1.6	0.0	0.6
<b>Developing Countries</b>	<b>5.0</b>	<b>4.6</b>	<b>4.0</b>
Africa	5.2	5.0	3.5
Asia	7.0	6.8	6.6
China	7.7	7.3	6.9
Central and Eastern Europe	2.9	2.8	3.4
Middle East	2.3	2.8	2.5
Latin America	2.9	1.3	-0.3
Brazil	2.7	0.1	-3.8

Source: IMF (January 2015)

In the USA growth dynamics were somewhat volatile, with a slower growth rate in the first and fourth quarters, initially affected by adverse climatic conditions, and later by investment dynamics. The fall in oil prices, which already in 2016 have fallen further to 2003 minimums, below \$30 per barrel, affected investment in alternative crude sources, such as shale oil and gas.

In spite of the volatility generated by the evolution of these aggregate demand components, private consumption maintained sustained growth, supported by the decrease in unemployment rate to 5.0%, the lowest level since 2007.

The USA Federal Reserve initiated an increasing of the reference interest rate cycle in December, with an increase in Fed funds rate to 0.25%, after having, in September, maintained monetary policy without alterations, following the greater volatility of shareholder markets viewed during the Summer. This was the first increase in reference interest

rates since 2008, and implemented the first rate increase cycle since 2006.

However, and recognizing the potential risks, the Federal reserve: (i) decided to use the remuneration of the surplus reserves held by the banking industry with the FED as a tool for the gradual normalization of monetary policy; and (ii) signalled that the rate of growth in interest rates would continue dependent upon the evolution of the main economic indicators.

Economic growth in the United Kingdom slowed down in 2015, resulting from a more negative contribution of net exports, reflecting greater dynamism in private consumption and entrepreneurial investment (which was reflected on imports) and in Exchange rate appreciation, especially with reference to the euro (almost 10% annual average).

The Bank of England maintained unaltered the expansionist nature of monetary policy, in spite of some members of the Monetary Policy Committee having, during the greater part of 2015, defended a very gradual increase in the reference interest rates. However, the absence of inflationary pressures supported the non-altering decision.

In Japan, the economic activity recovered after the stagnation recorded in 2014, resulting from more favourable dynamics in private consumption, as well as in exports. The growth rate, however, continued affected by some volatility associated with the process of budgetary consolidation. The Bank of Japan kept to a clearly expansionist monetary policy, announcing an extension to the maturities of public debt to be acquired, as well as the possibility of acquiring ETFs and REITs.

In China, the slowdown in economic growth to 6.9% in 2015, fostered expectations that this process could deepen and that the second largest world economy could be moving towards a "hard landing" scenario, especially since some short term indicators revealed more adverse dynamics in their evolution relative to the homologous period. The authorities adopted a set of measures intended to support recovery, including a decrease in interest rates, a ban on sales by institutional investors and an intervention in the shareholder markets, which however did not prevent a heavy correction in the main shareholder index, which fell by approximately 39% from the June maximums (after a 48% appreciation since the beginning of 2015 to the June peak). At year end the index registered a 6% appreciation relative to the level at the beginning of the year.

The main measure adopted by the authorities was the flexibility in the evolution of the exchange rate, which led to a 1.9% devaluation in the yuan, the most pronounced for 20 years, in the context of the alteration in the Exchange rate indexing regime, which then started to move in line with the market, and which preceded the IMF decision to include the

yuan in the basket of currencies that compose the “Special Drawing Rights”, the IMF unit of account.

	GDP	Inflation
<b>Euro Area</b>	<b>1.6</b>	<b>0,0</b>
Germany	1.7	0.1
France	1.1	0.1
Spain	3.2	-0.6
Italy	0.8	0.1

Source: EC (February 2015)

GDP accelerated in the euro zone, with a 1.6% overall increase for the year, slightly above initial expectations for the year, which will have been positively affected by the unconventional ECB monetary policy, especially as regards economic confidence.

In January 2015, ECB announced the third wave of its quantitative easing programme, within the scope of which it commenced acquiring debt issued by national and international public bodies, up to a total amount of 60 billion euros (including the already ongoing programmes since the end of 2014 for the acquisition of mortgage backed securities and credit securitizations).

This programme, initially forecast to be maintained until September 2016, was extended in December until March of 2017, at the same time that the ECB stated it was contemplating the acquisition of new types of financial assets. Already in 2016, ECB announced an extension of its quantitative easing programme, expanding the monthly acquisition of assets to 80 billion euros (20 billion euros more) and that it could equally acquire debt issued by non-financial enterprises. Since the beginning of the programme, the ECB has already acquired approximately 800 billion euros in assets, of which 620 billion in public debt (and, of these, 14 billion in Portuguese debt).

Inflation, however, remained clearly below the ECB objective of “close, but below 2.0%”, reflecting the “output gap” generated during the crisis, the ongoing structural adjustment in several countries and the effects of the decreased oil prices. The ECB measures have a special impact on the expectations of the business communities, in the battle against deflationary expectations.

Already in December, and resulting from the lower inflation expectations, ECB lowered the deposit interest rate to -0.3%, placing additional pressure on short term interest rates, as well as on the euro Exchange rate.

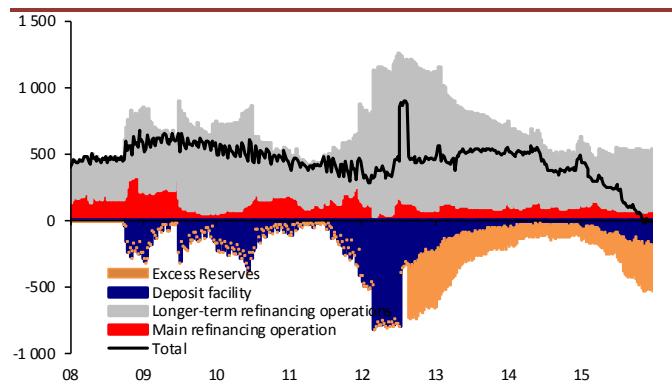
In spite of the improved economic dynamism in 2015, a number of mishaps followed the crisis in sovereign debts, which entered a new stage in Greece, where two elections

and a referendum were held, in a context of worsening economic conditions and great uncertainty.

A worsening in the economic feeling and a run on the banks led to the temporary imposition, by the Government, of capital controls (temporary closure of banks and limits to withdrawals from banks), to place a brake on the withdrawal of deposits. The Greek Government requested a new bailout programme, which was accepted by the Euro Summit on 12 July, in a very complex political context, in which all scenarios including the temporary exit of Greece from the euro zone were always a possibility.

Spain and Ireland were again the two most dynamic economies in the euro zone, with 3.2% and 6.9% growths, respectively. Spain held general elections in December resulting in a hung parliament, in which the Popular Party (PP) was again the most voted but without the possibility of forming a government without wide party political support.

**ECB Liquidity Provision  
(€ bn)**



Source: BCE

The “quantitative easing” programme implemented by the ECB in its different features (acquisition of credit securitizations, of mortgage backed securities and of debt issued by public bodies) resulted in increased surplus liquidity in the economy. At the same time, the programme of Long Term Refinancing Operations (TLTRO) led to an increase in the maturity dates of refinancing operations with the ECB, impairing a reduction in main refinancing operations (MRO).

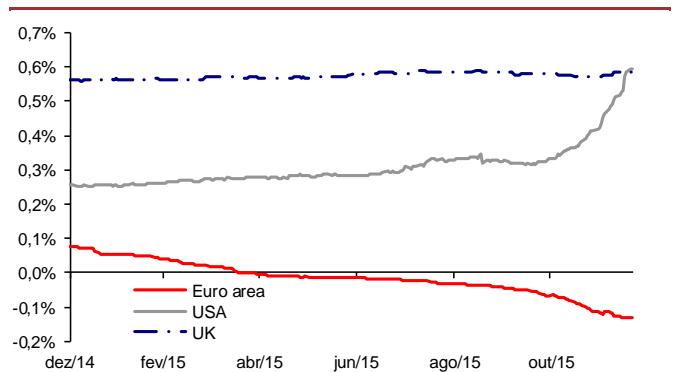
Resulting from the increase in surplus liquidity, in a context of negative deposit rates (since June 2014, and decreased to -0.3% in December 2015), short term interest rates progressively entered negative terms. In the case of the Euribor 3 month rate this occurred at the end of the first quarter, and this reference maintained until year end. Still in 2015, the 6 month rate would also become negative.

In the USA, the Federal Reserve always kept to a line of speed guided towards the beginning of a cycle of increased reference interest rates, which it came to materialize in

December. Anticipating this, but especially in the fourth quarter, an increase in short term interest rates became apparent, with the Libor 3 month rate reaching 0.6% at year end.

Pound sterling interest rates were kept relatively stable, since the Bank of England's Committee for Monetary Policy systematically voted on maintaining reference interest rates at historical minimums, as a result of minimal inflationary pressures, and in spite of the strong growth in the economy.

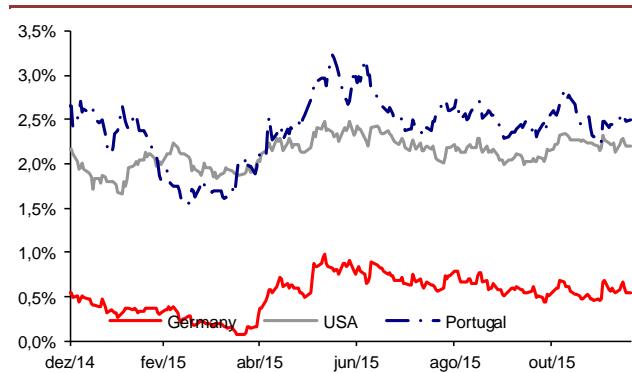
### 3-Months Interest Rates



Source: Bloomberg

Long term interest rates, in the euro zone, registered a lowering trend during the first months of the year, influenced by the programme of acquisition of public debt implemented by the ECB. The 10 year yield was reduced to 0.1% in Germany and to 1.5% in Portugal, in April, for later trend review. In June, yields increased to 1% in Germany and 3% in Portugal. This evolution reflected distinct dynamics: on the one hand a generalized increase in long term interest rates, including the USA; on the other hand, a worsening of the Greek situation, with the referendum on the adjustment programme and subsequent call for early elections, which led to an increase in the European credit spreads, especially in the countries known as "peripheral".

### 10 Year Bond Yields

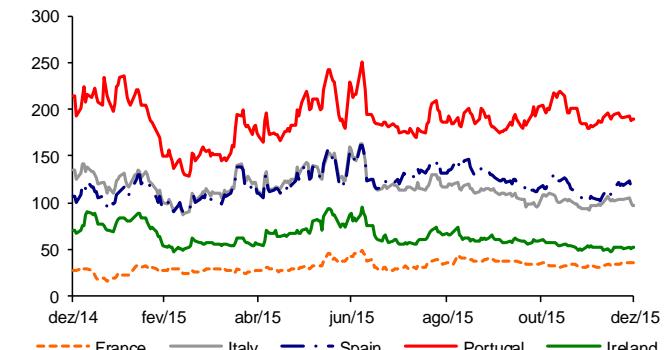


Source: Bloomberg

In effect, the spreads in sovereign credit which had registered historical minimums during March, when the ECB began its programme of public debt acquisition, started to rise in the second quarter, with total increase of approximately 100bp for Portugal, 50bp for Spain, thus reflecting the contagious effects of the worsening in the Greek economic and financial situation.

During the second half of the year, the Portuguese spread became stabilized below 200bp, but with increased volatility associated to the electoral process.

### 10 Year Bond Yield Spreads (pb)



Source: Bloomberg

The euro continued its depreciation in the exchange rate market against generalized currencies, reflecting the difference between the monetary policy of the ECB and that of the main central banks of the developed countries. In effect, the ECB decreased the deposit rates to negative values, and implemented an ambitious programme of non-conventional measures, whilst in the USA and, in a lesser scale, in the United Kingdom, expectations were of an increase in the reference interest rates.

Against the dollar, the euro ended the year being quoted at 1.09 dollars, after having reached minimums near to 1.05 (the weakest euro level since 2003). Even though the ECB does not have an exchange rate objective, there was some coincidence between the announcement of changes in policy and the time when the euro was reaching maximum levels against the dollar.

The effective exchange rate of the euro (which takes into consideration the currencies of the twelve major trading partners in the euro zone) decreased in consonance, thus reinforcing 2002 minimums.

Two special events stood out in the exchange rate market. In January, the Swiss National Bank (SNB) abandoned its linkage with the euro (an exchange rate of approximately 1.2 francs per euro), after more voluminous Exchange interventions and in anticipation of the ECB quantitative easing programme, which could demand more SNB interventions. After an

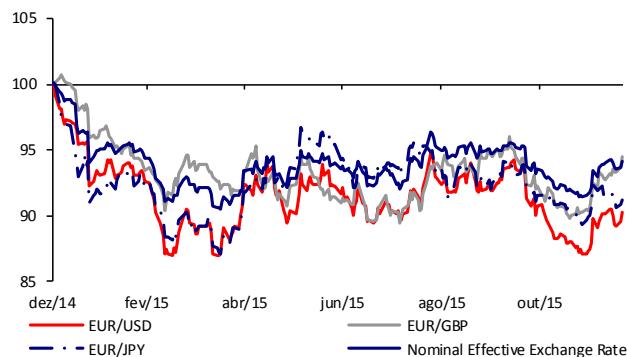
appreciation to 0.96 francs per euro, a progressive correction took place, with the year ending at 1.09 francs.

In August, China altered its Exchange rate regime, setting a reference exchange rate which better reflected the daily market variations, and which resulted in a depreciation of the yuan to approximately 6.4 yuan per dollar (a 2% depreciation, much larger than the fluctuations in the latest years).

This decision was adopted in the period of greater volatility in the shareholder markets and perceived by investors as an additional tool to aid the recovery of the economic activity.

A fundamental reason for the Chinese authorities to adopt an Exchange rate regime in greater consonance with market dynamics was the anticipation of the IMF decision to include the yuan in the reference basket of the "Special Drawing Rights", the IMF unit of account, with effects as from 1 October 2016.

### Main Exchange Rates (Dez-2014 = 100)



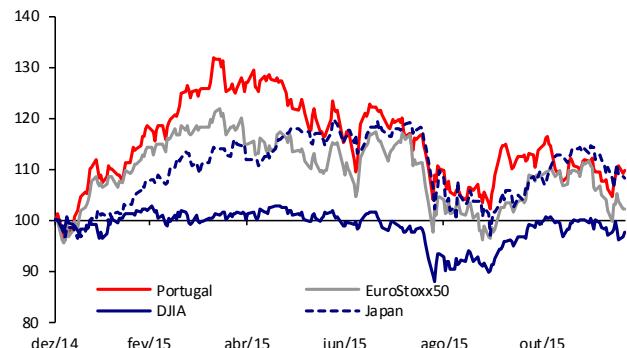
Source: BCE

The equity markets registered, in 2015, a more volatile behaviour, especially in the second half of the year.

In the first months most markets witnessed a greater appreciation, in anticipation of the expansionist measures that the ECB would implement from March onwards. The USA were the exception, with the recurring argument over the beginning of the increasing cycle in the reference interest rates, as well as the unexpected decrease in economic activity in the first quarter of the year.

In the beginning of the second half of the year, the uncertainties concerning the evolution of the Chinese economy culminated in heavy market corrections, with pronounced devaluations that cancelled the gains in the beginning of the year, in Europe (and in China, since during the whole of the first half year indices appreciated very strongly, in spite of economic data for that period already indicating a decrease in activity). At year end, the appreciation trend would be resumed, with 3.9% appreciations in Europe and 9% in Japan.

### Equity Markets (Dec-2014 = 100)



Source: Bloomberg

The Portuguese equity market recorded a 10% appreciation in the full year, with a first quarter appreciation reaching 30% after heavy devaluation in 2014. The PSI20 index benefited from the dynamics experienced by retailers, utilities and manufacturing, with 30% appreciations throughout the year, whilst the banking industry experienced different dynamics (which would culminate, in December, with the BANIF resolution) accompanied by the construction industry, as well as with the specific situation with the Pharol enterprise (former PT, SGPS – communications industry).

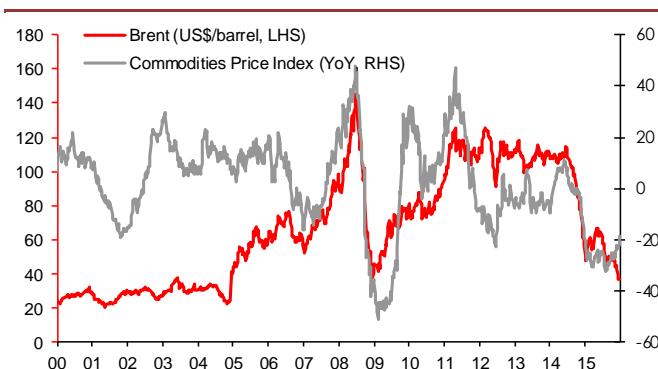
Commodities experienced a generalized and heavy devaluation throughout 2015, with the expectations of a slowdown in the World economy, especially in the case of China, which in the latest years was the country responsible for the greater growth in demand.

Oil was the commodity which showed the greater drop in price, down to approximately US\$ 35 per barrel at year end, an approximately 40% reduction. During the year, and in spite of the lower demand outlook, the main producing countries, namely Saudi Arabia, decided to maintain production levels, even considering the renewal of crude exports by Iran.

The prices of the remaining raw materials suffered a similar evolution, with a clear trend towards depreciation, falling to historical minimums.

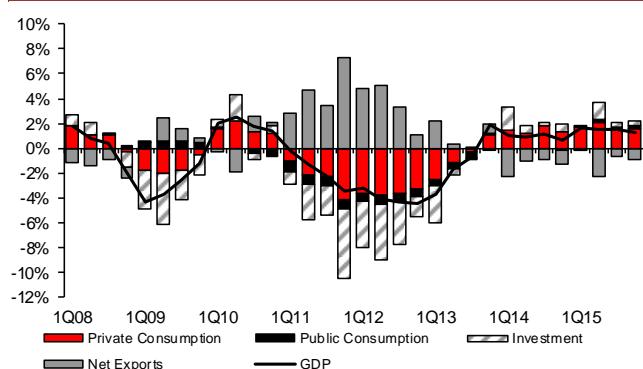
Gold prices also reached historical minimums, slightly above US\$ 1,050 per Oz at year end, and would only resume a clearer role of haven already in 2016, when most shareholder markets fell.

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



Source: Bloomberg

**Contributions to GDP Growth (YoY)**



Source: INE

## Portuguese Economy

The Portuguese economy, in 2015, consolidated the path of recovery commenced in mid-2013, with GDP growing by 1.5%, an increase above the 0.9% recorded in 2014, and after the cumulative 6.8% shrinkage witnessed between 2010 and 2013.

**Macroeconomic Data**

	2013	2014	2015
<b>GDP</b>	<b>-1.1</b>	<b>0.9</b>	<b>1.5</b>
Private Consumption	-1.2	2.2	2.6
Public Consumption	-2.0	-0.5	0.8
Investment	-5.1	5.5	3.6
Exports	7.0	3.9	5.1
Imports	4.7	7.2	7.3
Inflation (average)	0.3	-0.3	0.5
Unemployment	16.2	13.9	12.4
Fiscal Balance (% GDP)	-5.2	-3.6	-3.1
Public Debt (% GDP)	129.0	130.2	128.9
Current Account Balance (% GDP)	3.1	1.6	1.7

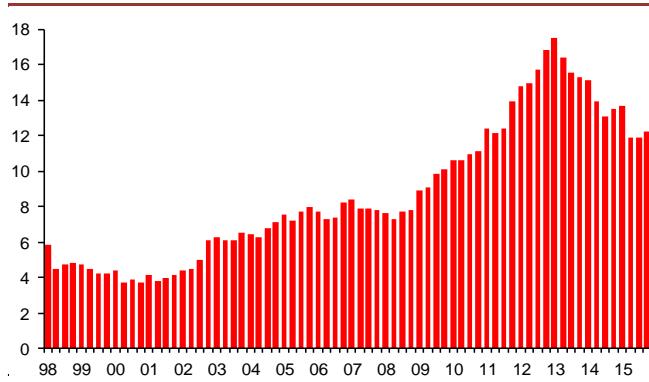
Source: INE, Banco de Portugal, Ministério das Finanças

However, the growth dynamics were not uniform throughout the year, with an approximately 1.7% homologous growth in the beginning of the year decreasing to approximately 1.3% in the last quarter, especially due to a slowdown in investment. Economic growth in the full year was clearly based on domestic demand, especially in private consumption, since net exports contributed negatively to growth, as had already been the case in 2014.

Private consumption grew by 2.6%, benefiting from the better evolution in the expenditure on durable goods, especially in the first quarter, a period during which this component grew by 15% in homologous terms, in line with the heavy sales of light vehicles. In the second half of the year, despite the pace of expansion continued, a slight slowdown was experienced. The remaining consumption components (food goods and non-food goods and services) kept sustained rates of growth, an annual average of approximately 2.5%. The stronger growth in consumption was accompanied by a slowdown in the savings rates to approximately 4% of disposable income.

The unemployment rate decreased to 12.2% in the fourth quarter of 2015, keeping to the reducing trend commenced in the first quarter of 2013, but with abatement in the rate of decrease, in line with the slowdown in economic growth, especially in investment.

**Unemployment Rate**



Source: INE

Investment was, in effect, the variable component that less contributed to growth, especially during the second half of the year, when it recorded two consecutive quarters with negative growth. This evolution resulted from capital expenditure in machinery and equipment, as well as in transport goods, which had experienced a very positive

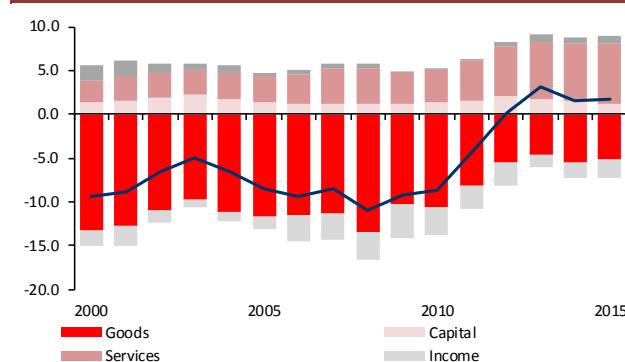
evolution in the previous quarters. The nearing of the elections and the associated uncertainty could have contributed to some postponing of investment decisions, for which, however, grounds still exist, especially in the case of exporting companies, as can be concluded from the investment survey carried out by the National Statistics Institute.

Net external demand, in 2015, continued contributing negatively to growth, extending the trend already witnessed in 2014. However, exports of goods and services showed a very positive performance, with a 5.1% annual growth, in real terms, thus recording a clear increase relative to the previous year. However, external sales suffered a decrease in the second half year, following a slowdown in several relevant markets, especially that of Angola.

Imports grew by 7.3% in 2015, a marginal increase relative to 2014, but in a trend established by a stronger growth in the first half of the year, since external purchases in the second half of the year only grew by 5%. Imports of investment goods continued being the greater contributing factor to the growth in imports, although imports of consumer goods were also very relevant.

The balance of goods and services strengthened the surplus position to 1.7% of GDP, thus consolidating the correction of the external imbalance during the period of economic adjustment, with the clear improvement in the balance of goods and services standing out, with Portugal gaining, in a further year, a larger external market share. In spite of heavy external indebtedness, the deficit in the income balance remained at approximately 2% of GDP.

### Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

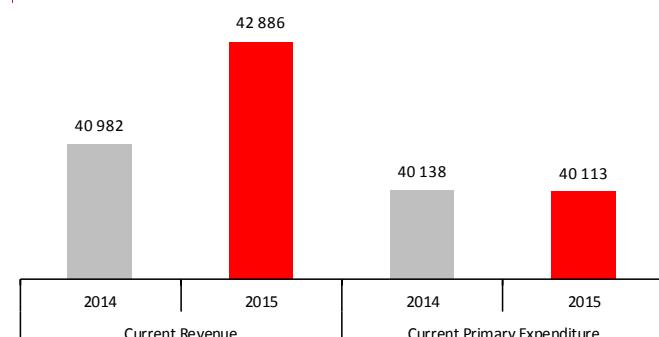
The Net international investment position continued its positive evolution, in line with the improvement in the external balance, with a decrease in the negative situation to 109.4%, a 4.9pp reduction relative to 2014.

The budgetary execution in 2015, on a national accounting basis, recorded a deficit of 4.4% of GDP, but was influenced by one-off factors, such as the Banif resolution, implemented at the end of December. Without the impact of this operation (1.2pp of GDP and other one-off factors) the deficit would have stood at 3.1%, a reduction relative to the 3.6% recorded in 2014.

Fiscal revenue grew by approximately 5% in 2015 especially as a consequence of the dynamics of indirect taxation and mainly of VAT which grew by 7.4%. Income Tax (IRS) revenue fell by 1.3%, resulting from changes in the IRS legislation, but also due to the impact that the decrease in interest rates had on the tax levied on private deposits.

Primary expenditure contracted by 0.1%, resulting from decrease in personnel expenses, even considering the impact of salary restitutions commenced in 2015.

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

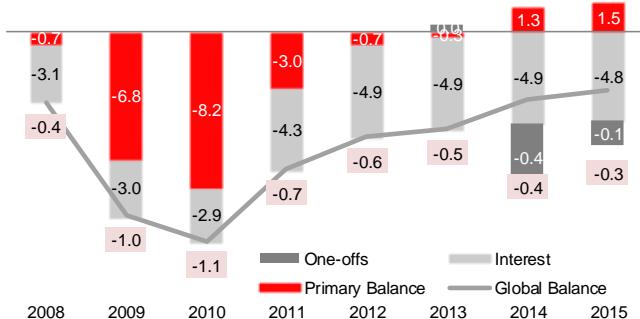


Source: Ministério das Finanças

In terms of national accounting, in 2014 and 2015, the budgetary balance was affected by the resolution measures applied on BES and Banif, respectively. The 3.9 billion euros State loan to the Resolution Fund was recorded in 2014 and, in 2015, the Banif resolution was recorded at 2.2 billion euros. Both are non-recurring measures and as such do not affect the basic budgetary dynamics.

These kept to a path of sustained improvement, as reflected in the increase of the surplus in the primary balance to 1.4% of GDP, after two years in which the balance was already near to equilibrium.

### Fiscal Balance (% GDP)



Source: Ministério das Finanças

The risk notation of the Republic was revised upwards by Standard & Poors, to BB+ (one level below *investment grade*), with a stable outlook. The remaining agencies maintained the rating unaltered.

The Treasury maintained, throughout the year, regular access to the international financial markets, and took advantage of the decrease in long term interest rates to issue a greater volume of debt in order to carry out early repayments of the IMF loans. Thus the Treasury issued, in 2015, in net terms, almost 13 billion euros in Treasury Bonds, and repaid 8.5 billion euros of IMF loans.

The main conditioning factors of the financial industry, in 2015, were related, on the one hand, with the selling process of Novo Banco, which was cancelled in September, to be later resumed in 2016.

On the other hand, in December, and after an inconclusive result in the sales process of the State's participation, Banif was the target of a resolution measure by the Bank of Portugal, under which a part of its assets and liabilities were sold to Banco Santander Totta.

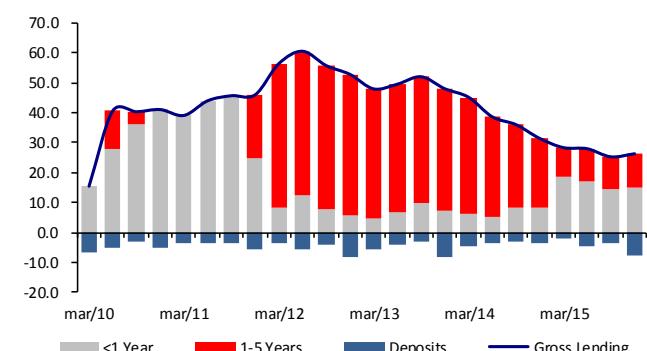
These changes in the financial sector rebounded on the evolution of credit stock, but particularly in credit to companies, since a "carve out" procedure took place in the case of credits in default, as well as in the case of credits granted to specific business sectors (such as the construction and the real estate industries). Consequently, credit granted to companies emphasized the abatement ratio in the month of December, with an annual fall of approximately 5%.

Throughout the year the flows of new credit to private individuals increased pronouncedly, almost doubling in relation to the volumes produced in 2014. However these are still greatly below the production levels achieved before the crisis and the adjustment process. In the case of credit granted to companies, volumes kept stable throughout the

most of the year, with a noticeable increase in the last quarter.

The national financial sector continued decreasing financing obtained with the ECB, in spite of the programmes of liquidity provision and quantitative easing that this institution maintained during the year. Growth in private deposits and credit reduction allowed continuing the deleveraging process in the industry, which, in September showed a 104% deposit/credits ratio. At year end, national banks were financed with 26.1 billion euros (20 billion when adjusted by the deposits with the ECB, which compares with 27.7 billion at the end of 2014).

### Funding at the ECB (€ bn)



Source: Banco de Portugal

## Main risks and uncertainties for 2016

The development of the business in 2016 is conditioned by several risk factors related with the domestic and external economic environment, and in the context of regulation and supervision.

The uncertainty as to the growth dynamics in some of the emerging countries and its knock-on effect on the developed economies could affect the confidence of the business community and materialize some of those latent risks into a more pronounced generalized slowdown in activity. Other risks accrue which carry over from 2015, such as the interest rate increase cycle in the USA, the migrant crisis in Europe and the geopolitical pressures in the Middle East. The UK membership in the EU referendum contributes with additional uncertainty with the “Brexit” scenario fostering further risks of insecurity as to the sustainability of the Union itself and as to the economic and financial effects on the British economy.

Conditioning factors in Portugal are various. The modest context of economic growth and the deleveraging process of the private non-financial sector may contribute towards a more gradual expansion in business volumes. The confidence of the business community will depend upon the evolution of the European economy as well as on budgetary execution. During the year the Bank of Portugal should resume the selling process of Novo Banco, which had been discontinued at the end of summer in 2015.

The monetary policy being carried out by the ECB may also affect the business of the banking industry, resulting from the decrease in the reference interest rates. Lower negative rates could affect the industry's profitability, since these cannot be totally passed on to the banks' assets and liabilities, with the consequent decrease in net interest income.

From the regulatory point of view, there is an ongoing analysis over a number of proposals by the Basel Committee on the calculation criteria of capital usage, including the treatment of the sovereign debt by the banking industry.

In 2016, and within the scope of the creation of the Banking Union, the Single Resolution Mechanism is coming into effect, which will also be responsible to set the minimum requirement to absorb losses (MREL), and comply with the European banking institutions, and which reinforces the requisites for minimum own funds.

## Commercial Banking

### Private and Business

In 2015, the Bank guided its business activity in line with the strategic priorities and corporate culture of a Simple, Personal and Fair Bank.

In a rationale of diversification of customers' savings portfolios, the Bank maintained its continuous offer of indexed deposits and investment funds, which resulted in a 757 million euro increase in resources.

In the case of credit, and answering customers' needs of support for their projects, a 101.8% increase was recorded relative to the homologous period in the production of home loans and 4.4% increase in the production of personal loans.

In the case of Business/SME credit there was a 23% growth in production relative to the homologous period, much sustained by the expansion in the credit worthy customer base, which allowed a positive evolution in this segment.

In March 2015 was also highlighted by the launching of Mundo 1|2|3, a solution steered towards the Bank's private individuals which, in addition to the advantages of a combined account, can provide a further set of benefits, via cash-back in the Mundo 1|2|3 card account. At year end, more than 106,000 customers had adhered to the Mundo 1|2|3 account. This solution has allowed the Bank to increase the capture of new customers and strengthen relations with existing customers.

In the credit card heading a net variation of more than 40 thousand active cards was recorded. During the year more than 56 thousand credit card customers were recorded, as well as a 3.1% growth in the bound customer base, who privilege Santander Totta as their preferred Bank for transactions.

With regard to investment funds marketed by Santander Totta, the total of assets under management in securities investment funds represented, at the end of 2015, a 13.2% market share.

The range of Santander Select/Private funds recorded a growth of 336.2 million euros. This series led the growth in funds in 2015 and its total volume rose to 631.3 million euros.

Real estate investment funds amounted to a total of 478.9 million euros, at the end of 2015.

### Private Banking and Select

In the area of Private Banking, 2015 confirmed, once more, the soundness, consistency and the excellence of the service rendered to customers, based upon a differentiating business model, with great proximity and a wide range of financial solutions within an open design with the intent of fulfilling their financial needs.

The work developed throughout the year was also recognized by the market and its players, through the award of three prizes referenced in the industry, the Bank having been distinguished as comprising the best area of Private Banking operating in Portugal, in line with the opinions of the highly regarded editors of Euromoney, PWM/The Banker and Global Finance.

The *Select* brand, created for affluent private individuals and launched in February 2014, has been positioning itself in the



market as a reference and as a partner in customers' projects. The commercial model was expanded in

order to guarantee further cover and better quality of service. Simultaneously, Santander Totta is focusing largely in the streamlining of digital coverage, providing *Select* customers with a set of wider online functionalities.

### Companies

The companies' segment continued deserving, in 2015, special regard in Santander Totta's global business, with the growth in the credit portfolio being maintained as the strategic axis in the Bank's activity.

Within this scope, and jointly with governmental bodies, several credit lines were made available throughout the year in support to companies' businesses with special regard to SMEs.

The line of credit agreed with the European Investment Bank (EIB), amounting to 200 million euros which commercialization began in November 2014, intended to support SMEs, Mid-Caps and small and medium sized infrastructure of public sector bodies and public or private higher education establishments, was totally placed in the first half of 2015. On 27 November, Santander Totta renewed the partnership with EIB, subscribing a new line of credit amounting to 500 million euros, with the freeing of a first tranche of 200 million euros, of which 168 million have already been placed with companies.

In the SME Growth lines, Santander Totta continued maintaining a leadership position in the placing of these lines with companies. In the 2014 SME Growth line, the marketing of which ended on 30 April 2015, Santander Totta stood out

as leader with an 18.5% share in the amount of financing of operations contracted with SME Investment operations. In the 2015 SME Growth line, which started in April 2015, the Bank also leads with a 19.4% share, corresponding to 2,029 operations comprised within SME investment, with a total of 270 million euros in approved financing.

With the objective of strengthening its presence in the agro-food industry, considered essential for the growth of the Portuguese economy, the Bank launched, in the first quarter of the year, the "Agriculture Solution", with a competitive and differentiating offer of services. It is intended, with this offer, to support the normal business of primary sector companies, namely via the availability of short term lines with bonus provided by IFAP (Agriculture and Fisheries Financing Institute) to support agricultural campaigns and by advancing the value of aids to revenue established by the Common Agricultural Policy, and subscribed, for the purpose, a protocol with the Federation of Portuguese Farmers, intended to facilitate the access to such advances to the farmers which are members of the Confederation.

Together with these credit lines, and in order to maximize customer capture and their transaction possibilities, the Bank also made available, a campaign with the offer of a gift (a mini Ipad or a LED TV set) for the domiciling of these supports with the bank during two years in a current account with automatic cash management.

The Bank equally promoted a set of initiatives confirming its presence in this industry, namely the participation and sponsorship of the "Cycle of Conferences of the *Vida Económica Magazine*" where topics of interest and relevance for the industry were presented; the presence in fairs such as Ovibeja and National Farming Fair and the partnership with specialized consultants for the rendering of technical support to customers in the carrying out of their projects. In October, the Bank, in close cooperation with EDIA (Alqueva Development and infrastructure Company, SA), organized an entrepreneurial mission to the Alqueva complex, inviting more than 20 Portuguese and Spanish companies and farmers to take part, with the objective to become acquainted with the potential for agricultural and agro-industrial investment in the area of intervention in the Alqueva hydro-agricultural complex.

For the support of investment projects possible to become framed in the programme of incentives to economic investment and job creation - Portugal 2020 - Santander Totta launched an integrated solution comprising a set of financial products, specifically through advances of the incentives approved by the medium/long term financing line to supplement the sources of finance for the projects, and by a line of bank guarantees to be rendered to the management bodies of Portugal 2020. Within this range, partnerships were also established with the more relevant consultants to

provide support to companies, with the aim to disseminate and explain the details of the Portugal 2020 programme.

The Santander *Advance*, a programme launched at the end of 2014, and which offered companies, with distinctive market originality, an integrated set of financial and non-financial solutions, consolidated in 2015 this Santander Totta brand with the companies segment. The *Advance* credit line with an interest rate bonus due to subscribing the Bank's products and services provided finance to 1,630 companies amounting to a total of 45.6 million euros.

Specialized credit recorded a 72% growth in production relative to 2014, with special regard to real estate leasing, supported both by the recovery in this business, as well as by the divestment in real estate. Also to be noted was the positive evolution in the production of automobile leasing (+76%) and equipment (+53%), resulting from the moderate economic recovery.

During 2015, Banco Santander Totta developed new technological solutions which allowed improvement in the quality of products, solutions and services which it makes available to its customers with external business and by widening their distribution channels. Highlighted are the Trade Finance electronic platform as well as the factoring and confirming solutions in euros and other currencies.

In partnership with international organization, namely the International Chamber of Commerce, several workshops were set up intended for companies in which practical topics were dealt with related to exports and imports, as for instance incoterms, contracts, customs issues, among others.

The Bank has been consolidating its standing in the Portuguese market as one of the main banks supplying international banking products and services, having been singled out, in 2015, with the "Best Trade Finance Bank Award" attributed by *Global Finance*.

### Promoters and brokers

The Channels of External Promoters and Real Estate Brokers were the object, in 2015, of emphasized growth in the production of home loans which largely overcame all the objectives set.

Several factors contributed towards these results, namely the Bank's greater appetite in credit capturing, a more favourable environment in the real estate industry and sound work carried out in streamlining the network of real estate brokers with whom the Bank has established protocols.

Many partnerships were reactivated and others established, in 2015, with new real estate brokerage companies. Just like in previous years, the Bank was strongly represented in the annual conferences of the main real estate brokers,

participating, again in the SIL – Portuguese Real Estate Exhibition with a stand almost exclusively dedicated to capture new home loan operations.

Although the focus in the second half year was mainly set on the capturing of customers and operations via the broker's channel, the regard given to external promoters was not minimally affected. A proximity policy was maintained with these partners who also achieved excellent results in home loans, supplemented by very positive contributions in business features such as personal credit and credit to companies, and also in binding features such as the transforming/capturing of Mundo 1|2|3 and digital customers.

Still concerning the project of promoter outlets, 26 more were opened in the second half year, thus reaching a total of 50 openings in the year, the Bank now having 320 outlets in operation. This outlet network, which supplements the branch network, has been experiencing sustained growth, more than ever contributing towards capturing business and customers.

### Supplementary channels

2015 provided continuity to the implementation strategy of the Multichannel Transformation Plan, incorporating the positioning established by the Group for direct channels with the objective of being nearer to its customers and more than ever enabling the digital offer of the Bank's services.

In this context, a number of undertakings and improvements was implemented, with the objective to widen the offer and to substantially improve the customers' experience with faceless channels.

#### SelfBanking

The *SelfBanking* activity was focused on the placing in practice of the strategy and action plans established for the increase in business, for the service rendered to the customer and for the increase in the use of automatic equipment.

The launching of the streamlining plan for the use of equipment, which aimed to supply training to, and acquaint the branches with the functionalities and benefits of customer service, and the increase in the number of new functionalities, amongst which stands out the forwarding, by electronic mail, of the digital receipt of operations carried out, strengthened the offer of customer services.

Continuity was equally provided to the plan for the renewal of electronic equipment, with the replacement of more than 80 items installed in branches. Within technological innovation, the project for ATMs enabled to re-circulate

deposited banknotes was consolidated, with 20 items of equipment with this capability installed in 2015.

The number of ATM's in the Multibanco network decreased slightly; however, market shares continued stable as compared with the previous year, with figures of 12% in number of ATM's and 13% in number of operations.

#### NetBanco

The NetBanco Private, the channel with largest focus on sales and an integral part of customer relations, the highlight goes to the enlargement in the offer of autonomous insurance for contracting and the possibility of contracting financial insurance. The introduction of regulatory updates to comply with legal requisites is also part of the set of alterations carried out.



The Mobile Private, the year was highlighted by primordial developments in the Mobile channel. An App was launched with a modern design and

simple and intuitive surfing, fully renewing all the bank's image in the available digital service via tablets and smartphones. In addition to improvements in design and surfing, new functionalities were introduced, such as the possibility of access through a PIN code, buttons for swift access to the more common banking operations and an optional "confidential mode" that inhibits the availability of account balances. The new App was also launched with a Portuguese and English version.

A Smart Watch was also launched – which allows consulting balances and operations in this type of device.

A clear stake was placed in the NetBanco Companies platform, namely in its transactional, design and surfing possibilities, with levers for the capturing and binding of company customers. Standing out amongst the main achievements are the redesign of the platform, the new card functionalities, the widening of the offer of digital documents (TPA statements, guaranteed current account, etc.) and circulating balances and alerts.

The number of users of digital channels experienced a positive evolution in 2015, with the highlight going to the Mobile channel with an annual growth in excess of 80%, result of the great effort placed on the improvement of this channel.

#### Contact Centre

In 2015, the Santander Totta Contact Centre was considered the "Best Contact Centre in the Portuguese Financial Sector",

the prize attributed by the Portuguese Contact Centre Association.



The Contact Centre has strengthened the investment placed in the increase of its autonomy and in the swift resolution of all the situations put forward by the customers. All customers' requests even if outside the scope of the Contact Centre, are followed by the competent areas and swiftly resolved.

Several actions were launched in the Companies and Business segments, amongst which stands out the launching of the Company Service Centre whose objective is to guarantee the following up of all the operational requests that company customers usually place with the Companies Commercial Departments and, simultaneously, to ensure a swifter answer and improved customer experience. This project is still in the pilot stage, currently with 4 Companies Commercial Departments.

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

The Contact Centre set up a team of specialists to support customers and employees in Mundo 1|2|3 which also ensures attendance to contact requests placed with the site.

### Social Networks

The number of fans of the Bank's institutional Facebook page increased by 185,853 in 2015, allowing the Bank to reach 250,000 fans and thus the Portuguese Bank with the greater number of Facebook fans. This annual growth (285%) was achieved with the reinforcement of publicity in Facebook and with the launching of pastimes and sundry initiatives.

Standing out in the main actions carried out in 2015 was the strong support provided to the launching of Mundo 1|2|3. This was the target of transversal communication in the social networks, with special regard to the dissemination of the campaign video in YouTube and in Facebook and, since its launching, a weekly pastime dedicated to Mundo 1|2|3.

The Bank is currently present in 6 social networks: Facebook, Twitter, LinkedIn, YouTube, Instagram and Google+.

### International business – Foreign Residents

The business volume in the Foreign Residents area showed good growth levels, signalling the trust placed by customers with the Bank and, similarly to previous years, a relevant growth was experienced in the capture of new customers.

Commercial strategy was focused on security and profitability, with conditions adequate to the market situation, and thus allowed a growth in the volume of resources and transfers, with the credit portfolio showing encouraging signals in the reversion of the reduction trend in spite of repayments.

Within the greater proximity strategy, strong support was maintained by external units to the Portuguese who work and reside abroad, thus guaranteeing an offer of services amongst which stands out the streamlining of the APP, Mobile and Netbanco, in addition to the diversification in savings products linked with the commercial network in Portugal.

Similarly to the previous year and linked with the newspaper with the largest circulation in the communities, the "Mundo Português", interviews were conducted with the officers responsible for the Bank's commercial areas in order to highlight the offer of services.

In support to the communities in the countries where Santander Totta is represented meetings with customers were held, in 2015, in Zurich, Geneva, London, Paris and Lyon, in which it was possible to dialogue and find out customers' experiences, and endeavours made to transmit the Bank's values and its availability to support the community.

The Summer campaign was carried out and evinced great receptivity and satisfaction from customers. Offers were prepared valuing national products with specialized attending and great proximity in the branches with greater preponderance in the segment.

Communications campaigns were also carried out in airports and in the main branches, encouraging customers to transfer funds to Portugal in which a strong growth (35%) was experienced. Equally to be highlighted in 2015 were the very significant exchange rate changes in Switzerland over which the central bank had no further interference.

The commercial activity of the London branch maintained its focus on relations with the Portuguese residing in the United Kingdom, with special regard to the capture of new customers and in support for transfers.

### Global Corporate Banking

The Financing Solutions & Advisory area developed, in 2015, intense activity, accompanying companies' trends in discovering new investment opportunities, with highlights for the following operations: (1) Consultancy and financing in the acquisition of the Vilamoura Resort by Lonestar; (2) Financing of the privatization of the Lisbon Oceanário (Aquarium); (3) Financing the privatization of EGF; (4)

Consultancy in the ENEOP2 asset split; (5) Consultancy to First State Investments in the acquisition of Finerge and in the structuring and setting up of the financing of the operation; and (6) Consultancy to Lancashire County Pension Fund in the acquisition of a minority share in the portfolio of wind energy assets of EDF Energie Nouvelles in Portugal.

The Fixed Income & FX (FIC) area has been supporting Portuguese companies through the presentation of solutions for the mitigation of financial risks, namely interest rate and Exchange rate risks. In this area, the Bank has made available specialized accompaniment, comprising the market perspectives in the different alternatives of risk management, both in the interest rate feature and in the support provided to international trade and external investment. As such, the support provided to the internationalization of domestic companies should be highlighted, namely: (1) by reinforcing the stake placed on products that improve efficiency in the management of the Exchange rate risk and, (2) by the greater proximity to importing and exporting companies aiding the management of flows arising out of their trade.

In the Structured Products area, 2015 recorded a fair performance in the marketing of liability products. Nineteen structured products were issued during the year, of which fifteen were euro denominated products amounting to a total of 899 million euros and 4 US Dollar denominated products amounting to a total of 57.3 million US Dollars. The issues placed in this period are indexed to different assets transacted in shareholder markets in diverse geographical locations.

## Outlook for 2016

Economic activity should continue to expand, but at a moderate rate, within an environment of generalized uncertainty. In Europe, policies continue globally expansionist, especially monetary policy which, together with the low levels in oil prices are contributing to the improvement of household budgets and reducing companies' expenditure. Equally the need to lodge migrants who are seeking shelter in the EU may contribute towards growth, with the creation of infrastructure and reception equipment.

In Portugal, economic growth must also remain sustained, however moderate, benefiting from exports and from sustained private consumption. The compliance with the demanding budgetary goals may contribute towards confidence and the necessary revival of investment, the catalytic factor of larger employment and growth.

The banking industry will probably find a similar environment to that of the previous year, with low interest rates, competitive pressure and slow growth in business volumes. Also added are the new regulatory demands for capital requisites and the deepening of the Banking Union.

After the acquisition of a number of assets and liabilities of the Banif Bank, following the resolution measure applied by the Bank of Portugal at the end of 2015, Santander Totta proceeded to the immediate integration of the commercial structure and the rebranding of all branches. One of the main objectives for 2016 is the concluding of the operational and technological integration.

Santander Totta has shown a strong capability in generating revenue, maintaining the soundness of the balance sheet and a comfortable liquidity position. For 2016, the main objectives of Santander Totta are the increase in business volume and revenue and improvement in profitability, with capital levels in line with business needs and regulatory requisites.

Santander Totta will continue focusing improvement in customer satisfaction with the objective to increase binding levels, in order that Santander Totta is their primary Bank. Strategy will be based: (1) on the greater simplifying of procedures, so that these become more efficient; (2) on the use of tools that allow better management information; and (3) on streamlining risk management, with models better adjusted to each customer segment, maintaining a prudent and strict management of assumed risks.

In 2016, Santander will continue maximizing the process of digital transformation in order to render a fuller and more accessible customer service, thus complementing the branch network which will remain a fundamental channel in customer relationship.

## Human Resources

The Human Resources area assumed an active and determining role in the implementation of the Bank's new culture: Simple, Personal and Fair.

The year was highlighted by the development of programmes and actions which contributed towards communicating, disseminating and consolidating the new values and connected behaviours, such as the implementation of the "Santander Way" communication actions, the 2015 "We Are Santander Week", the building of the Open Training Platform, and an enlarged volunteering programme in partnership with *Junior Achievement*.

Also in the management plan, the strengthening of employee proximity through the human resources managers, the meetings with the diverse areas and the *Move IN* programme that promotes internal mobility, signal the dynamics created throughout the year.

The distinction "Family Responsible Company" was strengthened with the implementation of the *flexiworking* policy, which comprises new balancing measures between personal and professional lives and reinforces the already existing measures.

A mobility programme was started for the central services – *Move In* – to be pursued in the case of technical and administrative duties, endeavouring to find more flexible structures, to ensure back-ups for specialized functions and cooperation between areas and hierarchies. The programme also allows, at employee level, the development of the "accepting change" principles, generating career opportunities.

Within the scope of the knowledge and development area, in 2015, the guidance for updating and acquisition of knowledge in the legal, financial and commercial areas must be highlighted. In the first half of the year, the physical presence in training courses in financial products (104 actions in meeting rooms, 15,386 hours and 2,367 participants) was reinforced with the attendance in 4 e-learning courses on the same subjects (18,306 hours).

Still within this scope, relevant training was provided in "Prevention of Money Laundering", "Legal Obligations and Information Duties", "Data protection in the Santander Group" and "Certifications as Agent and Insurance Broker or Reinsurance Broker".

The third edition occurred in 2015 of the "Women's Executive Program", which has the objective of impelling the careers of women with potential through the several key-competences grouped in 3 blocks: Business, Leadership, and Career/Personal Management. Twenty seven Managers took part in this programme.

With an offer of approximately 100 e-learning courses, 33% of total training hours were achieved (68,647 hours) via platform, thus allowing a larger offer to answer individual needs and geographic dispersal.

With regard to collaboration with Universities, Santander Totta is present in the main national higher education institutions: Catholic, NOVA, ISCTE, ISEG and FEP. Within the scope of the Stock Exchange internship programme, a total of 95,208 training hours was carried out comprising 130 students from several schools and universities.

No. of training hours – 294,291  
 No. of training hours per employee – 39  
 % of training in *e-learning* – 34%  
 Global assessment – 8.8 (1 to 10)  
 Investment in training – 1.7M€  
 Investment in training /total real remunerations – 0.94%

In 2015, the Group disclosed the *flexiworking* policy, which substantiates a new working means, Simple, Personal and Fair.

*Flexiworking* is a policy intended to create a working environment adaptable to personal and family features of each employee, without loss in the demands and the focus on results. It aims to fit the working conditions to employees' needs in order to guarantee an improved work-personal life balance, whenever it is objectively possible and compatible with service and business requirements.

Santander Totta was certified in 2010 as a Family Responsible Company, and is the first company in Portugal to obtain this certification (which was renewed in 2013). More than 50 measures of conciliation and balance are currently made available, with those being growingly made use of.

Solidarity continued included in the agenda of initiatives promoted and supported by the Human Resources area, a value which is comprised in the Personal and Fair features of the new corporate culture and which, throughout the years, has shown its consistency by the adhesion of employees to promoted initiatives. A practise that nears the Bank to the surrounding communities and allows bringing help to the needier.

The development and promotion of support programmes to the process of cultural change, SANTANDER WAY, together with the management of the WE ARE SANTANDER brand, comprised the action axis in the field of communication and commitment of the HR area.

The Santander Way cultural change was launched in 2015, aiming to contribute to the progress of people and companies, to be the best commercial bank by gaining the

trust of employees, customers, shareholders and society in general, via the 3 values: Simple, Personal and Fair.

The HR area had a determining role in communicating these features – vision, mission and values – to all employees, with the objective to obtain the recognition, in 2017, of being one of the 3 best banks with which to work in Portugal.

Eight behaviours were defined for these features to become tangible: (1) Showing Respect; (2) Listening Attentively; (3) Speaking Clearly; (4) Fulfilling Promises; (5) Promoting Collaboration; (6) Working with Passion; (7) Supporting People; and (8) Promoting Change.

To ease the integration and understanding of the 8 behaviours a communication campaign was implemented that associated the 8 behaviours to 8 sports activities. A training action was also construed in terms of *e-learning*, to consolidate the behaviours, with obligatory attendance.

A Simple, Personal and Fair Bank was the motto of the “2015 We Are Santander” week, an initiative which was an opportunity to consolidate relationships between teams, hierarchies, employees and customers. Carried out in June, it comprised 4 days of initiatives with a programme of activities focused on the strengthening of the values of the new culture.

Informing with regularity to involve and motivate employees by favouring a culture of transparency, continued to be a current practise expressed through the 300 news items published in the distinct channels of internal communication. Communications plans intended to support several specific initiatives such as “Prize for Excellence”, “Open Day Santander Totta”, “Santander Way”, “Volunteering Programme with Junior Achievement”, the recycling campaigns and safety of information and the disclosure process on the construction of the new Santander Totta buildings, and others, signal the importance that is given to internal information by HR Department.

To make known the construction plans of the new Santander Totta building, the size of the undertaking, what it represents in social, economic and environmental terms and its characteristics required a very special means to disclose to all – employees, customers and society in general, the day-to-day construction details, and the “Crescer Mais” (Grow Further) blog was set up which, less than one year later, registers more than 120,000 page views.

Two questionnaires were promoted during the year to find out employees’ opinions over the organizational culture, working environment, policies and practises of human resources: *Great Place to Work* and corporate commitment questionnaire. These 2 assessments will be held on an annual basis in order to allow, in 2017, confirming if the Bank

is achieving the objective of positioning itself among the 3 best Banks to work with.

A high level of participation was achieved (87%) in the questionnaire on corporate commitment, equivalent to a 10 p.p. increase over 2014, which evinces the consolidation of this questionnaire as a valuable tool for employees to communicate their opinions and help in the bank’s transformation.

No. of employees on 31 December 2015 – 5,238

Employees per gender:

% Male – 54.2%

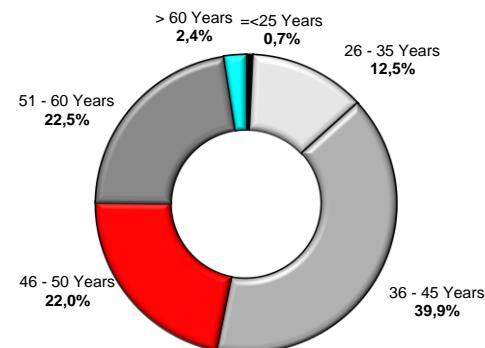
% Female – 45.8%

% Female Managers & Heads of Dept./Total

Managers – 32.3%

Average Age – 45 years

### Age Group Distribution



### Quality

#### Quality of service and customer experience

The Bank continued focused, in 2015, on the improvement of the two main features of its quality policy to be recognized as a reference Bank in the quality of services rendered to its customers and to provide them with customers experience in line with the “Simple, Personal and Fair” values. A clear improvement was recorded, in 2015, in all indicators, such as customer satisfaction, number of complaints, quality certification, comparative assessment with competitors and market recognition prizes.

#### Customer satisfaction

The demanding model of 5 Star Quality, implemented since 2012, obtained very positive and inspiring final results, with 56% of the branch network already classified as branches of excellence. This result is owed as much to the improvement

in indicators relative to operational procedures as well, and very especially to customer satisfaction indicators in which the Bank recorded a progressive and sustained improvement which is growing stronger year upon year.

2015 witnessed the implementation of the commercial network's possibility to analyse its results, in each branch, according to customer segment (Mass-market, Select, Business and University), thus allowing a more specific action in the segments which show less favourable metrics.

Since the "waiting time" is an extremely important feature in customer satisfaction, a project was launched with the objective to improve this type of experience.

Throughout 2015, the monthly evolution of the number of complaints showed a diminishing trend, culminating at year end with a 17% reduction relative to the homologous period.

### Quality certification

Banco Santander Totta, certified as an organization by ISO standard 9001 since 2001, maintains annual follow-up audit procedures. It was again audited in 2015 and its certification guaranteed in line with a standard which is a token of reference in the improvement of best practises.

### Positioning regarding the competition

The bank carries out every half year, a comparative assessment between the main banks in the market, which intends to measure customer satisfaction relative to its primary bank. Banco Santander Totta has achieved very positive results in this assessment, mainly in the latter two years. This assessment, carried out in all the geographical locations where the Santander Group is represented is the main quality indicator of the Bank and the Group in which it belongs.

### Market recognition

Banco Santander Totta was elected "Consumer Choice", in the category of large banks, thus achieving, for the second consecutive time the preference of Portuguese consumers. "Consumer Choice" is the largest brand assessment project in Portugal which allows finding out the degree of satisfaction and acceptability relative to a given product or service.

## Consolidated Activity

### Introduction

Banco Santander Totta achieved, in 2015, net income amounting to 284.9 million euros (excluding badwill and the associated restructuring provision regarding the acquisition of former Banifs' assets and liabilities), a 72.5% growth relative to the homologous period, a 24% growth in revenues and 3.5% reduction in operating costs.

Following the resolution measure applied by the Bank of Portugal to Banif, at the end of December 2015, Banco Santander Totta acquired a credit portfolio amounting to 6.5 billion euros and a deposit portfolio amounting to 4.5 billion euros.

The credit portfolio (including guarantees and sureties totalled 35.6 billion euros, a 28.2% increase in homologous terms. Credit granted to companies increased by 38.9% relative to end 2014. Credit granted to private individuals grew by 17.4% in the last year.

The credit at risk ratio stood at 4.8% which compares with 5.7% experienced at the end of the previous year. With a coverage ratio standing at 144.0%, compared with 75.9% at end 2014.

Customer's resources stood at 31.9 billion euros, a 19.0% increase in annual terms, with deposits evolving by 25.4%.

The-Loan-To-Deposit ratio, measured by the weight of net credit in deposits, stood at 114.8%, at end 2015, compared with 116.0% achieved one year earlier.

The Common Equity Tier 1 (CET 1) ratio, in line with the CRD IV/CRR rules applicable in 2015, reached 13.9%, and was set at 14.0% on a fully implemented basis.

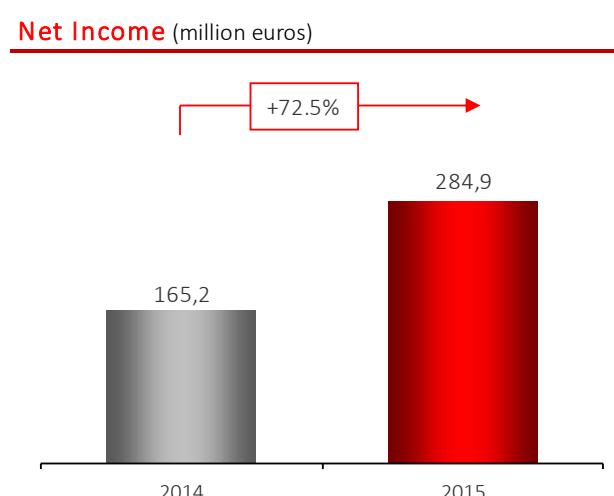
The Bank issued, in October 2015, 750 million euros of covered bonds, at 5 years, with a 55 bps spread over the reference indexing factor.

At end 2015, net financing obtained with the Eurosystem stood at 2.1 billion euros. In turn, the asset portfolio eligible as guarantees in financing operations with the Eurosystem rose to 11.3 billion euros.

The LCR (Liquidity Coverage Ratio) ratio, reckoned in line with CRD IV rules, stood at 230%.

In December 2015, Banco Santander Totta increased its share capital by 300 million euros, through the replacement of an issue of preferential shares, in line with the capital optimization plan.

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



Net Income in Dec/15 does not include badwill and an associated restructuring provision regarding the acquisition of former Banifs' Assets and Liabilities

Results

**PROFIT AND LOSS ACCOUNT\*** (million euro)

	2015	2014	2015/2014
<b>Net Interest Income (without Dividends)</b>	<b>560.0</b>	<b>543.5</b>	<b>+3.0%</b>
Dividends	1.2	1.2	-3.6%
<b>Net Interest Income</b>	<b>561.1</b>	<b>544.8</b>	<b>+3.0%</b>
Fees and Other Income	248.7	262.6	-5.3%
<b>Commercial Revenue</b>	<b>809.9</b>	<b>807.3</b>	<b>+0.3%</b>
Gains/Losses on Financial Transactions	300.2	87.7	+242.4%
<b>Operating Income</b>	<b>1,110.0</b>	<b>895.0</b>	<b>+24.0%</b>
Operating Costs	(469.9)	(487.2)	-3.5%
<b>Net Operating Income</b>	<b>640.1</b>	<b>407.8</b>	<b>+57.0%</b>
Impairment and Other Provisions	(236.2)	(192.5)	+22.7%
Results from Associated Companies	14.5	19.8	-26.7%
<b>Income Before Taxes and MI</b>	<b>418.4</b>	<b>235.0</b>	<b>+78.0%</b>
Taxes	(133.5)	(69.9)	+91.1%
Minority Interests	0.0	0.0	-17.6%
<b>Net Income</b>	<b>284.9</b>	<b>165.2</b>	<b>+72.5%</b>

(\* ) Net Income in Dec/15 does not include badwill and an associated restructuring provision regarding the acquisition of former Banifs' Assets and Liabilities

Net interest income (without Dividends) totalled 560.0 million euros, evincing a 3.0% increase compared to the homologous period, through an adequate management of assets and liabilities spreads, notwithstanding a reduced interest rate environment.

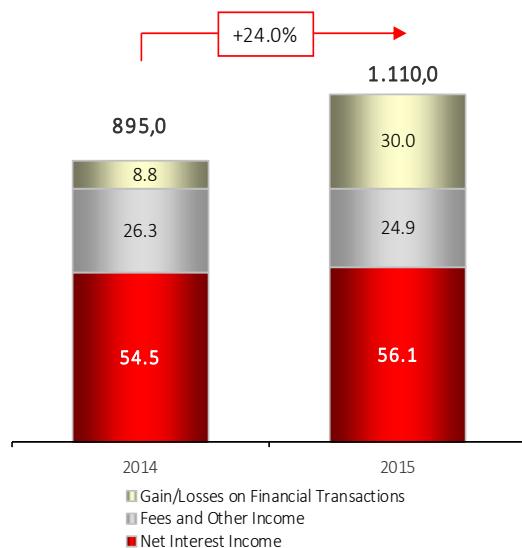
Fees and Other Income amounted to 248.7 million euros, 5.3% lower than the value recorded in the homologous period, with an increase in commissions on accounts, on investment funds and on loans, although abated by commissions on means of payment, services and insurance.

Commercial revenue reached 809.9 million euros, slightly above the value recorded at end 2014.

Gains/Losses on Financial Transactions stood at 300.2 million euros, a 242.4% as compared to the homologous period, reflecting the favourable impact of adjustments in the public debt portfolio, the exercise of the selling option of the shareholding in Partang (49%), which held a 51% shareholding in Banco Caixa Geral Totta Angola, in the terms of an agreement undertaken in June 2009, and the sale of the position in the "Multiobrigações" fund.

Operating income amounted to 1,110.0 million euros, a 24.0% increase, with a positive evolution in net interest income and in Gains/Losses on Financial Transactions.

**Operating Income** (million euros)



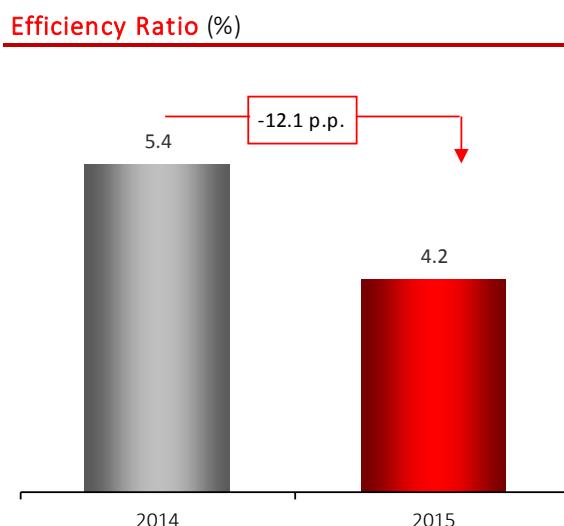
Total operating costs totalled 469.9 million, a 3.5% reduction in the last year.

**OPERATING COSTS AND EFFICIENCY**

	2015	2014	2015/2014
Personnel Expenses	(275.6)	(281.6)	-2.1%
Other Administrative Expenses	(154.2)	(143.7)	+7.3%
<b>Operating Costs</b>	<b>(429.8)</b>	<b>(425.3)</b>	<b>+1.1%</b>
Depreciation	(40.1)	(61.9)	-35.1%
<b>Total Operating Costs</b>	<b>(469.9)</b>	<b>(487.2)</b>	<b>-3.5%</b>
<b>Efficiency Ratio (excludes depreciation)</b>	<b>38.7%</b>	<b>47.5%</b>	<b>-8.8 p.p.</b>
<b>Efficiency Ratio (includes depreciation)</b>	<b>42.3%</b>	<b>54.4%</b>	<b>-12.1 p.p.</b>

The efficiency ratio, which shows operating costs as a percentage of operating income, stood at 42.3%, decreasing by 12.1 p.p. as compared with the value experienced in 2014. Net operating income amounted to

640.1 million euros, above the 407.8 million euros recorded in the homologous period (+57.0%).



Total impairments and provisions stood at 236.2 million euros, a 22.7% increase relative to the value booked in the same period of the previous year.

Results from associated companies recognized by the equity method, amounting to 14.5 million, decreased by -26.7% compared to the value recorded in the last year, influenced by the disposal in July 2015 of the shareholding in Banco Caixa Geral Totta Angola.

Income before taxes and minority interests amounted to 418.4 million euros and income from the business activity totalled 284.9 million euros.

Accounts and business activity

Business Volume at end 2015 rose to 67.5 billion euros, a 23.6% increase relative to the value recorded in 2014.

This growth was due to the evolution evinced in Total Gross Loans (+28.2%) and customers' resources (+ 19.0%).

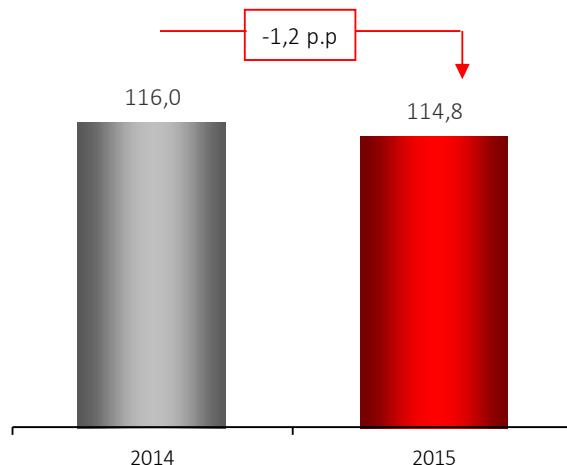
**Business Volume** (million euros)

	2015	2014	2015/2014
<b>Business Volume</b>	<b>67,520</b>	<b>54,610</b>	<b>+23.6%</b>
Total Gross Loans (includes guarantees)	35,587	27,769	+28.2%
Customers' Resources	31,933	26,841	+19.0%

The credits/deposits ratio stood at 114.8% at end 2015 (this ratio was calculated in line with the definition established in

the Financial Assistance Program), showing a 1.2 p.p. reduction relative to the 116.0% shown in 2014.

**Credits/Deposits (%)**



## ECONOMIC AND FINANCIAL INFORMATION

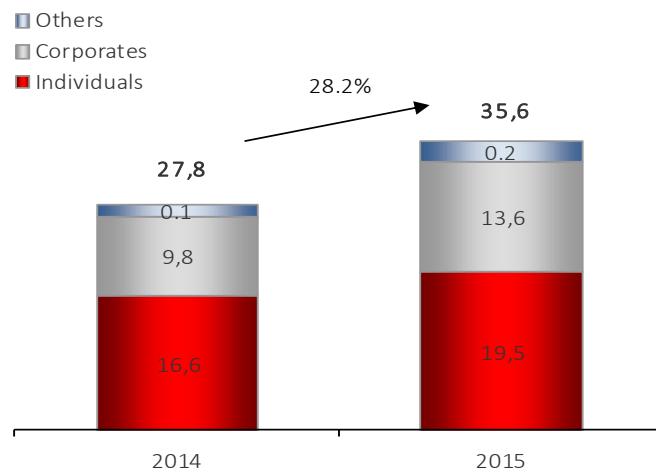
### LOANS (million euros)

	2015	2014	2015/2014
<b>Total Gross Loans</b> (includes guarantees)	<b>35,587</b>	27,769	<b>+28.2%</b>
<b>Gross Loans</b>	<b>34,126</b>	26,685	<b>+27.9%</b>
<i>of which</i>			
Loans to Individuals	19,532	16,635	+17.4%
<i>of which</i>			
Mortgage	17,217	14,794	+16.4%
Consumer	1,937	1,381	+40.2%
Loans to Corporates	13,648	9,823	+38.9%

The credit portfolio (including guarantees and sureties) totalled 35.6 billion euros at end 2015, a 28.2% increase relative to the homologous period. Credit granted to companies amounted to 13.6 billion euros grew by 38.9%, resulting from increases in new production and from the acquisition of the former Banifs' credit portfolio, this segment now represents approximately 40% of the total Santander Totta credit. Credit granted to private individuals

stood at 19.5 billion euros, +17.4% compared to end 2014. Home loans amounted to 17.2 billion euros, a 16.4% increase in the last year, not just due to the incorporation of the former Banifs' portfolio, but also to the 101.8% increase in new loans, as compared with the amounts contracted in 2014, which abated the natural reduction resulting from repayments.

### CREDIT (million euros)



Credit at risk ratio stood at 4.8%, a 0.9 p.p. reduction as compared to December 2014 and the respective coverage

ratio stood at 144.0%, as compared with 75.9% shown in the homologous period.

## ECONOMIC AND FINANCIAL INFORMATION

### CREDIT RISK RATIOS

	2015	2014	2015/2014
Non Performing Loans Ratio	4.2%	4.4%	-0.2 p.p.
Non Performing Loans Ratio (+90 days)	4.1%	4.2%	-0.1 p.p.
Non Performing Loans and Doubtful Loans Ratio	4.1%	4.2%	-0.1 p.p.
Credit at Risk Ratio	4.8%	5.7%	-0.9 p.p.
Restructured Loans/ Total Loans	10.2%	9.4%	+0.8 p.p.
Restructured Loans not included in Credit at Risk/ Total Loans	8.4%	6.8%	+1.6 p.p.
Non Performing Loans Coverage Ratio	164.1%	99.6%	+64.5 p.p.
Non Performing Loans Coverage Ratio (+90 days)	168.9%	103.4%	+65.5 p.p.
NPL and Doubtful Loans Coverage Ratio	167.8%	102.5%	+65.3 p.p.
Credit at Risk Coverage Ratio	144.0%	75.9%	+68.1 p.p.

Total customers' resources amounting to 31.9 billion euros at end 2015 increased by 19.0% relative to the amount shown in 2014.

### RESOURCES (million euros)

	2015	2014	2015/2014
<b>Customers' Resources</b>	<b>31,933</b>	<b>26,841</b>	<b>+19.0%</b>
On-Balance Sheet Resources	27,126	21,760	+24.7%
Deposits	27,126	21,626	+25.4%
Securities issued	0	134	-100.0%
Off-Balance Sheet Resources	4,806	5,082	-5.4%
Investment Funds	1,664	1,414	+17.7%
Insurance and Other Resources	3,142	3,667	-14.3%

Evolution in customers' resources was positively influenced by increases of 25.4% in deposits and 17.7% in investment

funds by the Bank, compensating the decrease experienced in capitalization insurance and other resources (-14.3%).

## Solvency ratio

Common Equity Tier 1 (CET 1) ratio, in line with the CRD IV/CRR rules applicable in 2015, reached 13.9%, and standing at 14.0% on a fully implemented basis, a value that benefits from the share capital increase carried out at year end.

### CAPITAL (million euros)

	2015	2014	2015/2014
<b>Common Equity Tier 1</b>	<b>2,635</b>	<b>2,086</b>	<b>+26.3%</b>
Tier I	2,841	2,467	+15.2%
Total Capital	2,915	2,467	+18.2%
<b>Risk Weighted Assets (RWA)</b>	<b>18,919</b>	<b>16,102</b>	<b>+17.5%</b>
<b>CET 1 Ratio</b>	<b>13.9%</b>	<b>13.0%</b>	<b>+0.9 p.p.</b>
<b>Tier 1 Ratio</b>	<b>15.0%</b>	<b>15.3%</b>	<b>-0.3 p.p.</b>
<b>Total Capital Ratio</b>	<b>15.4%</b>	<b>15.3%</b>	<b>+0.1 p.p.</b>

## Individual Business Activity

### Profit & Loss Statement

In terms of individual accounts, Banco Santander Totta obtained a net income amounting to 230.5 million euros in 2015 (excluding badwill and the associated restructuring Provision regarding the acquisition of former Banifs' assets and liabilities), above the 96 million euros recorded in 2014.

Operating income reached 1,079 million euros at end 2015, a 22.4% increase as compared to the 881.3 million euros shown in the previous year, highlights going to the increase in net interest income and in Gains/Losses in Financial Transactions.

Operating Costs amounted to 466.3 million euros, a 3.6% decrease relative to the homologous period. The efficiency ratio improved from 54.9% in 2014 to 43.2% in 2015.

The joint evolution of revenues and costs led to net operating income amounting to 612.6 million euros, a 54.2% increase as compared with the amount achieved one year earlier.

Impairment and net provisions stood at 257.5 million euros, a 26.2% increase relative to 2014.

Corporate Taxes reached 124.4 million euros, a +111.6% increase relative to the homologous period.

## Accounts and business activity

Volume of business in 2015 rose to 67.6 billion euros, a change of +23.9% relative to the previous year. Credit (including guarantees and sureties) rose 27.9%, to 35.4 billion euros, and customers' resources rose 19.9%, to 32.2 billion euros (balance sheet resources increased by 26.5% and off-balance sheet resources decreased by 8.0%).

### Business Volume (million euros)

	2015	2014	2015/2014
<b>Business Volume</b>	<b>67,642</b>	<b>54,579</b>	<b>+23.9%</b>
<b>Total Gross Loans (includes guarantees)</b>	<b>35,415</b>	<b>27,694</b>	<b>+27.9%</b>
<b>Total Gross Loans</b>	<b>33,975</b>	<b>26,607</b>	<b>+27.7%</b>
<b>Customers' Resources</b>	<b>32,227</b>	<b>26,884</b>	<b>+19.9%</b>
On-Balance Sheet Resources	27,489	21,731	+26.5%
Deposits	27,489	21,598	+27.3%
Securities issued	0	134	-100.0%
Off-Balance Sheet Resources	4,739	5,153	-8.0%
Investment Funds	2,013	1,762	+14.2%
Insurance and Other Resources	2,726	3,391	-19.6%

## Solvency ratios

In 2015, the CET I ratio, in line with the CRD IV/CRR rules, reached 11.9%. The fully implemented CET I ratio stood at 11.7%, benefiting, in the year, from the share capital increase carried out and from the generated recurring results, in spite of the negative impact of the acquisition of former Banif's assets and liabilities.

### CAPITAL (million euros)

	2015	2014	2015/2014
<b>Common Equity Tier I</b>	<b>2,261</b>	<b>1,597</b>	<b>+41.6%</b>
Tier I	2,474	2,027	+22.0%
Total Capital	2,883	2,336	+23.4%
<b>Risk Weighted Assets (RWA)</b>	<b>18,923</b>	<b>15,948</b>	<b>+18.7%</b>
<b>CET I Ratio</b>	<b>11.9%</b>	<b>10.0%</b>	<b>+1.9 p.p.</b>
<b>Tier I Ratio</b>	<b>13.1%</b>	<b>12.7%</b>	<b>+0.4 p.p.</b>
<b>Total Capital Ratio</b>	<b>15.2%</b>	<b>14.6%</b>	<b>+0.6 p.p.</b>

### Introduction

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

### Credit Risk

#### Main vectors of activity

In 2015, the activity of the Credit Risk area had the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of both customers and products;
- Reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
- Concerning standardized risks customer proximity was intensified in order to anticipate their credit requirements, review their credit lines and foresee possible issues in their repayment capability;
- This action and the level of the customers' credit quality allowed maintaining non-performing loans and credit at risk ratios significantly below the average of the industry. On the other hand support levels to the business in the capture of good risk customers were intensified and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;
- As to the following up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment with the objective of mitigating the non-performing loans ratio. Permanent reviews carried out in all the portfolios allowed concluding that the portfolio is being analysed with adequate criteria and that the level of estimated impairment is equally adequate;
- Several measures were implemented in the management of the admission process of new credits, with the objective of improving the quality of service rendered to customers whenever they present new credit opportunities;
- With massive treatment (or non-standardized) risks the Bank, aiming towards continuous improvement and efficiency in the admission procedures, and taking into account the objective of portfolio quality, maintained the automatic decision models, namely scorings and

behavioural systems used in the Private individuals and Business segments;

- Still considering the massive treatment risks, focus was kept on maintaining the quality of the portfolio, acting upon the slowdown in management and non-performing loans and continuing to provide a set of products and solutions for debt restructuring which allow adapting customers' expenditure to their current and future repayment capability and available income;
- With this in mind adequate admission strategies are being defined in the Bank's decision system and behavioural systems are used to identify prevention and reappointment measures to be offered to customers;
- With the objective to strengthen the commercial involvement and customer cross selling and simultaneously energize the capturing of new customers, several commercial campaigns were continued directed towards the Business segment, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In an adverse macroeconomic scenario, where the ratios of non-performing loans are still significant, a strong focus was placed on the recoveries activity level, strengthening the swiftness of intervention. To be highlighted is the activity carried out in the management of massive recoveries whilst simultaneously keeping a permanent follow up of special cases and judicial or extra judicial procedures;
- Also continued was the negotiation policy aiming to resolve the number of pledges in order that, when these occur, preference is given to obtain this type of payment in lieu of judicial court actions;
- The process of modernization of the Recoveries area was continued, also based on computer developments judiciously signalled by the users as necessary and that aim to control the total process from the entrance into recoveries, and cover relations with attorneys and executive actions;
- Surveillance continued on working methodologies aiming to optimize the several procedures with the objective to "stress" the model, increasing the efficiency of resources and the effectiveness of actions to allow anticipating credit recovery;
- Considering risk control and consolidation, permanent focus was maintained on the insight and follow-up of the credit portfolio, aiming towards a strict risk control, endeavouring to provide adequate and timely management information, in order to allow measures to be taken for the correct management of the Bank's risks;
- Attention was equally kept on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purpose of calculating the requirement of own resources as well as their increasing integration in management.

### Risk model

#### Introduction

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

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

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

#### Metrics and tools in risk measurement

##### Rating/scoring tools

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

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

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

risk analyst, whose duty is to carry out a final review of the rating attributed.

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

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

##### Credit risk parameters

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

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

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

In small and medium sized companies, the information obtained from their accounts is used not just to attribute a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries in Non Performing loans, and correlating these with the scoring attributed to the transactions. Excepted are the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or

assessments carried out by agencies with recognized experience and competence, with a portfolio containing a sufficient number of entities (these portfolios are known as low default portfolios).

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

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

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

### Credit risk cycle

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

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

#### *Planning and establishing limits*

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

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

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

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

well as the limits to which the activity and associated risk management must be subject.

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

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

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

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

#### *Recoveries*

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

- To ensure the collection or regularization of the amounts in irregular situations, preferably negotiate a solution, so that the customer's credit situation returns to normal. Should the negotiated position not be possible, the Recoveries area will then endeavour to process recovery through the law courts;
- To maintain and strengthen the relations with the customer, safeguarding his deportment within the commitments contractually assumed with the Bank.

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

### Counterparty Risk

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

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

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

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

### Balance Sheet Risk

#### Control of balance sheet risk

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

#### Methodologies

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

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

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by carrying out stress test exercises which endeavour to identify the potential risk on external

market conditions. In parallel, ratios are estimated on the current items in the accounts that are indicators of structural and short term liquidity requirements.

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

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

#### Structural balance sheet risk management

##### Interest rate risk

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

In 2015, the policy followed was to keep sensitivity at the levels considered as adequate.

##### Exchange rate risk

The exchange rate risk policy followed by the Group is based upon a low liquidity risk and on the continuous diversification of sources of finance, bringing into perspective the volume and nature of financial tools, to be used to allow the attainment and the best development of the established business plan.

##### Liquidity risk

By keeping to a conservative profile, we are better protected with respect to potential crises that may affect the environment.

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

Liquidity management is carried out at the consolidated level. The Group's financial policy takes into consideration

the variations of the balance sheet components, the structural situations of the maturities of assets and liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenditure related to the funding activity.

The structural liquidity situation is extremely balanced and the capital market operated regularly in 2015. In October 2015 Banco Santander Totta issued a 750 million euro covered bond which was placed on the market in total.

### Market Risk

#### Activities subject to market risk

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

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

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

#### Methodologies

##### Negotiation activity

The methodology applied in 2015, within the scope of Banco Santander Totta for negotiation activity, is the Value at Risk (VaR). Used as a basis is the methodology of historic simulation with a 99% level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.

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

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

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

##### Backtesting

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

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

##### Limits

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

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

### Operational Risk

#### Definition and objectives

Santander Totta defines operational risk as "the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external

circumstances". It distinguishes it from other types of risks, since it is not associated to products or business, but is present in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as third party activities or natural catastrophes.

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

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

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

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

### Management model

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

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

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

The different stages of the management model allow:

- To identify the operational risk inherent to all the Bank's activities, products, processes and systems;
- To define the objective profile of the operational risk by specifying unit strategies and time frame, through establishing the OR appetite and tolerance of the budget and its follow-up;

- To promote the involvement of all employees with the culture of operational risk adequate to all environments and organizational levels;
- To measure and assess the operational risk objectively, continually and coherently with the Basel II standards, define objectives and analyse the risk profile in line the respective limits;
- To continuously follow up exposures to operational risk with the objective to detect risk levels that have not been assumed;
- To establish mitigation measures which extinguish or minimize operational risk;
- To prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies.

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

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

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

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

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

controls and/or measures identified which could reduce a possible heavy impact on the institution.

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

- Self-assessment of operational risk, with the main objective to identify and assess the operational risks with regard to existing controls, and to identify mitigating measures should the risk levels not be acceptable;
- Indicators, which are statistics or parameters providing information on risk exposure. The indicators and respective limits are periodically reviewed, in order to be adjusted to reality;
- Recommendations arising from auditors or regulators provide relevant information concerning risk, thus allowing identification of weaknesses and controls.

### Compliance and Reputational Risk

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

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

with which the Institution may be related, or even by public opinion in general.

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

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

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

## PROPOSAL FOR THE APPLICATION OF RESULTS

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Net Income for the Year, in individual terms and referring to 2015, amounted to € 515,436,972.19 (five hundred and fifteen million, four hundred and thirty six thousand, nine hundred and seventy two euros and nineteen cents) and the Consolidated Net Income for 2015 amounted to € 568,376,477.00 (five hundred and sixty eight million, three hundred and seventy six thousand, four hundred and seventy seven euros)

As such, the Board of Directors proposes to the General Meeting that the following distribution be approved:

- Legal Reserve: € 51,543,697.22 (fifty one million five hundred and forty three thousand, six hundred and ninety seven euros and twenty two cents);
- Dividends: € 180,423,765.97 (one hundred and eighty million four hundred and twenty three thousand seven hundred and sixty five euros and ninety seven cents);
- Income Carried Forward: € 283,469,509.00 (two hundred and eighty three million four hundred and sixty nine thousand, five hundred and nine euros).

Lisbon, 29 April 2016

THE BOARD OF DIRECTORS

## Prevention of Money Laundering

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

The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively assigned towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Institutional Issues. Staff is trained and regularly updated on this issue in order to detect possible risk situations and immediately communicate with the competent body when such is justified, has available computer applications to monitor atypical movements, to assess transactions that fit into risk typologies with a view to forward advice to the Authorities if necessary, and has at its disposal automatic information systems to bring into prominence customers with a potential risk of money laundering and financing terrorism, with a view to apply reinforced due diligence measures. The system is audited annually.

Units headquartered abroad are followed up by the head office central structure through visits or centralized control. Compliance testing is carried out in systems for prevention and control of money laundering and financing terrorism. These units apply the procedures determined by the Bank or by the legal regulations of the countries in which they operate, should the latter be more demanding.

Complying with the determinations in Bank of Portugal Instruction No. 9/2012, Banco Santander Totta prepared the corresponding Report on Prevention of Money Laundering and Financing Terrorism relative to the period from 1 June 2014 to 31 May 2015 which, once approved by the Board of Directors was submitted to the Bank of Portugal.

On the other hand the Bank, complying with Bank of Portugal Instruction No. 46/2012, prepared a Self-Assessment Questionnaire covering the prevention of Money laundering and financing terrorism relative to the period from 1 November 2014 to 30 November 2015 and to its being forward to the Bank of Portugal after prior approval by the Executive Committee.

## Shareholder Structure

Shareholder	No. of shares	%
Santander Totta, SGPS, S.A.	941,226,328	98.88%
Taxagest - SGPS, S.A.	14,593,315	1.53%

## Movement in Own Shares

In line with the decision of the Annual General Meeting, held on 29 May 2015, Santander Totta SGPS, S.A., directly on its own behalf or through a dependent company, may acquire own shares as well as dispose of those acquired up to the limit and remaining conditions foreseen in law.

On 31 December 2014, Banco Santander Totta SA held 271,244 own shares corresponding to 0.041% of its share capital. In 2015, Banco Santander Totta SA carried out a purchase of 19,191 own shares, corresponding to 0.002% of its share capital, thus holding a total of 290,435 own shares at year end.

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

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## TRANSACTION WITH OWN SHARES - 2015

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
<b>31/12/2014</b>	271,244	5.75	1,560,794	0.041%
<b>Purchases</b>	19,191	6.15	118,049	0.002%
<b>Disposals</b>	0	-	0	-
<b>31/12/2015</b>	290,435	5.78	1,678,843	0.030%

## SUPPLEMENTARY INFORMATION AND ATTACHMENTS

### Offices held by Members of the Board of Directors of Banco Santander Totta in other companies

The main activities that the members of the Board of Directors of BANCO SANTANDER TOTTA, SA, fulfil outside the company, significant on their own, are the exercise of the following offices in the following companies:

Name	Company	Office held
António Basagoiti García-Tuñon	Santander Totta, SGPS, S.A.	Chairman of the Board of Directors
	Santander Totta, SGPS, S.A.	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the Board of Directors and of the Executive Committee (1)
António José Sacadura Vieira Monteiro	Faculty of Humanistic and Social Sciences of Nova University	Member of the General Council
	Luso-Spanish Chamber of Commerce	Deputy Chairman
	COTEC - Portugal	Member of the General Council
	Vieira Monteiro, Lda.	Manager
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee (2)
José Manuel Alves Elias da Costa	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Santander Totta Seguros – Companhia de Seguros de Vida, SA	Chairman of the Board of Directors
José Carlos Brito Sítima	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the General Meeting
Luís Filipe Ferreira Bento dos Santos	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
Manuel António Amaral Franco Preto	Banco Santander Consumer Portugal, S.A.	Member of the Audit Board
	Serfin International Bank & Trust	Director
	Taxagest – Sociedade Gestora de Participações Sociais, S.A.	Chairman of the Board of Directors (1)
	Santotta – International, SGPS, Sociedade Unipessoal, Lda	Manager
	Totta & Açores Financing, Ltd.	Director
	Totta Ireland, Plc	Director
João Baptista Leite	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
	SIBS – Forward Payment Solutions, S.A.	Member of the Board of Directors
	SIBS, SGPS, S.A.	Member of the Board of Directors
Pedro Aires Coruche Castro e Almeida	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors (3)
	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
Luís Manuel Moreira de Campos e Cunha	Santander Totta, SGPS, S.A.	Chairman of the Audit Board
	Galp Energia, SGPS, S.A.	Chairman of the Board of Directors (4)
Ricardo Manuel Duarte Vidal de Castro	Santander Totta, SGPS, S.A.	Member of the Audit Board
	Clube do Autor, S.A.	Director
Pedro Manuel Alves Ferreira Guerra	Santander Totta, SGPS, S.A.	Alternate Member of the Audit Board

(1) On 17/04/15 became the Chairman of the Board of Directors

(2) Ceased duties on 31/08/15

(3) Ceased duties on 17/12/15

(4) Ceased duties on 16/04/15



**Movements in Securities of Members of the Corporate Bodies**

In the terms and for the purposes of the provisions of Article No 447 of the Company Act, it is hereby stated that no movements in securities were carried out in 2015 by members of the Corporate Bodies.

### I - Introduction

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

1. The Bank's share capital is 98.380% owned by Sociedade Santander Totta SGPS, SA, which is directly controlled by Santusa Holding, SL, a Company incorporated under Spanish Law which owns in it a 99.848% shareholding.

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

There is a remaining 1.525% holding in the Bank's share capital that is owned by a Company under full, direct or indirect control of Companies Santander Totta, SGPS, S.A., Santusa Holding SL and Banco Santander, SA.

The remaining 0.064% of the total share capital is dispersed among several shareholders, including 0.03% corresponding to Banco Santander Totta own shares.

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

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

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

3. Without prejudice to the provisions of the previous paragraph the articles of association rule that one vote is attributed to each lot of one hundred shares.

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

4. The Company is not aware of any agreement that may have been concluded among shareholders.
5. The Company is organically structured in line with the provisions of article No. 278, §1, item a) of the Company Act.

The corporate bodies are: the General Meeting, the Board of Directors and the Audit Board. Additionally, an official auditor, autonomous from the Audit Board, has

been appointed in line with the provisions of article No. 413, §1, item b) and §2c of the Company Act.

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

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

The Board of Directors meets at least once every quarter and whenever it is called by its Chairman or by two Directors.

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

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

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

The permanent objective is the rationalization and uniformity of operations and technical support services to the Commercial Network.

7. The Corporate Bodies also comprise the Remunerations Committee, which consists of one non-executive member of the Board of Directors and by a member of the Audit Board and by the Risks Committee, which comprises two non-executive members of the Board of Directors, with the competences established in articles Nos. 115-N and e 115-L of the General Regime of Credit Institutions and Finance Companies (GRCIFC), respectively.
8. The Company has not established any agreements whose entry into force is dependent upon the Bank's shareholder structure or that their alterations or termination derive from it.

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



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

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

- Retail Banking – refers essentially to credit granting operations and to the capture of resources related to private individuals and business customers with a turnover lower than five million euros, channelled by the branch network and services made available by supplementary channels (telephone, internet, etc.);
- Company Banking – This area comprises companies with turnovers between 5 and 125 million euros. This activity is supported by the branch network, by company centres and specialized services, including several products, such as loans to finance working capital, project finance, trading, exports and real estate;
- Global Banking & Markets – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and stock exchange brokerage orders received from customers;
- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but is not directly linked with the core business, also including liquidity management, balance sheet coverage and structural financing of the Bank.

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

Itemized below are the several interdisciplinary Committees that follow up and control all the institutions activities.

The main Committees follow, together with a résumé their functions.

#### **Management Committee**

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

- Development of commercial activity, ensuring it is carried out within the established objectives and delays, and of the adequacy of the established commercial strategies, as well as the initiatives related to multi-channel commercial actions ensuring the linkage amongst the intervening areas;

- Credit policies, exposure to risk, decision models and credit management programmes;
- Policy, strategy, objectives and follow-up of Quality and Customer Experience actions.

#### **Higher Credit Council**

Highest decision body in the Risk structure that exercises the powers delegated by the Executive Committee.

#### **Market & Financial Risks**

Analysis of governance information concerning the Risks area; analysis and control of all existing risks; approval of procedures and controls to prevent or mitigate existing risks.

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

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

#### **Human Resources Committee**

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

#### **ARC – Analysis and Resolution Committee**

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

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

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

#### **Pensions**

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

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

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

#### **Technological & Operational Risk**

Establishes and follows up the implementation of measures for the control and mitigation of technological and operational risk.

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

Analysis and decision concerning the disposal of items of real estate valued at amounts equal to or in excess of 200,000 euros.

### Risk Models

Guarantees the alignment of the local areas involved in the development and follow up of risk models, as well as their inclusion in management procedures. Involvement must occur at the Higher Management level.

### Commercial Appraisal of Credit Products and Resources

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

### Analysis and Follow Up of Provisions

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

### Public Policy

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

### Sustainability

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

### Taxation

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

### Innovation in Means of Payment

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

### Business Continuity Executive

Promotes an organizational culture that ensures business continuity, provides the availability of the necessary resources for implementation of the Banco Santander Totta Business Continuity Plan (BCP) and of other bodies and ensures that the approved and implemented plans and procedures are in line with the corporate BCP.

### Functional Profiles

Establishes the access profiles to the central systems, departmental systems, local communications networks and to the various applications that support the business.

### Follow Up of the Physical Branch Network

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

### Social Networks

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

### Expenditure and Investment

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

### Supplier Management

Checks the correct implementation and execution of the "Corporate Guide for Third Party Agreements and Supplier Control".

### Risk and Data Quality Information Management

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

**11.** The Bank fully complies with Instruction No. 5/2008 from the Bank of Portugal, with respect to Internal Control.

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

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

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

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

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

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

### a) Risk Management Function

The Risk Management Function (RMF) is transversal to the Santander Totta Group. This function is comprised in the Control Office / Risk Management Function (CORMF), established in the Santander Totta organic structure. The officer responsible for the RMF is Dr. Manuel Osório de Aragão.

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

The generalized mission of this function is the effective application of the risk management system in line with art. 16 of the referred Instruction 5/2008 of the Bank of Portugal, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted for their control, mitigation and surmounting. The guiding lines of the European Banking Authority (EBA) Internal Governance dated September 2011 (GL44) strengthened the role of the RMF. The Capital Risks Regulation (CRR) No. 575/2013 (EU) and the Capital Requisites Directive 2013/36/EU (CRDIV) comprise the new juridical framework required for the adjustment of the General Regime of Credit Institutions and Finance Companies (GRCIFC), approved by Decree-Law No 298/92 dated 31 December and re-published with alterations through Decree-Law No 157/2014. Article No 115-M of the new GRCIFC reinforced the role of the Risk Management Function by guaranteeing the adequate identification, assessment and reporting of all material risks, in participating in the strategy and decision on the management of material risks, and in the independence and exemption of conflicts of interest of the officer responsible for the RMF. With regard to CMVM (Securities Market Regulator), Decree-Law No. 63-A/2013 altered the Securities' Code and the demands from Risk Management through changes to article No. 305-B.

RMF was set up with the highest level of independence, that is, without any direct responsibility over any executive duty or first line of control over the activities to be assessed and thus with the capability of carrying out its own tests.

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

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

In total agreement with these competences, the CORMF was set up under the control of the Executive Committee, which also ensures the greatest autonomy and freedom in the exercise of its duties.

The CORMF is applying a specific methodology developed to assess the reach and effectiveness of the controls and mitigation processes of the risk profiles, which was materialized in a number of tests or checks of the requisites specifically recommended for each type of risk. Such tests and requisites were based on the recommendations issued by the Basel Committee and by the European Banking Authority (EBA, ex-CEBS), by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), by the Federal Reserve System (FED), Sarbanes-Oxley Law (SOX), Financial Services Authority (FSA) and other standard and regulatory bodies. Also taken into consideration was the Portuguese case, especially the regulations covering Internal Control contained in the General Regime of Credit Institutions and Finance Companies (GRCIFC) and connected documentation such as Bank of Portugal Instruction 5/2008 and CMVM Regulatory Instruction 3/2008).

The activity developed by the Risk Management Function is usually documented in a specific annual report, the "CMF Report", the last of which is dated May 2015. This document is intended to be used as a support to the Banco

Santander Totta risk management system, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred report.

### b) Compliance Function

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

The compliance function is incorporated in the Department for Coordination of Institutional and Compliance Issues (DCICI), which includes, in its midst, a unit specifically attributed to the Prevention of Money Laundering and Financing Terrorism with staff reserved for its exclusive use. The officer responsible is the Compliance Manager, Dr. João António Cunha Labareda, with the following specific duties and attributions:

- DCICI is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;
- DCICI has its own staff, who are employees of the institution, exclusively allocated to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;
- DCICI, in exercising its mission, has free access to all information and data relative to the Bank's activity that it may request or require, as well as to the Institution's facilities and equipment;
- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputational and compliance risks and, should it be the case, the correction of the incidences occurred;
- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set out the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by DCICI that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;
- As a complement to this General Code of Conduct, the Bank equally has available a Programme for the Prevention of Corruption, which reinforces the corporate

compliance with the total rejection of any corruption practices, involving the whole of the corporate organization in this requirement. In this context, specific powers are conferred on DCICI for the following up and control of the execution of the programme and of its underlying policies.

A Denouncing Channel is available within the framework of the General Code of Conduct and of the Programme for the Prevention of Corruption. This channel is freely accessible to all employees and which, guaranteeing the confidentiality of the communication and possible subsequent procedures, provides them with the possibility, and urges them, to evince any irregular situations that may come to their knowledge;

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

On another level, and in order to ensure the most efficient and effective means to perform its mission, the Management promoted the institutionalization of specific compliance committees especially designed for the more sensitive areas, such as those closer related to the financial markets, that operate periodically - monthly as a rule – and that allow, considering the established practices, to assess their conformity with applicable legal and regulatory standards, keep the areas informed as to innovations occurred and guarantee that these are carried out, control compliance with information and other applicable requirements, identify possible incidences and, should it be

the case, analyse and implement the appropriate mitigation and preventive measures. These committees are directed and coordinated by DCICI, with the officers responsible for the involved areas taking part in the respective meetings.

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

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

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

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

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2014) and the end of May 2015.

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

### c) Audit Function

The authority of the Internal Audit depends directly from the Board of Directors.

To undertake its mission and achieve the objectives set by its Management, the Internal Audit teams will have full, free and unrestricted access to all information. This access covers documents, magnetic media and applications, such as physical locations and, should it be the case, physical records, computer based or virtual, as well as the collaboration of the Group's personnel or personnel external to the Group whenever necessary.

Internal Audit is a permanent function, independent from any other function or unit, and its mission is to provide the Board of Directors and the Higher Management with an

independent guarantee on the quality and effectiveness of internal control processes and systems, risk management (current or emerging) and governance, thus contributing towards protecting the value of the organization, its solvency and reputation. For this purpose the Audit appraises:

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

The area covered by Internal Audit comprises:

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

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

The Risk Matrix gives precedence to the units in the Audit's universe, based upon the degree of expected risk. This Matrix is where the risks of the business implicit to the units during the previous year are assessed as well as other factors (dimension of unit, last rating obtained, and implementation degree of recommendations).

Based upon the assessment of all these factors the units within the Audit's universe are classified by level of precedence for their review through audits. Additionally these must be considered as audits demanded by regulatory requirements and compliance checked in accordance with the SOX standard.

Internal Audit will base its work on the following principles

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

- Additionally, Internal Audit will establish the necessary procedures to prevent conflicts of interest that may compromise the performance of its functions and responsibilities;
- Competence and professional qualifications of the auditors. For this purpose the continuous updating of their knowhow will be endeavoured;
- Quality of work, based upon proven conclusions, documented and supported by audit proofs carried out with uniform criteria, through a methodology using common and adequate working tools, and with due professional care;
- Guidance and value creation, issuing relevant reports and aiding the management of the audited units with a collaborative spirit and contributing with measures of improvement;
- Adequate collaboration with the remaining Group controls;
- Adequate reciprocal collaboration with the external auditors and other providers acting in the organization, maintain periodical meetings and sharing with them the results of the Reviews carried out and the issued audit reports;
- Fluid relationship with supervisors;
- Observance of international standards for the performance of the function, especially the “International standards for the professional performance of Internal Audit” issued by the Institute of Internal Auditors and the principles established by the Basel Bank of International Settlements on this issue.

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

The Audit staff comprises 27 persons, distributed over the areas of Financial Risks, Credit Risks and Operational Risks, all of whom are university graduates.

## II – Remuneration Policy

### 1. Remuneration Policy of Corporate officers applicable in 2015

Following a proposal of the Remuneration Committee, the General Meeting held on 29 March 2015 approved the following statement on remunerations policy.

In the terms and for the purposes of the provisions of article No. 115-C of the General Regime of Credit Institutions (approved by Decree-Law No. 298/92, dated 31 December) and article No 2, §1 of Law No. 28/2009, dated 19 June and of art. No. 16 of Bank of Portugal Instruction No. 10/2011, dated 29 December, the remuneration policy of the Corporate Officers of Banco Santander Totta, S.A. (the "Bank"), to come into effect in 2015, is approved to be submitted to the General Meeting called to consider the accounts for 2014, in the following terms:

#### A. Framework

The remuneration Policy of Banco Santander Totta is framed within the directives established by the Bank's majority shareholder for all the Santander Group, which is laid out, with the involvement of external consultants, in line with the best practices existing in the industry. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Corporate Officers is reviewed and approved on an annual basis. In the respective definition, proposals were laid down and recommendations prepared to ensure that the remunerations are adequate and reflect the Bank's risk profile and long term objectives.

The current Remuneration Committee comprises the following individuals:

D. António José Basagoiti Garcia-Tuñon – Chairman of the Board of Directors;

Professor Doctor Luis Manuel Moreira Campos e Cunha – Chairman of the Audit Board.

#### B. Santander Group Policy

Since the remuneration policy to be followed is necessarily and fully integrated in the Santander Group policy it is relevant to refer the very competitive environment in which this activity is developed and that the achievement of its objectives depends, in a large measure, on the quality, working capacity, dedication, responsibility, knowledge of the business and on the commitment to the institution, of those who perform key functions and that lead the organization.

These are the premises that generally determine the Group's remuneration policy, with special reference to the

executive directors, and that allow attracting and retaining talents in the organization, considering the wide scope of the market in which it operates.

Consequently, the remuneration policy of the members of the Board of Directors has, as it already had in the past concerning the executive directors, the following objectives:

- Ensure that the total remuneration and respective structure (comprising the differing short, medium and long term components) are competitive with the practices in the international financial sector and coherent with the Group's leadership rationale;
- Maintain a fixed balanced component in line with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the interests of the shareholders.

In the case of remuneration of non-executive duties, the remuneration policy equally aims to compensate the dedication, qualification and responsibility demanded for the respective performance.

Already in 2010, at Group level, a Committee for the Assessment of Risks in Remunerations was set up, whose members are individualities with recognized competence and impartiality, which aims to assess the quality of the results, risks incurred and achievement of objectives.

Additionally, the Group engaged the assistance of consultants Towers Watson in the definition of their remunerations policy.

Thus the Group, following on what has been its practice, will continue to align its remuneration policy with the best market practices, anticipating, in general terms and within adequate measures, the concerns shown in the Portuguese regulations.

#### C. Guiding principles of the remunerations policy in Banco Santander Totta

In line with the above, the general guiding principles in setting remunerations are the following:

- Simplicity, clarity, transparency, aligned with the Bank's culture, and also considering the Group in which it belongs;
- Consistency with an effective risk and control management to avoid excessive exposure to risk and conflicts of interest, on the one hand, and endeavouring coherence with the objectives, values and long term interests of the Bank, whose capacity for reinforcing its equity basis it preserves, jointly with its employees, and, on the other, the interests of its customers and investors;

- Competitiveness, considering the market practices and fairness, since the practice of remuneration is based upon uniform, consistent, fair and balanced criteria;
- Alignment with the best practices and recent trends in the financial sector, at national and international levels, with the ultimate objective of discouraging the exposure to excessive risks and to promote the continuity and sustainability of positive performances and results, namely: i) the setting of maximum limits for the Remuneration components that must be balanced “inter se”; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establishing the individual Variable Remuneration considering the assessment of the respective performance, based upon financial and non-financial criteria, in line with the duties and level of responsibility, as well as the Bank’s results, and also in comparison with other international institutions in the same industry;
- The legal rulings in force at each moment are applied to early termination of contracts;
- No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

### D. Components of the remuneration policy

In line with the above principles, the following is assumed:

- The Remuneration Policy of Corporate Officers is framed within the Group’s directives that were laid down in line with the best practices existing in the industry;
- The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
  - Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
  - Annually, by the Group’s Managing Director, with respect to the Chairman of the Bank’s Executive Committee;
- Concerning the non-executive directors, the Chairman of the Board receives a fixed remuneration in Portugal and, as to the other Director, remuneration comprises a fixed component and a variable component, the latter, however, exclusively and directly related with the results of Banco Caixa Geral Totta de Angola, where he performs duties as Executive Director;
- The members of the Audit Board receive only a fixed remuneration the amount of which is determined in line with the criteria and practices in use in the remaining Group companies, considering the size of the business and of the Portuguese market;
- Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

### D.1. Fixed Remuneration

- Fixed Remuneration is paid 14 times per year;
- The Fixed Remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank’s results, the assessment of performance and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Remuneration of the executive directors has its limits annually set by the Remunerations Committee, and should not be, in 2015, lower than 36% of the Total Remuneration.

### D.2. Variable Remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- Considering what is defined, variable remuneration is adequately balanced in relation to fixed remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank’s quantitative and qualitative objectives, as well as the respective indicators included in the Strategic Plan that are annually established by the Group;
- The weighting of the achievement of the strategic objectives set by and for the Bank, either in absolute terms, or by comparison with other institutions in the industry for the purpose of establishing the Variable Remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
- In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be placed in suspense until such claims have been established and, should these be conclusive, the respective remuneration will not be attributed until such damages have been settled.

#### D.2.1. Annual Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company’s performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander, S.A.;
- The value of the performance premium is based on the following criteria: i) 75% depend upon the after tax results of the Company (55%) and of the Group (20%), and ii) 25% depend upon fulfilment of efficiency in the use of capital

(Return on Risk Weighted Assets) of the Company (15%) and of the Group (10%);

- The application of the above referred criteria in the attribution of the performance premium is adjusted by weighting i) the individual performance, considering the individual quantitative results achieved, as well as ii) additional qualitative factors, specifically the adequacy of risk management and the efficient use of capital, the parallelism with the results of the competitors, the level of customer satisfaction as compared with that of the competitors; the evolution of the core capital, of the Group's economic capital, of the accounts and other relevant management factors;
- The performance premium is intended to recompense the achievement of annual results and individual accomplishment, and may vary as a function of the rate of performance of the objectives, between 0% and a value that in 2015 is estimated not to be in excess of 150% of the performance premium paid by the Company in the previous year;
- The deferred portion will represent 40% of the total value of the Variable Remuneration, with respect to the main body of executive directors and may, in specific circumstances, reach 60%;
- Half of the non-deferred portion will be paid in shares and the remaining half in cash;
- The payment of the deferred portion is determined as a function of the results obtained over a three year period and subject to the following conditions being cumulatively held true: i) permanence in the Company during a given established period; ii) preservation of the level of financial performance of the Santander Group during the referenced three year period; iii) occurrence of no significant variations in the Group's economic capital or risk profile; iv) compliance with internal regulations including those relative to risks, annually approved by the Group;
- Half the amount of the deferred portion is paid in shares and the other half in cash, the payment of the latter in three or five instalments, during the three or five subsequent years, and dependent upon the fulfilment of the conditions referred to above;
- The shares attributed to the members of the Executive Committee do not benefit from any risk covering contract and will remain, until the end of the respective mandates, subject to the condition of being held until their value reaches twice the amount of the total remuneration (without prejudice to the possibility of the sale of shares required to pay the taxes resulting from the benefit inherent to the same such shares).

#### D.2.2. Multiannual Variable Remuneration

- As a component of the multiannual variable remuneration, the Bank may set, for 2015, a Long Term individual incentive (LTI), taking into consideration the relative deportment, this being determined by applying a

percentage, which may reach 20%, of the reference value of the 2015 performance premium;

- The definite attribution of the LTI will be set by the Remunerations Committee in line with the general criteria applicable within the framework of the Santander Group as in the attached document to this Policy;
- The allotment of the LTI will in no circumstance imply that the variable components of the remuneration will ever exceed 200% of its fixed component;
- The committal of the individual Long Term Incentive will also be subject to the following conditions being cumulatively held true: i) permanence in the Company during the established given period; ii) preservation of the Group's financial performance during the deferred term; iii); compliance with internal regulations, especially those related to risks; iv) absence of material reformulation of the Group's financial components imposed by external auditors except as a result of changes in in accounting principles; v) absence of significant changes in the economic capital or in the Group's risk profile;
- In extreme circumstances there may be no allotment of any shares;
- The allotted shares do not benefit of any risk covering contract and will remain, until the termination of the mandates of the respective beneficiaries, subject to the condition of being held until their value reaches twice the amount of the total remuneration (without prejudice to the need for the disposal of shares required to meet the payment of taxes deriving from the inherent benefit of such shares).

#### D.2.3. Identification of the deferred and already paid portions

Relative to 2011, the last third of the deferred variable remuneration was paid in 2015.

Relative to 2012, one third of the deferred variable remuneration remains to be paid.

Relative to 2013, two thirds of the deferred variable remuneration remain to be paid.

Relative to 2014 variable remuneration, the non-deferred portion was paid in 2015. The remaining portion will be deferred over three years.

#### Amounts paid by other companies controlled by the Bank or by any of its subsidiaries

It is not expected that the executive directors will receive, in 2015, any payments from other companies controlled by the Bank or by any of its subsidiaries.

## **E. Benefits**

Allotment of benefits is carried out in order to ensure compatibility with company strategy, with the objectives, the values and the Bank's long term interests.

- Executive Directors benefit from a life insurance policy, of which the capital sum insured is equivalent to twice the value of the Fixed Remuneration of the officer concerned;
- The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service;
- The executive directors that have concluded a labour contract with the Bank, notwithstanding the suspension of the referred contract, are covered by a complementary pension plan established by the Group for all its managerial staff the terms of which were approved by the respective Boards of Directors, and voting rights were not attributed, when such decisions were taken, to the directors who would benefit from this plan;
- The executive directors benefit equally from health insurance and from the advantages resulting from collective regulations applicable to employees, including housing credit.

## **F. Supplementary features**

The attribution of option plans for 2015 is not envisaged.

Considering the provisions of §5 of article No. 403 of the Company Act, statutory limitations to compensation for early termination of services by Corporate Officers have not been established nor is it envisaged that these should be introduced.

It is not foreseeable that, in 2015, any compensation will be paid for early termination of services by Corporate Officers.

## **G. Compliance with the remuneration policies established by the Bank of Portugal**

This remuneration Policy of the Bank's Corporate Officers is fully in line with the principles comprised in the Bank of Portugal's Instruction No. 10/2011, dated 26 December (Official Gazette, 2nd series, dated 9 January 2012), guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determination of the total remuneration of those Officers, comprising fixed and variable components, as well as the connection between these components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Instruction, which is manifestly its basic nucleus.

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

## **2. Remuneration and Other Benefits attributed to Corporate Officers**

This information is provided in order to comply with the provisions of article No. 3 of Law 28/2009, dated 19 June, and in article No. 17 of the Bank of Portugal's Instruction No. 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), in that part that refers to the disclosure of the annual amount paid in remunerations to Corporate Officers.

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2015 were, respectively mEuros 3.734 in fixed remunerations and mEuros 4.344 in variable remunerations.

On 31 December 2015 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 554,000 euros.

Paid and deferred individual remuneration relative to 2015 is shown in the table below.

Annual Remuneration

Board of Directors

Name	Position	Remuneration fixed
António Basagoiti Garcia -Tuñón	Chairman	838
António José Sacadura Vieira Monteiro	Deputy Chairman	568
Carlos Manuel Amaral de Pinho	Non-Executive Member	284
João Baptista Leite	Member	200
José Carlos Brito Sítima	Member	321
José Urgel Moura Leite Maia	Member	227
José Manuel Alves Elias da Costa	Member	303
Luís Filipe Ferreira Bento dos Santos	Member	296
Pedro Aires Coruche Castro e Almeida	Member	337
Manuel António Amaral Franco Preto	Member	261
		<u>3,635</u>

Audit Board

Name	Position	Remuneration fixed
Luís Campos e Cunha	Presidente	60
Mazars & Associados, SROC	Vogal	15
Ricardo Castro	Vogal	24
		<u>99</u>

Variable Annual Remuneration

Pecuniary component:

Board of Directors

Name	Position	Bonuses in 2015 (cash)
António José Sacadura Vieira Monteiro	Deputy Chairman	225
Carlos Manuel Amaral de Pinho	Non-Executive Member	56
João Baptista Leite	Member	103
José Carlos Brito Sítima	Member	169
José Urgel Moura Leite Maia	Member	139
José Manuel Alves Elias da Costa	Member	168
Luís Filipe Ferreira Bento dos Santos	Member	143
Pedro Aires Coruche Castro e Almeida	Member	175
Manuel António Amaral Franco Preto	Member	129
		<u>1,307</u>

Share component:

**Board of Directors**

Name	Position	Bonuses in 2015 retained by one year
António José Sacadura Vieira Monteiro	Deputy Chairman	209
Carlos Manuel Amaral de Pinho	Non-Executive Member	52
João Baptista Leite	Member	96
José Carlos Brito Sítima	Member	157
José Urgel Moura Leite Maia	Member	129
José Manuel Alves Elias da Costa	Member	156
Luís Filipe Ferreira Bento dos Santos	Member	132
Pedro Aires Coruche Castro e Almeida	Member	162
Manuel António Amaral Franco Preto	Member	120
		<b>1,213</b>

This amount corresponds to 329,161 shares in Banco Santander, S.A., at a price per share of 3.684 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution

**Deferred Remuneration**

The pecuniary portion of the 2015 deferred remuneration is as follows:

**Board of Directors**

Name	Position	Bonuses - 2015				
		2017 Cash	2018 Cash	2019 Cash	2020 Cash	2021 Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	45	45	45	45	45
Carlos Manuel Amaral de Pinho	Non-Executive Member	12	12	12	-	-
João Baptista Leite	Member	23	23	23	-	-
José Carlos Brito Sítima	Member	38	38	38	-	-
José Urgel Moura Leite Maia	Member	31	31	31	-	-
José Manuel Alves Elias da Costa	Member	37	37	37	-	-
Luís Filipe Ferreira Bento dos Santos	Member	32	32	32	-	-
Pedro Aires Coruche Castro e Almeida	Member	39	39	39	-	-
Manuel António Amaral Franco Preto	Member	29	29	29	-	-
		<b>285</b>	<b>285</b>	<b>285</b>	<b>45</b>	<b>45</b>

## CORPORATE GOVERNANCE

The portion of 2015 deferred remuneration paid in shares is as follows:

### Board of Directors

Name	Position	Bonuses - 2015				
		2017 shares	2018 shares	2019 shares	2020 shares	2021 shares
António José Sacadura Vieira Monteiro	Deputy Chairman	11,332	11,332	11,332	11,332	11,333
Carlos Manuel Amaral de Pinho	Non-Executive Member	3,112	3,112	3,113	-	-
João Baptista Leite	Member	5,777	5,777	5,778	-	-
José Carlos Brito Sítima	Member	9,465	9,465	9,466	-	-
José Urgel Moura Leite Maia	Member	7,805	7,805	7,805	-	-
José Manuel Alves Elias da Costa	Member	9,401	9,401	9,402	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,975	7,975	7,974	-	-
Pedro Aires Coruche Castro e Almeida	Member	9,774	9,774	9,774	-	-
Manuel António Amaral Franco Preto	Member	7,246	7,246	7,245	-	-
		<b>71,887</b>	<b>71,887</b>	<b>71,889</b>	<b>11,332</b>	<b>11,333</b>

On this date, two thirds of the deferred 2014 remuneration continues deferred, and one third of this remuneration has been paid.

### Board of Directors

Name	Position	Bonuses - 2014 paid in february 2016			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.2	4	75	44
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.1	1	20	12
João Baptista Leite	Member	0.1	1	24	14
José Carlos Brito Sítima	Member	0.1	2	38	22
José Urgel Moura Leite Maia	Member	0.1	2	31	18
José Manuel Alves Elias da Costa	Member	0.1	2	37	22
Luís Filipe Ferreira Bento dos Santos	Member	0.1	1	30	18
Pedro Aires Coruche Castro e Almeida	Member	0.1	2	39	23
Manuel António Amaral Franco Preto	Member	0.1	1	30	18
		<b>0.9</b>	<b>16</b>	<b>324</b>	<b>191</b>

The above value corresponds to 52,365 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

### Board of Directors

Name	Position	Bonuses - 2014			
		2017		2018	
		Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	12,097	75	12,097	75
Carlos Manuel Amaral de Pinho	Non-Executive Member	3,233	20	3,233	20
João Baptista Leite	Member	3,826	24	3,826	24
José Carlos Brito Sítima	Member	6,110	38	6,110	38
José Urgel Moura Leite Maia	Member	5,058	31	5,057	31
José Manuel Alves Elias da Costa	Member	6,035	37	6,035	37
Luís Filipe Ferreira Bento dos Santos	Member	4,850	30	4,849	30
Pedro Aires Coruche Castro e Almeida	Member	6,251	39	6,250	39
Manuel António Amaral Franco Preto	Member	4,904	30	4,903	30
		<b>52,364</b>	<b>324</b>	<b>52,360</b>	<b>324</b>

## CORPORATE GOVERNANCE

On this date, one third of the deferred 2013 variable remuneration continues deferred, and one third of such remuneration has been paid

### Board of Directors

Name	Position	Bonuses - 2013 paid in february 2016			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.4	7	50	27
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.1	2	17	9
João Baptista Leite	Member	0.1	2	16	9
José Carlos Brito Sítima	Member	0.3	4	33	18
José Urgel Moura Leite Maia	Member	0.2	3	23	13
José Manuel Alves Elias da Costa	Member	0.2	4	29	16
Luís Filipe Ferreira Bento dos Santos	Member	0.2	4	29	16
Pedro Aires Coruche Castro e Almeida	Member	0.3	5	36	19
Manuel António Amaral Franco Preto	Member	0.2	3	20	11
		2.1	34	253	138

The above value corresponds to 37,805 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

### Board of Directors

Name	Position	Bonuses - 2013	
		2017	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	7,485	50
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,495	17
João Baptista Leite	Member	2,381	16
José Carlos Brito Sítima	Member	4,990	33
José Urgel Moura Leite Maia	Member	3,502	23
José Manuel Alves Elias da Costa	Member	4,340	29
Luís Filipe Ferreira Bento dos Santos	Member	4,282	29
Pedro Aires Coruche Castro e Almeida	Member	5,340	36
Manuel António Amaral Franco Preto	Member	2,994	20
		37,809	252

Following was the variable remuneration paid relative to 2012:

### Board of Directors

Name	Position	Bonuses - 2012 paid in february 2016			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	1.1	12	53	30
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.4	4	19	10
João Baptista Leite	Member	0.4	4	18	10
José Carlos Brito Sítima	Member	0.6	6	27	15
José Urgel Moura Leite Maia	Member	0.6	6	27	15
José Manuel Alves Elias da Costa	Member	0.7	7	32	18
Luís Filipe Ferreira Bento dos Santos	Member	0.6	7	29	16
Pedro Aires Coruche Castro e Almeida	Member	0.8	9	38	21
Manuel António Amaral Franco Preto	Member	0.4	5	21	12
		5.4	61	262	148

The above value corresponds to 40,705 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution

### Other Benefits

With respect to post-employment benefits, the members of the Board of Directors who are contractually bound to Banco Santander Totta and that are not inserted in the plan referred to below are comprised in the pension plan of the Collective Labour Agreement for the banking industry subscribed by the Bank.

In 2010, the group set up a plan with an established contribution for its entire managerial staff. This plan also includes the members of the Board of Directors that are not comprised in the plan referred to below.

The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the

General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service

On 31 December 2015, liabilities with this plan amounted to mEuros 20,676 and are duly covered by a provision recorded in the Bank's accounts.

### Contractual Terminations

There were no payments, in 2015, of any compensation for early termination of employment of corporate officers.

**3. Remuneration Policy applicable in 2015 to the Managerial Staff of Banco Santander Totta, S.A.**

At its meeting held on 25 June 2015 the Board of Directors approved the following remunerations policy.

**REMUNERATIONS POLICY OF THE BANCO SANTANDER TOTTA, S.A. OFFICERS WITH RESPONSIBILITY IN ASSUMING RISKS OR IN CONTROL DUTIES.**

In the terms and for the purposes of the provisions of article No. 115 – C of the General Regime of Credit Institutions, approved by Decree-Law No. 298/92, dated 31 December (RGICSF), by article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No. 10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy is disclosed of the employees who, not being Corporate Officers of Bank Santander Totta, S.A. (the “Bank”), (i) exercise their professional activity with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Banks risk profile or (ii) exercise their professional activity within the scope of the control functions, comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, as is the case with the officers responsible for the Audit, General Control of Bank Risks, Compliance and Credit & Market Risks Departments, as well as those officers responsible for the Financial, Accounting and Management Control areas.

In the definition of this policy's subjective scope consideration was given to the parameters referred in the *“regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU”*, such as proposed by the European Banking Authority (EBA).

**A. Framework**

The Remuneration Policy of Managerial Staff follows the principles in force for the Bank's remaining employees, as comprised in the directives established by the Bank's majority shareholder for all the Santander Group and laid out, with the involvement of external consultants, in line with the best practices existing in the sector. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Managerial Staff is annually reviewed and approved by the Board of Directors, in the exercise of the competence that may be delegated on the respective Executive Committee. The officer responsible for the Bank's Human Resources Department also took part in its definition, putting forward recommendations intended to ensure that remunerations are adequate and reflect the Bank's risk profile and long term objectives, and also

conform to legal and regulatory standards, as well as with the national and international pertinent principles and recommendations.

**B. Santander Group Policy**

Since the following remuneration policy is necessarily and fully comprised in the Santander Group policy, reference should be made to the extremely competitive context within which the Group's activity is developed and the circumstance that the achievement of its objectives largely depends upon the quality, the capacity for work, the dedication, responsibility, knowledge of the business and commitment towards the institution, from those that perform key duties in the organization.

These are the premises that generally determine the Santander Group's remuneration policy and that allow attracting and retaining talents in the organization, considering the global cover of the market within which it operates.

Consequently, the remuneration policy of these groups of employees has, as it did in the past, the following objectives:

- Ensure that total remuneration and its respective structure (made up by the differing short, medium and long term components) are competitive with the practice of the international financial sector and coherent with the Group's leadership rationale;
- Maintain a fixed relevant and balanced component in relation with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the shareholders' interests.

The Group has set up a Committee for the Assessment of Remuneration Risks, whose members are individualities of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives, all features that have an impact on remunerations.

Thus the Group, following on what has been its practice, will continue to align its remuneration policy with the best market practices, anticipating in general terms and within the adequate measures, the concerns evinced in the Portuguese regulations.

Additionally, the Group engaged the assistance of consultants Towers Watson in the definition of their remunerations policy

### C. Guiding Principles of the Remunerations Policy

In line with the above, the general guiding principles of the remunerations policy have been and must remain the following:

- Simple, clear, transparent and aligned with the Bank's culture, equally considering the Group it comprises;
- Consistent with an effective management and risk control to avoid excessive exposure to conflicts of interest, on the one hand, and searching for coherence with the Bank's long term objectives, values and interests, which preserve its capability to reinforce the base of its equity funds, and that of its employees, as well as the interests of its customers and investors, on the other;
- Competitive and fair, considering market practices, since the practice of remuneration must be based on uniform, fair and balanced criteria;
- Alignment of the remuneration policy with the best practices and recent trends of the financial industry, at national and international levels, with the ultimate objective to discourage exposure to excessive risks and promote the continuity and sustainability of achievements and positive results, namely: i) the setting of maximum limits for the several components of remuneration, which must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establish the individual variable remuneration considering the Bank's performance, as well as the assessment of individual rendering based on financial and non-financial criteria, in accordance with the Bank's results and also in comparison with other international institutions in this industry;
- For the employees that exercise control duties, in the meaning of Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, and in addition to benefits that are not related to remuneration that may eventually be due, the variable component of the respective remuneration takes into consideration the assessment of individual performance and, materially, the specific objectives related with the duties exercised, and since it does not depend from performance in business areas, item c) of §2 of Chapter IV is thus not applicable in this area;
- The legal regime in force at each moment is applicable to early termination of contracts;
- No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

### D. Components of the Remuneration Policy

In line with the above principles, the following is assumed:

- This Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the practices existing in the industry;
- The means for the assessment of the Officers performance derive from the referred directives. This assessment is carried out on an annual basis by the Directors responsible for the respective areas. Whenever these officers report to two different areas, the assessment is also carried out by the Group officer responsible for the other area in question;
- Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

#### D.1. Fixed Remuneration

- Fixed remuneration is paid 14 times per year;
- Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 2015, it will represent a lower proportion than 50% of Total Remuneration.

#### D.2. Variable Remuneration

- Managerial remuneration equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- Considering what is defined under point IV, item c), variable remuneration is adequately balanced in relation to fixed remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established at Group level;
- With respect to the Officers covered by Instruction No. 5/2008 of the Bank of Portugal, the determination of Variable Remuneration will be based on the following criteria: (i) individual assessment of the employee, exclusively considering the specific objectives related to

the functions exercised by the employee concerned; (ii) the Bank's global performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results;

- With respect to the remaining Officers, the determination of the Variable Remuneration will be based on the following criteria: (i) the Bank's global performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results; (ii) individual performance, considering the quantitative and qualitative results achieved, as well as their contribution towards the Bank's image and reputation.

#### D.2.1. Annual Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander, S.A.;
- The application of the above referred criteria in the attribution of the performance premium is adjusted by weighting the individual performance, considering the individual quantitative results achieved, as well as additional qualitative factors, specifically; i) adequate risk management and the efficient use of capital; ii) comparison with competitors' results; iii) level of customer satisfaction as compared with that of competitors; iv) the evolution of the core capital, of the Group's economic capital, of the accounts and other relevant management factors;
- The establishment of the value of the performance premium is based on the following criteria: i) 75% depend upon the after tax results of the Company (55%) and of the Group (20%), and ii) 25% depend upon fulfilment of efficiency in the use of capital (*Return on Risk Weighted Assets*) of the Company (15%) and of the Group (10%);
- The performance premium is intended to recompense the achievement of annual results and individual accomplishment, and may vary as a function of the rate of performance of the objectives, between 0% and a value that in 2015 is estimated not to be in excess of 150% of the performance premium paid by the Company in the previous year;
- The payment of the deferred portion of the performance premium is deferred as to 40% of its value, the Bank reserving the right (through its competent bodies and in consentaneity within the Group) the possibility of not applying such deferment when the value of the total variable remuneration does not exceed 50,000 euros, and should that possibility not be inhibited by any applicable legal or regulatory determination;
- Half the value of the non-deferred portion is paid in shares and the remaining half in cash;

- The payment of the deferred portion is determined as a function of the results obtained over a three year period and subject to the following conditions being cumulatively held true: i) permanence in the Bank during a given established period; ii) preservation of the level of financial performance of the Santander Group during the referenced three year period; iii) occurrence of no significant variations in the Group's economic capital or risk profile; iv) compliance with internal regulations including those relative to risks, annually approved by the Group;
- Half the amount of the deferred portion is paid in shares and the other half in cash, the payment of the latter in three instalments, during the three subsequent years, and dependent upon the fulfilment of the above referred conditions;
- The allotted shares do not benefit from any risk covering contract and are subject to the condition of being held for a period of one year from the date of allotment.

#### D.2.2. Multiannual Variable Remuneration

- As a component of the multiannual variable remuneration, the Bank may set for 2015, a Long Term Individual Incentive (LTI), this being determined by the application of a percentage that may reach 20% of the reference value of the 2015 performance premium;
- The definite attribution of the LTI will be set by the Executive Committee in line with the general criteria applicable within the framework of the Santander Group as in the attached document to this Policy;
- The allotment of the LTI will in no circumstance imply that the variable components of the remuneration will ever exceed 200% of the fixed component of the remuneration;
- The committal of the individual Long Term Incentive will also be subject to the following conditions being cumulatively held true: i) permanence in the Company during the established given period; ii) preservation of the Group's financial performance during the deferred term; iii); compliance with internal regulations, especially those related to risks; iv) absence of material reformulation of the Group's financial components imposed by external auditors except as a result of changes in accounting principles; v) absence of significant changes in the economic capital or in the Group's risk profile;
- In extreme circumstances there may be no allotment of any shares;
- The allotted shares do not benefit of any risk covering contract and are subject to the condition of being held for a period of one year from the date of attribution.

**D.2.3. Identification of the deferred and already paid portions**

Relative to 2012 one third of the deferred variable remuneration remains to be paid.

Relative to 2013 two thirds of the deferred variable remuneration remain to be paid.

Concerning the 2014 variable remuneration, the portion not subject to deferment was paid in 2015. The payment of the remainder is deferred for three years

**E. Benefits**

Attribution of benefits is carried out in order to ensure compatibility with company strategy, and with the Bank's objectives, values and long term objectives.

Without prejudice to causal or residual attributions, resulting from measures taken in the past by previous employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

- Health Insurance complementary to the Medical & Social Assistance Services (SAMS) included in the collective labour regulations for the banking industry;
- Personal Accident Insurance, in line with the provisions included in the collective labour regulations for the banking industry.

Several employees benefit from life insurance, resulting from the contractual connection to the extinct Banco Santander Portugal or to Banco Santander, S.A.

Several employees benefit from a complementary pension plan, in the terms of the decision taken by the Bank's Board of Directors on 25 February 2010.

There are no pension benefits attributed on a discrete basis.

**F. Compliance with the Remuneration Policies established by the Bank of Portugal**

The remuneration policy of the Bank's Officers is generally in line with the principles comprised in article 115-C and remaining articles of the General Regime of Financial Institutions and Financial Societies, in Bank of Portugal Instruction No. 10/2011, dated 26 December (Government Gazette, 2nd Series, dated 9 January 2012), also taking into consideration the parameters defined in the "regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU", such as proposed by the European Banking Authority (EBA).

This policy is guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determining of the total remuneration of these groups of employees, comprised by a fixed and a variable remuneration, as well as the joint appraisal of these two components, such as made clear in this Declaration, allow the adoption, in general, of the rules contained in article No. 115-C and remaining articles of the said Regime, which are in effect its basic nucleus.

The fact that the Bank is comprised in the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence between the respective corporate policies which, in their turn, considering the Group's global nature, respect the international regulations that cover this issue. In this context, the adoption of the remaining rulings contained in Bank of Portugal's Instruction No. 10/2011 would imply a procedural redundancy and an artificial regulatory execution without any practical effects. As such, the policy of Banco Santander Totta regarding its Officers' remunerations is contained within these limits without prejudice to the compliance, in global terms and at the time of setting the directives of the Group to which they are liable, with similar rules established by the competent national authorities.

**3. Remuneration and Other Benefits attributed to Officers and Managerial Staff**

This information is provided in compliance with the provisions of article No. 17 of Bank of Portugal's Instruction No. 10/2011, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), in that part that refers the disclosure, in aggregate terms, of the amount of annual remuneration paid to employees who, not being Corporate

Officers of Banco Santander Totta, S.A. (the "Bank"), exercise their professional activity within the scope of the control functions comprised in Bank of Portugal's Instruction No. 5/2008,, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank's risk profile (hereinafter referred to as "Managers" or "Officers").

**Annual Remuneration**

Amount of fixed remuneration:	mEuros 5,753
Amount of variable remuneration:	mEuros 4,084
Number of Beneficiaries:	31

The 2015 Performance Premium and retained for one year, amounting to mEuros 1,167, corresponds to a 316,691 shares in Banco Santander, S.A., at the price per share of 3.684 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

The following amounts are deferred on the current date:

<b>Bonuses - 2015</b>					
<b>2017</b>		<b>2018</b>		<b>2019</b>	
<b>Shares</b>	<b>Cash</b>	<b>Shares</b>	<b>Cash</b>	<b>Shares</b>	<b>Cash</b>
72,007	286	72,007	286	72,001	286

At the current date, two thirds of the variable remuneration relative to 2014 is deferred, and one third of this remuneration has been paid.

<b>Bonuses - 2014</b>							
<b>2016</b>				<b>2017</b>			
<b>Interests</b>	<b>Dividends</b>	<b>Cash</b>	<b>Shares</b>	<b>Shares</b>	<b>Cash</b>	<b>Shares</b>	<b>Cash</b>
1	14	281	165	46,502	288	46,501	288

The value of the allotted shares corresponds to 45,303 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

At the current date, one third of the variable remuneration relative to 2013 is deferred, and one third of this remuneration has been paid

<b>Bonuses - 2013</b>					
<b>2016</b>			<b>2017</b>		
<b>Interests</b>	<b>Dividends</b>	<b>Cash</b>	<b>Shares</b>	<b>Shares</b>	<b>Cash</b>
1	9	65	38	10,797	67

The value of the allotted shares corresponds to 10,367 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Following is the variable remuneration paid with respect to 2012:

<b>Bonuses - 2012</b>			
<b>2016</b>			
<b>Interests</b>	<b>Dividends</b>	<b>Cash</b>	<b>Shares</b>
1	14	51	34

The value of the allotted shares corresponds to 9,284 shares in Banco Santander, S.A., at a price per share of 3.64 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

#### **Other Benefits**

Officers enjoy the benefits of health insurance supplementary to Medical & Social Assistance Services (SAMS) comprised in the collective labour regulations for the banking industry and of personal accident insurance, in line with the provisions of the collective labour regulations for the banking industry.

Several Officers benefit from life insurance, as a result of a contractual link with the extinct Banco Santander Portugal or with Banco Santander, S.A.

Several Officers benefit from a supplementary pension plan, in the terms of the decision of the Bank's Board of Directors dated 25 February 2010.

The officers responsible for Internal Audit and Legal Consultancy were replaced in 2015.

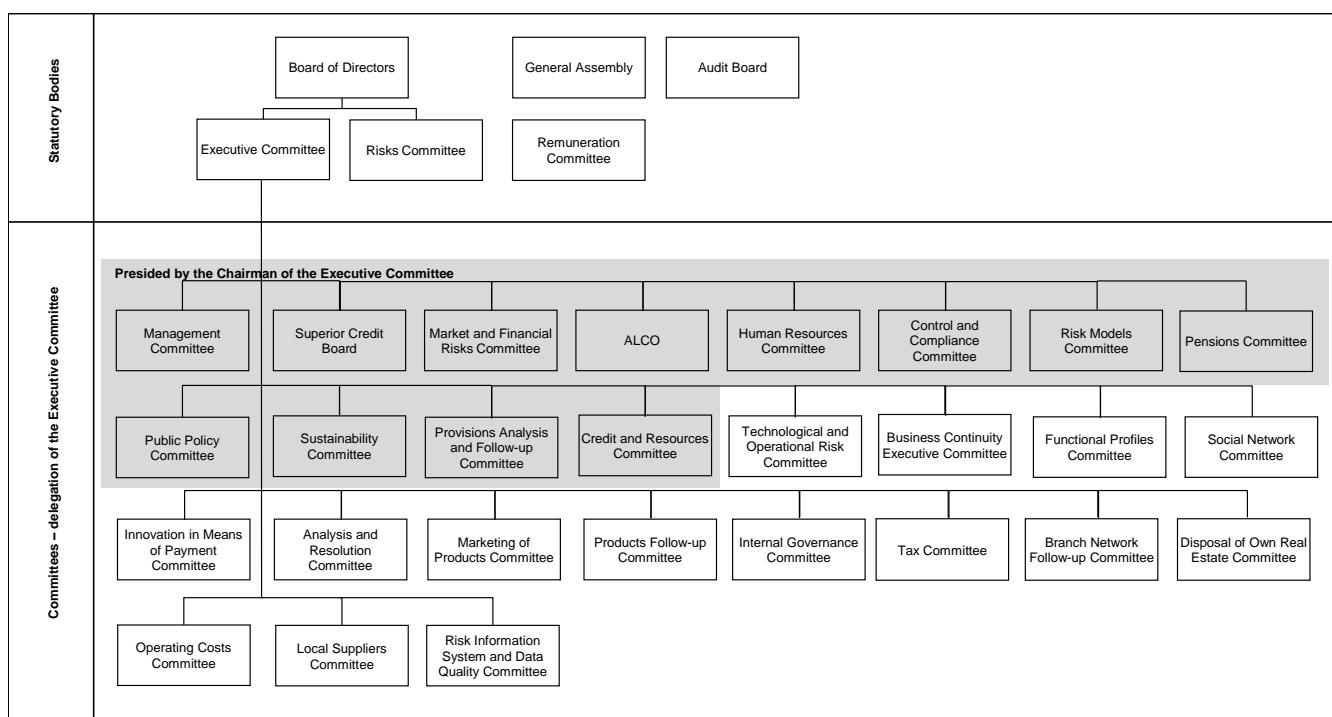
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### III. Remunerations Policy for 2016

The Remuneration Policy of the Corporate Officers of Banco Santander Totta, for 2016, will be the object of deliberation at the Annual General Meeting, in the terms of article no. 2, §1 of Law no. 28/2009, dated 19 June and of article no. 16 of Bank of Portugal Instruction no. 10/2011, dated 29 December (Government Gazette, 2nd Series, dated 9 January 2012).

The Remuneration policy for the Managerial Staff of Banco Santander Totta was approved at the meeting of the Board of Directors held on 25 June 2015, and applicable in 2015 and 2016. Until a further decision is taken, this policy is that which is transcribed above. It is expected that the issue will be considered in June 2016.

### IV. Model of Internal Governance



### **Declaration referred to in item c) of § 1 of article no. 245 of the Securities Code**

Item c) of §1 of article no. 245 of the Securities Code determines that each one of the persons responsible for the company issues a declaration the text of which is established therein.

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

“I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 245 of the Securities Code that, as far as I am aware, the Management Report, the annual Accounts, the Statutory Auditor’s Report and remaining financial statements of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2015, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of that Company and of the companies included in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced”.

#### **The Board of Directors**

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António Basagoiti Garcia-Tuñon

Chairman

---

António José Sacadura Vieira Monteiro

Deputy Chairman

---

Enrique Garcia Candelas

Deputy Chairman

---

Carlos Manuel Amaral de Pinho

Member

---

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Member

---

João Baptista Leite

Member

---

José Carlos Brito Sítima

Member

---

José Urgel Moura Leite Maia

Member

---

José Manuel Alves Elias da Costa

Member

---

Luís Filipe Ferreira Bento dos Santos

Member

---

Manuel António Amaral Franco Preto

Member

---

Pedro Aires Coruche Castro e Almeida

Member



## **Declaration of the Audit Board on the Conformity of the Financial Information Presented**

Item c) of §1 of article No. 245 of the Securities Legislation determines that each of the responsible officers in a company issues a declaration as defined therein.

The members of the Audit Board of Banco Santander Totta, S.A, hereunder individually identified subscribed the following declaration:

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Code that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2015, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

### **Audit Board**

**Chairman:** Luís Manuel Moreira de Campos e Cunha

**Members:** Mazars & Associados, SROC, representada por Fernando Vieira

Ricardo Manuel Duarte Vidal Castro

## CONSOLIDATED FINANCIAL STATEMENTS

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BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2014

(Amounts expressed in thousands of Euros - tEuros)

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

ASSETS	Notes	2015		2014		LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2015		2014	
		Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets			2015	2014	2015	2014
Cash and deposits at central banks	5	3 134 032	-	3 134 032	830 474	<b>Liabilities</b>					
Balances due from other banks	6	463 898	-	463 898	241 218	Resources of central banks	18	4 952 679	4 406 312		
Financial assets held for trading	7	1 750 694	-	1 750 694	2 291 734	Financial liabilities held for trading	7	1 721 691	1 995 019		
Available-for-sale financial assets	8	6 539 604	71 791	6 467 813	6 712 555	Resources of other credit institutions	19	3 545 229	4 030 724		
Loans and advances to credit institutions	9	1 535 436	-	1 535 436	1 220 917	Resources of customers and other debts	20	27 126 313	21 625 902		
Loans and advances to customers	10	32 801 978	1 021 013	31 780 965	25 523 251	Debt securities	21	5 043 445	2 973 111		
Hedging derivatives	11	130 292	-	130 292	195 035	Hedging derivatives	11	170 133	133 690		
Non-current assets held for sale	12	311 210	120 615	190 595	208 375	Provisions	22	323 090	71 988		
Investment properties	13	387 193	-	387 193	420 239	Current tax liabilities	16	37 747	20 034		
Other tangible assets	14	676 479	376 285	300 194	298 792	Deferred tax liabilities	16	122 920	142 026		
Intangible assets	14	403 091	372 037	31 054	28 381	Equity representative instruments	23	69 309	205 979		
Investments in associated companies	15	44 457	1 500	42 957	166 359	Subordinated liabilities	24	4 302	4 306		
Current tax assets	16	16 458	-	16 458	14 603	Other liabilities	25	399 302	292 893		
Deferred tax assets	16	418 317	-	418 317	458 675	Total liabilities		43 516 160	35 901 984		
Other assets	17	297 117	18 047	279 070	249 754	<b>Shareholders' equity</b>					
						Share capital	26	956 723	656 723		
						Share premium account	26	193 390	193 390		
						Other equity instruments	26	135 000	135 000		
						Revaluation reserves	26	(322 046)	(278 738)		
						Other reserves and retained earnings	26	1 603 610	1 534 596		
						(Own shares)		(43 561)	(43 444)		
						Consolidated net income attributable to the shareholders' of BST	27	568 377	165 174		
						Shareholders' equity attributable to the shareholders' of BST		3 091 493	2 362 701		
						Non-controlling interests	28	321 315	595 677		
						Total shareholders' equity		3 412 808	2 958 378		
						Total liabilities and shareholders' equity		46 928 968	38 860 362		
Total assets, net		<u>48 910 256</u>	<u>1 981 288</u>	<u>46 928 968</u>	<u>38 860 362</u>						

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2015.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts expressed in thousands of Euros - tEuros)

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

	Notes	2015	2014
Interest and similar income	30	1 027 468	1 194 168
Interest and similar charges	31	(467 505)	(650 629)
<b>Net interest income</b>		<b>559 963</b>	<b>543 539</b>
Income from equity instruments	32	1 178	1 222
Income from services and commissions	33	321 712	335 187
Charges with services and commissions	34	(59 199)	(58 311)
Result of assets and liabilities at fair value through profit or loss	35	84 452	(244 097)
Result of available-for-sale financial assets	36	147 877	308 722
Result of foreign exchange revaluation	37	6 137	5 458
Result from the sale of other assets	38	61 685	17 568
Other operating results	39	(13 783)	(14 314)
<b>Net income from banking activities</b>		<b>1 110 022</b>	<b>894 974</b>
Staff costs	40	(275 609)	(281 592)
General administrative costs	41	(207 202)	(143 744)
Depreciation in the year	14	(40 116)	(61 857)
Provisions, net of reversals	22	(99 441)	(46 416)
Loan impairment net of reversals and recoveries	22	(119 389)	(111 206)
Impairment of other financial assets net of reversals and recoveries	22	(10 416)	(1 131)
Impairment of other assets net of reversals and recoveries	22	(13 011)	(33 780)
Result from the acquisition of the activity of Banif	1.4	327 159	-
Result from associates	42	14 498	19 791
<b>Income before taxes and non-controlling interests</b>		<b>686 495</b>	<b>235 039</b>
Taxes			
Current	16	(67 658)	(40 700)
Deferred	16	(50 465)	(29 171)
<b>Income after taxes and before non-controlling interests</b>		<b>568 372</b>	<b>165 168</b>
Non-controlling interests	28	5	6
<b>Consolidated net income attributable to the shareholders' of BST</b>	27	<b>568 377</b>	<b>165 174</b>
Average number of ordinary shares outstanding	27	643 500 509	641 879 747
Earnings per share (in Euros)	27	0,88	0,26

The accompanying notes form an integral part of the consolidated statement of income for  
the year ended December 31, 2015.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts expressed in thousands of Euros - tEuros)

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

	December 31, 2015		December 31, 2014	
	Attributable to the shareholders' of BST	Attributable to non-controlling interests	Attributable to the shareholders' of BST	Attributable to non-controlling interests
Consolidated net income for the year	568 377	(5)	165 174	(6)
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations				
. Fair value	28 002	-	(48 394)	-
. Tax effect	(5 880)	-	762	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences on foreign subsidiaries	3 052	34 154	9 067	35 476
. Revaluation reserves of associated companies valued by the equity method				
. Fair value	4 441	-	907	-
. Tax effect	(1 427)	-	(157)	-
. Changes in fair value of financial assets available for sale				
. Fair value	(78 630)	-	490 688	-
. Tax effect	22 735	-	(143 419)	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	(22 339)	-	(22 499)	-
. Tax effect	6 478	-	6 746	-
Consolidated comprehensive income for the year	524 809	34 149	458 875	35 470

The accompanying notes form an integral part of the consolidated statements of income and other comprehensive income for the year ended December 31, 2015.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 53)

	Share Capital	Share Premium Account	Other equity instruments	Revaluation reserves				Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the year	Non-controlling interests	Shareholders' equity
<b>Balances as at December 31, 2013 (proforma)</b>	<b>656 723</b>	<b>193 390</b>	<b>135 000</b>	<b>23 245</b>	<b>(814 599)</b>	<b>(10 208)</b>	<b>228 373</b>	<b>245 862</b>	<b>898 754</b>	<b>332 601</b>	<b>(43 312)</b>	<b>89 164</b>	<b>560 316</b>	<b>2 495 309</b>
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	96	245	46 382	41 239	-	(87 962)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(1 202)	-	(1 202)
Distribution of dividends - preference shares	-	-	-	-	-	665	-	-	(30 150)	-	-	-	(108)	(29 593)
Long-term incentives	-	-	-	-	-	-	-	-	(222)	-	-	-	-	(222)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-	(132)	(132)
Other	-	-	-	-	-	(10)	(1)	-	(115)	-	-	-	(1)	(127)
Comprehensive income														
for the year 2014	-	-	-	-	420 702	9 067	(136 068)	-	-	-	-	165 174	35 470	494 345
<b>Balances as at December 31, 2014</b>	<b>656 723</b>	<b>193 390</b>	<b>135 000</b>	<b>23 245</b>	<b>(393 897)</b>	<b>(486)</b>	<b>92 400</b>	<b>246 107</b>	<b>914 649</b>	<b>373 840</b>	<b>(43 444)</b>	<b>165 174</b>	<b>595 677</b>	<b>2 958 378</b>
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	260	13 447	30 969	54 784	-	(99 460)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(65 714)	-	(65 714)
Capital increase	300 000	-	-	-	-	-	-	-	-	-	-	-	-	300 000
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(300 000)	(300 000)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	(30 168)	-	-	-	(8 511)	(38 679)
Long-term incentives	-	-	-	-	-	-	-	-	(18)	-	-	-	-	(18)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	(117)	-	(117)
Comprehensive income														
for the year 2015	-	-	-	-	(68 526)	3 052	21 906	-	-	-	-	568 377	34 149	558 958
<b>Balances as at December 31, 2015</b>	<b>956 723</b>	<b>193 390</b>	<b>135 000</b>	<b>23 245</b>	<b>(462 423)</b>	<b>2 566</b>	<b>114 566</b>	<b>259 554</b>	<b>915 432</b>	<b>428 624</b>	<b>(43 561)</b>	<b>568 377</b>	<b>321 315</b>	<b>3 412 808</b>

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the year ended December 31, 2015.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts expressed in thousands of Euros - tEuros)

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

	2015	2014
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commissions received	1 163 003	1 314 804
Payment of interest and commissions	(490 393)	(708 278)
Payments to staff and suppliers	(497 390)	(429 371)
Contributions to the Pension Fund	(1 943)	(79 200)
Foreign exchange and other operating results	648	21 405
Recovery of uncollectable loans	2 765	5 403
Operating results before changes in operating assets and liabilities	<u>176 690</u>	<u>124 763</u>
 (Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(54 636)	2 053 709
Financial assets held for trading	586 155	(341 611)
Loans and advances to customers	(367 707)	466 738
Assets and liabilities at fair value through profit or loss	168 722	(277 517)
Non-current assets held for sale	7 330	(15 112)
Investment properties	26 805	8 870
Other assets	(41 802)	27 300
	<u>324 867</u>	<u>1 922 377</u>
 Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(1 821 960)	(1 938 176)
Resources of customers and other debts	1 094 426	925 831
Financial liabilities held for trading	(296 475)	375 251
Other liabilities	(128 333)	(1 848)
	<u>(1 152 342)</u>	<u>(638 942)</u>
 Net cash flow from operating activities before income tax		
Income tax paid	(650 785)	1 408 198
<b>Net cash flow from operating activities</b>	<u>(51 800)</u>	<u>(31 362)</u>
	<u>(702 585)</u>	<u>1 376 836</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	1 178	1 222
Purchase of available-for-sale financial assets	(990 914)	(4 910 480)
Sale of available-for-sale financial assets	2 300 592	3 280 653
Income from available-for-sale financial assets	180 248	122 171
Purchase of tangible and intangible assets	(48 558)	(29 489)
Sale of tangible assets	(2 825)	15 919
Investments in subsidiaries and associated companies	174 411	-
<b>Net cash flow from investment activities</b>	<u>1 614 132</u>	<u>(1 520 004)</u>
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Issuance/(redemption) of debt securities	412 575	398 605
Interest paid on bonds issued and other	(57 975)	(73 215)
Redemption of preference shares	(300 000)	-
Dividends paid	(65 714)	(1 202)
Capital Increase	300 000	-
Interest paid on subordinated liabilities	(80)	(90)
<b>Net cash flow from financing activities</b>	<u>288 806</u>	<u>324 098</u>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>	<u>1 200 353</u>	<u>180 930</u>
 Cash and cash equivalents at the beginning of the year		
Acquisition of Banif's activity	1 071 692	890 762
Cash and cash equivalents at the end of the year	<u>3 597 930</u>	<u>1 071 692</u>

The accompanying notes form an integral part of the consolidated statement of cash flows  
for the year ended December 31, 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2015

(Translation of notes originally issued in Portuguese – Note 53)

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

INTRODUCTION

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

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group during 2015 and 2014 are detailed in Note 46.

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

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

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

At 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 activity and a set of assets, liabilities, off-balance sheet items and assets under the management of this entity (Note 1.4).

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

The Bank has a domestic network of 689 branches, of which 154 transferred from former Banif (555 branches as of December 31, 2014) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. The Bank has also subsidiaries and representation offices abroad as well as investments in subsidiaries and associated companies.

**1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES**

**1.1. Basis of presentation of the accounts**

BST’s consolidated financial statements were prepared on a going concern basis, from its books and accounting records maintained in accordance with the accounting principles set forth in the International Financial Reporting Standards (IAS/IFRS), as adopted by the European Union, Regulation (CE) 1606/2002 of July 19 of the European Parliament and Council, transposed to Portuguese legislation by Decree-Law 35/2005 of February 17, and Notice 1/2005 of February 21 of the Bank of Portugal. When Group companies used different accounting principles, appropriate adjustments are made for conversion to the IAS/IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2015

(Translation of notes originally issued in Portuguese – Note 53)

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

In 2015, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union:

- IFRIC 21 – “Levies” (amendment) – This amendment establishes criteria about when to recognize a liability to pay a levy as a result of a certain event (for example, participating in a specific market), when the payment is not made for the acquisition of an asset or specific services.
- Improvements to International Financial Reporting Standards (2010-2012 and 2011-2013 Cycles) - These improvements involve the clarification of some aspects regarding several standards, namely IFRS 1 – “First-time Adoption of International Financial Reporting Standards”, IFRS 3 – “Business Combinations”, IFRS 13 – “Fair Value Measurement” and IAS 40 – “Investment Property”.
- IAS 19 – “Employee Benefits” (revised) – This amendment clarifies under which circumstances employee contributions for post-employment benefit plans represent a reduction in the cost of short-term benefits.

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

The following standards, interpretations, amendments and revisions with mandatory application in future financial years, have been endorsed by the European Union until the date of approval of these financial statements:

- IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets” (revised). These amendments clarify which amortization methods of tangible and intangible assets are allowed.
- IAS 27 – “Separate financial statements” (2011) (revised) – This amendment introduces the possibility of applying the equity method to the valuation of investments in subsidiaries, associates and jointly controlled entities in the separate financial statements of an entity which presents consolidated financial statements.
- IAS 1 – “Presentation of financial statements” (Disclosures) (revised) – This amendment introduces a set of instructions and guidelines to improve and simplify the disclosures needed in the actual context of IFRS reporting requirements.
- Improvements to International Financial Reporting Standards (2012-2014 Cycle): These improvements involve the review of several standards.
- IFRS 11 – “Joint Arrangements” – This amendment clarifies IFRS 3 and should be applied when an investor acquires an interest in a jointly controlled entity as defined by that standard. The application of IFRS 3 is required in the acquisition of the initial interest and in subsequent acquisitions of interests.

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

- IFRS 9 – “Financial instruments” (2009) and subsequent amendments – This standard is part of the draft revision of IAS 39 and establishes the requirements for the classification and measurement of financial assets and liabilities and for the application of hedge accounting rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2015

(Translation of notes originally issued in Portuguese – Note 53)

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

- IFRS 14 – “Regulated assets” – This standard establishes the reporting requirements for entities which are adopting IAS/IFRS for the first time, applicable to regulated assets.
- IFRS 15 – “Revenue from contracts with customers” – This standard introduces a recognition structure of revenue based on principles and on a model to be applied to all contracts established with customers.

These standards have not been endorsed by the European Union and so they were not adopted by the Bank in the year ended December 31, 2015. Except for the effect of the application of IFRS 9, which up to this date is not possible to estimate, no material impacts are estimated as a result of the adoption of the above mentioned standards.

The Bank's financial statements for the year ended December 31, 2015 are pending approval by the General Meeting of Shareholders. Nevertheless, the Banks' Board of Directors believes that they will be approved without significant changes.

#### 1.2. Consolidation principles and recording of associated companies

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

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

The financial statements of subsidiaries are consolidated by the full integration method from the date that the Bank has control over their activities to the date that control ceases. The transactions and the significant balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full integration method are accounted for under the caption “Non-controlling interests” (Note 28).

On the other hand, the Bank manages assets held by investment funds whose participating units are held by third parties. The financial statements of those investment funds are not included in the consolidation perimeter of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participating units, situations when they are consolidated by the full integration method. In accordance with IAS 32 and IFRS 10, the amount corresponding to the third party participations in the investment funds that are consolidated by the full integration method is presented as a liability under the caption “Equity representative instruments” (Note 23). The non-controlling interests of the income statement related to investment funds consolidated are recognized as a deduction to the captions “Result from the sale of other assets” (Santander Multiobrigações Fund) and “Other operating income - Unrealized gains on investment properties” (Novimovest Fund), given the nature of the main income earned by those funds (Notes 38 and 39).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2015

(Translation of notes originally issued in Portuguese – Note 53)

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

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a participation (direct or indirect) exceeds 20% or where the Bank has the power to participate in decisions relating to its financial and operating policies, but does not have control or joint control over them.

Participations in associated companies are recorded in accordance with the equity method of accounting, from the date the Bank has significant influence until the date it ceases.

In accordance with the equity method of accounting, the consolidated financial statements include the part of shareholders' equity and profit or loss of the associated companies attributable to the Bank.

Goodwill is measured as the excess of the acquisition cost over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of subsidiaries and associated companies – being recorded in the balance sheet as assets. At least once a year, the Bank performs impairment tests to the goodwill recognized in the balance sheet, in accordance with the requirements of IAS 36 - "Impairment of Assets". For this purpose, goodwill is allocated to cash generating units, and the recoverable amount is assessed based on the present value of the estimated future cash flows using discount rates considered appropriate by the Bank. Impairment losses associated with goodwill are recorded in the income statement and cannot be reversed.

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

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

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

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

With the application of the amendments to the standards IFRS 3 and IAS 27, the Bank defined as accounting policy the fair value valuation through profit or loss when there is a change of control for subsidiaries acquired in stages. In such cases, the participation acquired prior to the date of the change of control is revalued at fair value through profit or loss. Goodwill is calculated on a given date as the difference between the total acquisition cost and the proportion in the fair value of the subsidiaries' assets and liabilities. Similarly, by the application of the amendments above, the Bank revalue through profit or loss the undertakings in which it loses control (Note 4).

On the other hand, the Bank decided to reverse, as of the transition date (January 1, 2004) to the IAS/IFRS, the reserve resulting from foreign exchange differences arising out from the translation of financial statements of subsidiaries and associated companies expressed in functional currencies other than the Euro. As from that date, in compliance with IAS 21, the financial statements of subsidiaries and associated companies expressed in foreign currencies have been converted to Euros as follows:

- Assets and liabilities expressed in foreign currencies are translated to Euros using the exchange rate for Euros on the balance sheet date;
- Non-monetary assets recorded at historical cost, including tangible assets, remain reflected at the original exchange rates; and
- Foreign currency income and expenses are translated to Euros at the average exchange rates of the month in which they are recognized.

Currency exchange differences arising upon translation to Euros are accounted in shareholders' equity in the caption of "Revaluation reserves – Foreign exchange fluctuation".

### **1.3. Summary of the main accounting policies**

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

#### **a) Accruals basis**

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

#### **b) Foreign currency transactions**

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

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

#### **c) Loans and accounts receivable**

This category of financial assets includes loans and advances to customers and loans and advances to credit institutions.

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

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

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

The Bank classifies as overdue loans, instalments of principal and interests overdue for more than 30 days. Loans with overdue instalments are denounced in accordance with the credit procedures approved by the Bank, being the whole debt considered overdue from that moment on.

On the other hand, the Bank periodically analyses the loans and advances that should have already been paid in full but for which the effort to collect them has not been effective. When the prospects of recovering of those loans are negligible, loans are considered to be uncollectible and impairment losses are recognized for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently are recognized in the income statement in the caption "Loan impairment net of reversals and recoveries".

#### Impairment

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

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

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

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

- Credit granted greater than tEuros 10,000;
- Credit granted greater than tEuros 500 that are classified in the Bank's monitoring system as doubtful not in litigation; and
- Credit granted greater than tEuros 1,000 if classified in VE1 Substandard, VE2 and VE3, in the Bank's monitoring system.

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

Customers assessed individually with impairment losses less than 0.5% are subsequently assessed on a collective impairment basis, being segmented between customers with responsibilities greater or less than tEuros 300.

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

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

- Contractual breach, such as delay in principal and/or interest payments;
- Significant financial difficulties of the debtor;
- Significant change of the debtor's financial situation;
- Other adverse changes, such as:
  - . Conditions and/or ability to pay; and
  - . Economic conditions in the sector in which the debtor operates with an impact on the debtor's ability to comply with its obligations.

Impairment losses for customers without overdue loans correspond to the probability of having overdue loan (PI) times the difference between the book value of the respective loans and the present value of estimated future cash flows of those operations. PI corresponds to the probability of one transaction, operation or client becoming overdue during an emergence period. The emergence period corresponds to the period between the occurrence of a loss event and the identification of that event by the Bank (incurred but not reported). For all loan portfolio segments, the Bank considers an emergence period of 6 months.

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

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

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

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As required by IFRS 3, the Bank determined the fair value of the loans acquired from Banif under the resolution measure as of the acquisition date (December 20, 2015, date of the resolution). The Bank considered that there were no impairment losses between December 20 and December 31, 2015.

Write off of principal and interest

In accordance with the policies in place in the Bank, interests arising out from overdue loans without a real guarantee are reversed three months after the due date of the operation or after the first due instalment. Unrecorded interest on the above-mentioned loans is only recognized in the period of its actual collection.

Interests on mortgage loans or on loans granted with other real guarantees are suspended from the date of termination of the contract.

Loan sales

Gains and losses on the definitive sale of loans are recorded in the income statement caption "Result from the sale of other assets" (Note 38). These gains or losses correspond to the difference between the sale amount agreed and the book value of these assets, net of impairment losses.

Factoring

Assets resulting from factoring operations with recourse are recorded in the balance sheet as loans granted by the amount of the advance funds on behalf of those contracts.

Assets resulting from factoring operations without recourse are recorded in the balance sheet as loans granted by the amount of the credits taken against the recognition of a liability under the caption "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts." The delivery of funds to the counterparts in factoring operations originates a corresponding debit in the caption "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts" (Note 25).

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

Non derecognized securitized assets

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

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

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

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

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

Finance leasing

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

i) As lessee

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

ii) As lessor

Leased assets are recorded in the balance sheet as loans granted, which are repaid by amortising the principal in accordance with the financial plan of the contracts. Interest included in the instalments is recorded in the caption "Interest and similar income".

Guarantees given and irrevocable commitments

Responsibilities arising from guarantees given and irrevocable commitments are recorded in off-balance sheet accounts for the amount at risk, while interest, commissions and other income are recorded in the income statement over the period of the operations.

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

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

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

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

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

e) Financial instruments

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

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

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

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

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

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

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

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

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

The fair value of the derivative financial instruments that are not traded on active markets, including the credit risk component attributed to the parties involved in the transaction ("Credit Value Adjustments" and "Debit Value Adjustments"), is estimated based on the amount that would be received or paid to settle the contract on that date, considering the current market conditions as well as the credit quality of the counterparties.

ii) Available-for-sale financial assets

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

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

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

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

iii) Reclassification of financial assets

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

iv) Income recognition

Interest relating to financial assets and the recognition of the difference between their acquisition cost and nominal value (premium or discount) is calculated in accordance with the effective interest rate method and recorded in the “Interest and similar income” caption in the income statement.

v) Sale operations with repurchase agreements

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

vi) Impairment of financial instruments

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

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

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

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

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

For financial assets recorded at cost, namely unlisted equity instruments which fair value cannot be reliably measured, the Bank also carries out periodic impairment tests. In this context, the recoverable amount of those assets corresponds to the present value of the estimated future cash flows, using a discount rate that reflects the underlying risk of a similar asset.

vii) Other financial liabilities

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

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

Embedded derivatives in bonds issued are recorded separately in the captions “Financial assets and liabilities held for trading”, being revalued at fair value through the income statement.

Secondary market transactions

The Bank carries out repurchases of bonds issued in the secondary market. Purchases and sales of own bonds are included in proportion to the respective accounts of debt issued (capital, interest and commissions) and the differences between the amount settled and the disposal, or increase in liabilities, are recognized immediately in profit or loss.

Fair value

As mentioned above, the financial assets and liabilities recorded in the categories of “Financial assets held for trading”, “Financial liabilities held for trading”, “Other financial assets at fair value through profit or loss” and “Available-for-sale financial assets” are measured at fair value.

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

The fair value of financial assets and liabilities is determined by an independent area of the Bank’s trading function, based on:

- For financial instruments traded on active markets, the closing price on the balance sheet date;
- For debt instruments not traded on active markets (including unlisted securities or with limited liquidity) methods and valuation techniques are used, which include:
  - i) Prices (bid prices) obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;
  - ii) Indicative quotes (bid prices) obtained from financial institutions that operate as market-makers; and
  - iii) Valuation models, which take into account market inputs that would be used to determine the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and the credit risk associated to the instrument.

Amortized cost

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

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

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

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

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

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

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

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

- There is formal documentation regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:
  - . Identification of the hedging instrument;
  - . Identification of the hedged item;
  - . Identification of the type of hedged risk; and
  - . Definition of the method used to measure the hedging effectiveness and subsequent monitoring.
- Initial expectation that the hedging relationship is highly effective; and
- Throughout the life of the operation, the hedging effectiveness is kept between 80% and 125%. The hedging effectiveness is tested on each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

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

Fair value hedge

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

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

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

#### Cash flow hedges

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

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

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

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

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

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

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

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is early terminated, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that was recognized in equity continues to be separately classified in equity, being recorded in the income statement in the same period that the gains or losses of the hedged item are recognized.

g) Other tangible assets

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

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

	Years of <u>useful life</u>
Property for own use	50
Equipment	4 to 10

Non recoverable expenditure capitalized on leasehold buildings is amortized over a period adjusted to its expected useful life or the term of the lease contract, if shorter, which on average corresponds to a period of ten years.

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

On the other hand, the tangible assets of the Bank are subject periodically to impairment tests. The branches are considered as cash flows generating units for this purpose with impairment losses being recognized whenever the recoverable amount of a property (through its use in the operations or through its sale) is lower than its carrying amount.

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

h) Intangible assets

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

Intangible assets are amortized on a monthly basis over its estimated useful life, which corresponds to three years on average. For the Partenon computer platform, until December 31, 2013 the expected useful life corresponded to five years. During 2014, the Bank has revised the estimated useful life of that computer platform and reduced it to 3 years.

In 2015 and in 2014, the Bank did not recognize internally generated intangible assets.

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i) Investment properties

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

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

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

j) Non-current assets held for sale

The Bank accounts for property and other assets received in settlement of non-performing loans under this caption, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the caption "Other assets" (Note 17). These assets are recorded at the amount agreed under negotiation or court decision, deducted from the estimated sale costs or their forced sale value, if lower. On the other hand, property recovered following the termination of finance lease contracts is recorded as an asset by the outstanding principal amount on the date the contract is terminated.

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

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

Property is subject to periodic appraisals performed by independent real estate appraisers. Impairment losses are recognized whenever the appraised value (net of costs to sell) is lower than the book value.

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

At last, the Bank's Board of Directors considers that the valuation methods adopted for these assets are appropriate and reflect the current market environment.

k) Provisions and contingent liabilities

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

Thus, the caption “Provisions” includes the provisions to cover specific post-employment benefits granted to some members of the Board of Directors, restructuring plans, tax contingencies, legal processes and other risks arising from the Bank’s activity (Note 22), as well as other situations related to the acquisition of significant part of former Banif’s activity, as described with further detail in Note 1.4.

l) Employees’ post-employment benefits

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

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

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

The employees of the former Totta were already covered by Social Security, thus the Bank’s liability for those employees consists only in the payment of supplements.

In October 2010 an agreement was reached between the Ministry of Labour and Social Solidarity, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE) to include workers of the banking sector in the General Regime of the Social Security. Following this agreement, it was published in 2011 the Decree-Law No. 1-A/2011, dated January 3, which defined that current employees in the banking sector at the date of its entry into force (January 4, 2011) are to be included in the General Regime of the Social Security, with regard to retirement pensions and in the event of maternity, paternity and adoption. Given the complementary nature allowed for under the rules of the Collective Labour Agreement for the Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Regime of the Social Security and those resulting from the Collective Labour Agreement.

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Past service liabilities at December 31, 2010 have not changed as a result of the above-mentioned Decree-Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011.

Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). On the other hand, the Bank maintains the responsibility of paying out the disability pensions and the survival pensions along with healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

In December 2011 a three party agreement was established between the Ministry of Finance, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), concerning the transfer to the Social Security of part of the liabilities for pensioners which, at December 31, 2011 were covered by the substitutive regime of the Social Security as per the Collective Labour Agreement (ACT) in force for the banking sector.

Following the above-mentioned three party agreement, still in 2011, Decree-Law No. 127/2011, dated December 31, was issued determining that as from January 1, 2012 the Social Security started to be responsible for the above-mentioned pensions for an amount corresponding to the pension computed in accordance to the terms and conditions in force under the Collective Labour Agreement for the Banking Sector, at December 31, 2011, including both vacation (14<sup>th</sup> month) and Christmas bonuses.

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

- i) the update of pensions referred to above, in accordance to the Collective Labour Agreement for the banking sector;
- ii) the employer's contributions to healthcare systems ("Serviços de Assistência Médica Social – SAMS") managed by the respective unions, over the retirement and survival pensions, in accordance with the terms of the Collective Labour Agreement for the banking sector;
- iii) the death subsidy;
- iv) the survival pension for children;
- v) the survival pension for children and living spouse, provided it refers to the same employee; and
- vi) the survival pension for the family of a current pensioner, meeting the vesting conditions as from January 1, 2012.

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

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

The assets to be transferred should be comprised by cash and up to 50% in Portuguese government debt securities valued at their respective market value.

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

- i) Up to December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities; and
- ii) By June 30, 2012, the remaining amount to complete the definite present value of the liabilities transferred.

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

Following the transfer of the responsibilities with pensioners to the Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions established by the Decree Law No. 127/2011, of December 31, the Bank calculated the liabilities separately for current and retired employees, having defined specific assumptions for each case (Note 44).

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

Furthermore, the London branch employees are covered by a defined benefit pension plan for which there is a separate Pension Fund (Note 44).

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

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

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

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were integrated in the ACT and in the BST's defined benefit pension plan as from April 2011. Additionally, the seniority of the employees hired before July 1, 1997 has been recognized.

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At December 20, 2015, following the resolution measure applied by the Bank of Portugal to former Banif, BST took over the pension liabilities of a group of workers of former Banif (Note 44).

Application of IAS 19

At January 1, 2004, the Bank opted not to apply IAS 19 retrospectively, and therefore has not recalculated the actuarial gains and losses that would be deferred on the balance sheet if that standard had been adopted as from the beginning of the pension's plans. Accordingly, the actuarial gains and losses existing at January 1, 2004, as well as those resulting from adopting IAS 19, were reversed/recorded against retained earnings at the transition date.

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

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

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

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

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

The liabilities for retirement pensions, less the fair value of the assets of the Pension Fund, are recorded in the captions "Other assets" or "Other liabilities", depending on whether there is a financial surplus or deficit (Notes 17 and 25).

Notice No. 4/2005 of the Bank of Portugal states that the liability arising from pensions being paid shall be fully funded and a 95% minimum funded level should exist for the past service liabilities of current employees.

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At December 31, 2015 and 2014, the rate of coverage of the liabilities of BST for employee benefits, including SAMS and excluding those associated with its London branch and former Banif, was 102.99% and 100.32%, respectively (Note 44).

At December 31, 2015, the rate of coverage of responsibilities transferred from former Banif amounted to 92.2% (Note 44).

m) Long service bonuses

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

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

Long service bonuses liabilities are recorded in the caption "Accrued costs - Relating to personnel – Long service bonuses" (Note 25).

n) Income tax

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

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

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

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

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

Additionally, following the publication of Law No. 2/2014, of January 16, (CIRC amendment) and the publication of the State Budget Law for 2015 (Law No. 82-B/2014, of December 31) the taxation of corporate income for 2014 and for 2015 became the one described below:

- Corporate income tax (IRC) rate of 21% on taxable income (23% in year 2014);
- Municipal surcharge at a rate comprised between 0% and 1.5% on taxable income (equal to year 2014); and
- State surcharge at a variable rate on taxable income according to the limits presented below:
  - Less than tEuros 1,500 0%;
  - Between tEuros 1,500 and tEuros 7,500 3%;
  - Between tEuros 7,500 and tEuros 35,000 5%;
  - More than tEuros 35,000 7%.

Thus, the above referred changes implied that the rate used by the Bank in the calculation and recognition of deferred taxes for 2015 was 29%. During 2014, the tax rate used by the Bank in the calculation and recognition of deferred taxes was 21% for tax losses, and 29%, for other temporary differences.

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

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

Contribution of the banking sector

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

- a) Liabilities calculated and approved by taxpayers deducted from own funds (Tier 1) and supplementary own funds (Tier 2) as well as deducted from the deposits under the Deposits Guaranteed Fund coverage. The following balances are deducted from the liability thus computed:
  - Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
  - Liabilities associated to the recognition of responsibilities with defined benefit plans;
  - Provisions;
  - Liabilities arising from the revaluation of derivative financial instruments;
  - Deferred income, without consideration of that arising from liability operations; and
  - Liabilities arising from assets not derecognized within securitization operations.
- b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, with the exception of hedge derivatives or those derivatives with open symmetric risk positions.

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The rates applicable to the basis of incidence defined in a) and b) above are 0.085% and 0.0003%, respectively, as provided in the amendment made by the Dispatch No. 176 - A/2015, of June 12 to the No. 5 of the Dispatch No. 121/2011, of March 30.

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

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

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

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

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

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

o) Long term incentive plans

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

The recording of such plans corresponds to the recognition of the Bank's employee's right to these instruments in the caption "Other reserves" against an entry in the caption "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentive plans for stock options in force in Banco Santander S.A. is included in Note 47.

p) Own shares

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

q) Preference shares

Preference shares are recorded as equity instruments when:

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

At December 31, 2015, the Bank classified as equity instruments the preference shares issued by BST International Bank, Inc. – Porto Rico (at December 31, 2014 the preference shares issued by Totta & Açores Financing and BST International Bank, Inc. - Puerto Rico).

The preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the caption "Non-controlling interests" (Note 28).

r) Insurance brokerage services rendered

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

The Bank is not engaged in the collection of insurance premiums on behalf of insurers, neither performs the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the insurance mediation activity performed by the Bank, besides the ones already disclosed.

s) Cash and cash equivalents

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

#### 1.4. Business Combination

##### 1. Background – Resolution measure applied to Banif

At December 20, 2015, the Bank of Portugal applied a resolution measure to Banif, under which deliberated the following:

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

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

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

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

##### 2. Business acquisitions

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

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

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

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

The amount agreed with the Bank of Portugal for the transfer of part of the activity, assets and liabilities of former Banif to BST corresponded to tEuros 150,000. This amount is deducted to the state aid granted to Banif, which corresponded to tEuros 2,255,000, as such there was no separate financial settlement.

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

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

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

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

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

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

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

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

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Additionally, within the measure of resolution, there was a transfer to BST of off-balance sheet items and assets under management, according to the following detail:

Assets pledged as guarantee	1,977,469
Guarantees and commitments	340,694
Open documentary credits	21,228
Credit lines	
Commitments	
Revocable	423,381
Irrevocable	80,895
Deposit Guarantee Fund	10,253
Investor Indemnity System	1,146
Overdraft facilities	87,946
Other revocable commitments	104,855
	<hr/>
	<hr/>
Deposit and custodial services	2,241,777
Amounts received for collection	112,398
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	2,354,175

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

The caption "Deposit and custodial services" corresponds to securities deposited by clients in former Banif.

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

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

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

- All unknown responsibilities, contingent liabilities and litigation and responsibilities assumed under the disposal of entities or activities;
- Any liabilities, contingencies or indemnities including those resulting from fraud or violation of rules or regulatory, criminal or administrative resolutions.

#### 4. Result from the acquisition

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

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

The Bank recognized this result under the caption "Result in the purchase of Banif activity" in the income statement. The result of the purchase is part of the resolution measure from Bank of Portugal mentioned above.

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

- Regarding the captions "Cash and deposits at central banks" and "Balances due from other banks", given its nature, the appraised fair value corresponds to the book value of former Banif's transferred assets.
- For the captions "Loans and advances to credit institutions" and "Resources of other credit institutions" the Bank defined the fair value as the estimated discounted cash flows based on interest rates for interbank transactions.
- The gross amount less the estimated impairment was considered an estimate of the fair value of loans and advances to customers, given that the present value of the estimated cash flows was considered in the computation of impairment.
- In the caption "Resources of customers and other debts", for the demand deposits the fair value equalled the book value. For the remaining customer deposits, the Bank used the average rate on deposits of BST clients.
- For the caption "Debt securities", the Bank considered the contractual cash flows discounted at market interest rates applied in similar issues.
- As for the Portuguese government debt securities accounted for under the caption "Available-for-sale financial assets", the Bank considered the quotes available in active markets.

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

In determining the fair value of assets and liabilities of Banif, the Bank used several simplifications given the available information until the date of approval of the financial statements of the Bank as of December 31, 2015.

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

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

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

(1) It corresponds to the consolidation impact of the securitization vehicles and of Banif International Bank, Ltd as of December 31, 2015.

(2) In addition to the 1,133 million Euros as defined in the Definitive Offer, it also comprises the derecognition of deferred tax assets in the amount of 273 million Euros.

## Notes:

a) The caption "Cash and deposits at central banks", as of the acquisition date includes state aid granted to Banif amounting to 2,255 million Euros, including 489 million Euros delivered by the Resolution Fund.

Under the Article 3 of Law No. 159-E/2015 of December 30, which came as addition to Law No. 82 -B/2014 of December 31, within the resolution measure of Banif, the State fully subscribed and paid up a capital increase in Banif, amounting to 1,766 million Euros. Despite the fact that the approval of the Amending State Budget that allowed the financing of the resolution measure has only occurred on December 30, 2015, the shown above balance sheet already reflects the state aid granted to Banif to be received in accordance with the resolution measure.

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

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

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

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

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

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

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

The Bank filed a request to the Minister of Finance to approve that the deferred tax assets transferred under the acquisition of former Banif relating to tax losses may be used to offset future taxable profits of BST, in accordance with number 4 of Article 145º- AU of the Legal Framework of Credit Institutions and Financial Companies.

The request filed by the Bank included the figures according to the resolution measure (tEuros 179,000), which were subsequently updated by the Bank of Portugal to tEuros 273,000, of which tEuros 250,000 corresponding to tax losses, the difference resulting from the removal from the perimeter of net liabilities.

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

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

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

- The application of the tax neutrality regime for the entry of assets defined in Article 74 of the Corporate Income Tax Code, covering the result recorded by BST from the acquisition of assets included in the balance sheet presented by the Bank of Portugal, assets depreciation and amortization, impairment losses and provisions transferred from the former Banif.
- The exemption of the municipal tax on property transfers, stamp duty, fees and other legal costs that may be payable due to operations or actions needed to implement the resolution measure of partial transfer of the Banif activity to BST, including those relating to the transfer of mortgages.

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

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

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

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

This caption also includes tEuros 1,436,399 outstanding bonds issued by former Banif securitization vehicles.

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

i) The provisions recognized by the Bank include: (i) restructuring provisions amounting to tEuros 75,000 under the Definitive Offer; (ii) legal, tax and other contingencies amounting to tEuros 70,000, including tEuros 40,000 related to Banif International Bank Ltd (Bahamas); (iii) an increase in pension fund liabilities and depreciation of pension fund assets in the net amount of tEuros 15,823. Note 44 includes the description of the pension fund responsibilities for these employees; and (iv) other provisions amounting to tEuros 22,000.

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

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

6. Results arising from the acquired activity of former Banif

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

In addition, the Bank recognized integration costs of the activity of former Banif in its 2015 financial statements in the amount of tEuros 53,000 (before tax) under the caption "General administrative expenses" through "Other liabilities" (Notes 25 and 41).

1.5. Comparability of information

Following the adoption as of January 1, 2014 of IFRS 10 – "Consolidated Financial Statements" and the clarifications occurred regarding the classification of non-controlling interests in investment funds consolidated by the full consolidation method, the Group started to record them as a liability in the caption "Equity representative instruments". For the same reason, the non-controlling interests of results of those funds were recorded under the captions "Other operating results" (Note 39) (Novimovest Fund) and "Result from the sale of other assets" (Note 38) (Santander Multiobrigações Fund).

The retrospective application of IFRS 10 requirements, as established by IAS 8, had the following impacts:

	Consolidated equity on January 1, 2013 (net income included)	Net Income 2013	Consolidated equity on December 31, 2013 (net income included)
Balances as reported (before the retrospective application of the accounting policy change)	2,325,091	89,164	2,730,363
Impact of retrospective application of IFRS 10 Reclassification of non-controlling interests in investment funds to liabilities	-	-	(235,054)
Balances (pro-forma)	<u>2,325,091</u>	<u>89,164</u>	<u>2,495,309</u>

**2. PRINCIPAL ESTIMATES AND UNCERTAINTIES REGARDING THE APPLICATION OF THE ACCOUNTING POLICIES**

The preparation of the financial statements requires estimates and assumptions to be made by the Bank's Board of Directors. These estimates are subjective by nature and can affect the amount of the assets and liabilities, income and costs, and of the contingent liabilities disclosed.

**Employees' post-employment benefits**

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

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

**Valuation of financial instruments not traded on active markets**

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

**Determination of loan impairment losses**

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

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

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

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

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

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Taxes

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

The Bank, as an entity subject to the Bank of Portugal supervision, must present separate (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice No. 1/2005, dated February 21, which form the basis for determining the taxable income.

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system "*Sistema de Normalização Contabilística*" (SNC), approved by Decree Law No. 158/2009, dated July 13, the Decree Law No. 159/2009, dated July 13, was also approved.

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

In this regard, these rules were observed to compute the taxable income for 2015 and 2014, in accordance with the Bank's interpretation.

Determination of the outcome of the legal proceedings in progress

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

Determination of the result of the acquisition of a significant part of Banif's business

The assessment of the result from the acquisition of a significant part of Banif's business was based on the information available, up to the date of approval of these financial statements including provisional values for some assets and liabilities.

As mentioned in Note 1.4, the following aspects should be referred: (i) the perimeter of the transaction, namely the rights and obligations that comprise the assets, liabilities, off balance sheet items and assets under management sold to the Bank is not fully confirmed yet by the Bank of Portugal; (ii) the Bank did not recognize deferred tax assets, in the amount of 273 million Euros, that are part of the perimeter included in the last draft balance sheet presented by the Bank of Portugal at March 18, 2016 and which deduction to future profits of the Bank is included in the definitive offer of the Bank accepted in connection with the resolution measure of Banif, namely, for not having the approval of the Minister of Finance as required by article 145º AU of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras"); (iii) for some financial assets and liabilities there is still more information needed related to their estimated future cash flows to determine their fair value as of the acquisition date; and (iv) there are contingencies for which final quantification requires obtaining additional information over past events. According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and consequently, the result determined in the acquisition.

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3. SEGMENT REPORTING

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

**Global Banking & Markets:**

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

**Retail banking:**

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

**Commercial banking:**

This area target are companies with a turnover ranging between 5 and 125 million Euros. This activity is supported by the branches network as well as by specialized services, and includes a variety of products, such as loans, project funding, export financing and real estate.

**Corporate activities:**

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

The income statement by business segment as of December 31, 2015 is made up as follows:

	2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin ( narrow sense )	86,938	331,283	106,199	35,543	559,963
Income from equity instruments	-	-	-	1,178	1,178
<b>Financial margin</b>	<b>86,938</b>	<b>331,283</b>	<b>106,199</b>	<b>36,721</b>	<b>561,141</b>
Net commissions	45,355	224,029	19,864	(26,735)	262,513
Other results from banking activity	(12)	2,361	(44)	(16,088)	(13,783)
<b>Commercial margin</b>	<b>132,281</b>	<b>557,673</b>	<b>126,019</b>	<b>(6,102)</b>	<b>809,871</b>
Results from financial operations	46,590	2,833	70	250,658	300,151
<b>Net income from banking activities</b>	<b>178,871</b>	<b>560,506</b>	<b>126,089</b>	<b>244,556</b>	<b>1,110,022</b>
Operating costs	(20,236)	(347,044)	(57,164)	(58,367)	(482,811)
Depreciation and amortization	(3,264)	(34,850)	(2,002)	-	(40,116)
<b>Net operating income</b>	<b>155,371</b>	<b>178,612</b>	<b>66,923</b>	<b>186,189</b>	<b>587,095</b>
Impairment and provisions, net of reversals	(79,445)	(11,741)	(14,018)	(137,053)	(242,257)
Result from the acquisition of the activity of Banif	-	-	-	327,159	327,159
Result from associates	-	-	7,487	7,011	14,498
<b>Income before taxes</b>	<b>75,926</b>	<b>166,871</b>	<b>60,392</b>	<b>383,306</b>	<b>686,495</b>
Taxes	(22,777)	(46,503)	(15,871)	(32,972)	(118,123)
Non-controlling interests	-	-	-	5	5
<b>Net income</b>	<b>53,149</b>	<b>120,368</b>	<b>44,521</b>	<b>350,339</b>	<b>568,377</b>

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

	2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities <sup>(1)</sup>	Consolidated Total
<b>Assets</b>					
<b>Loans and advances to customers</b>					
Mortgage loans	-	14,601,677	-	2,616,463	17,218,140
Consumer loans	-	1,368,668	-	-	1,368,668
Other loans	3,308,123	2,155,361	5,106,083	2,624,590	13,194,157
Total allocated assets	<u>3,308,123</u>	<u>18,125,706</u>	<u>5,106,083</u>	<u>5,241,053</u>	<u>31,780,965</u>
Total non-allocated assets					15,148,003
<b>Total assets</b>					<u>46,928,968</u>
<b>Liabilities</b>					
<b>Resources in the balance sheet</b>					
Resources of customers and other debts	638,251	18,749,857	2,209,797	5,528,408	27,126,313
Debt securities	-	61,129	-	4,982,316	5,043,445
	<u>638,251</u>	<u>18,810,986</u>	<u>2,209,797</u>	<u>10,510,724</u>	<u>32,169,758</u>
<b>Guarantees and sureties given</b>	222,328	148,830	786,163	303,627	1,460,948

(1) Includes the assets acquired and liabilities assumed in the resolution measure applied to Banif.

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The income statement by business segment as of December 31, 2014 is made up as follows:

	2014				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin ( narrow sense )	102,596	308,053	126,704	6,186	543,539
Income from equity instruments	-	-	-	1,222	1,222
<b>Financial margin</b>	<b>102,596</b>	<b>308,053</b>	<b>126,704</b>	<b>7,408</b>	<b>544,761</b>
Net commissions	57,369	216,461	20,199	(17,153)	276,876
Other results from banking activity	(55)	(1,483)	(218)	(12,558)	(14,314)
<b>Commercial margin</b>	<b>159,910</b>	<b>523,031</b>	<b>146,685</b>	<b>(22,303)</b>	<b>807,323</b>
Results from financial operations	(9,125)	1,876	714	94,186	87,651
<b>Net income from banking activities</b>	<b>150,785</b>	<b>524,907</b>	<b>147,399</b>	<b>71,883</b>	<b>894,974</b>
Operating costs	(15,932)	(344,857)	(61,099)	(3,448)	(425,336)
Depreciation and amortization	(3,030)	(47,398)	(11,429)	-	(61,857)
<b>Net operating income</b>	<b>131,823</b>	<b>132,652</b>	<b>74,871</b>	<b>68,435</b>	<b>407,781</b>
Impairment and provisions, net of reversals	(41,235)	(75,282)	(39,957)	(36,059)	(192,533)
Result from associates	-	-	17,652	2,139	19,791
<b>Income before taxes</b>	<b>90,588</b>	<b>57,370</b>	<b>52,566</b>	<b>34,515</b>	<b>235,039</b>
Taxes	(26,270)	(17,460)	(10,331)	(15,810)	(69,871)
Non-controlling interests	-	-	-	6	6
<b>Net income</b>	<b>64,318</b>	<b>39,910</b>	<b>42,235</b>	<b>18,711</b>	<b>165,174</b>

At December 31, 2014 the assets and liabilities under management for each business segment in accordance with the information used by the Bank's management for decision making, are as follows:

	2014				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
<b>Assets</b>					
<b>Loans and advances to customers</b>					
Mortgage loans	-	14,795,658	-	-	14,795,658
Consumer loans	-	1,398,725	-	-	1,398,725
Other loans	2,966,050	2,306,703	4,056,115	-	9,328,868
<b>Total allocated assets</b>	<b>2,966,050</b>	<b>18,501,086</b>	<b>4,056,115</b>	<b>-</b>	<b>25,523,251</b>
Total non-allocated assets					13,337,111
<b>Total assets</b>					<b>38,860,362</b>
<b>Liabilities</b>					
<b>Resources in the balance sheet</b>					
Resources of customers and other debts	938,483	17,665,370	1,725,300	1,296,749	21,625,902
Debt securities	-	171,791	48,474	2,752,846	2,973,111
	<b>938,483</b>	<b>17,837,161</b>	<b>1,773,774</b>	<b>4,049,595</b>	<b>24,599,013</b>
<b>Guarantees and sureties given</b>	125,654	157,480	800,895	-	1,084,029

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The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as of December 31, 2015 and 2014, by geographical segments was as follows:

	2015						Inter segment	
	Portugal	Ireland	Puerto Rico	Bahamas	Others	Total	Balances	Consolidated
<b>Assets</b>								
Cash and deposits at central banks	3,134,032							3,134,032
Balances due from other banks	462,678	20,708	8,328	14,211	455	43,702	(42,482)	463,898
Financial assets held for trading	1,750,694	-	-	-	-	-	-	1,750,694
Available-for-sale financial assets	6,467,813	770,549	-	-	-	770,549	(770,549)	6,467,813
Loans and advances to credit institutions	1,535,156	210,142	432,449	58,351	-	700,942	(700,662)	1,535,436
Loans and advances to customers	31,766,739	-	-	14,226	-	14,226	-	31,780,965
Hedging derivatives	130,292	-	-	-	-	-	-	130,292
Non-current assets held for sale	189,126	-	-	1,469	-	1,469	-	190,595
Investment properties	387,193	-	-	-	-	-	-	387,193
Other tangible assets	299,310	-	-	866	18	884	-	300,194
Intangible assets	31,054	-	-	-	-	-	-	31,054
Investments in associated companies	42,957	-	-	-	-	-	-	42,957
Current tax assets	16,458	-	-	-	-	-	-	16,458
Deferred tax assets	412,810	5,507	-	-	-	5,507	-	418,317
Other assets	278,777	3,935	87	80	207	4,309	(4,016)	279,070
<b>Total net assets</b>	<b>46,905,089</b>	<b>1,010,841</b>	<b>440,864</b>	<b>89,203</b>	<b>680</b>	<b>1,541,588</b>	<b>(1,517,709)</b>	<b>46,928,968</b>
<b>Liabilities</b>								
Resources of central banks	4,952,679	-	-	-	-	-	-	4,952,679
Financial liabilities held for trading	1,721,589	-	-	102	-	102	-	1,721,691
Resources of other credit institutions	3,544,248	593,487	10,622	981	-	605,090	(604,109)	3,545,229
Resources of customers and other debts	26,934,343	-	70,951	121,280	-	192,231	(261)	27,126,313
Debt securities	5,043,445	-	-	-	-	-	-	5,043,445
Hedging derivatives	170,133	-	-	-	-	-	-	170,133
Provisions	323,090	-	-	-	-	-	-	323,090
Current tax liabilities	36,966	781	-	-	-	781	-	37,747
Deferred tax liabilities	122,920	-	-	-	-	-	-	122,920
Equity representative instruments	69,309	-	-	-	-	-	-	69,309
Subordinated liabilities	4,302	-	-	-	-	-	-	4,302
Other liabilities	397,940	28	618	530	463	1,639	(277)	399,302
<b>Total liabilities</b>	<b>43,320,964</b>	<b>594,296</b>	<b>82,191</b>	<b>122,893</b>	<b>463</b>	<b>799,843</b>	<b>(604,647)</b>	<b>43,516,160</b>
<b>Shareholders' equity</b>								
Shareholders' equity attributable to shareholders of BST	3,583,453	416,545	28,003	(33,690)	9,234	420,092	(912,052)	3,091,493
Non-controlling interests	672	-	330,670	-	(9,017)	321,653	(1,010)	321,315
<b>Total shareholders' equity</b>	<b>3,584,125</b>	<b>416,545</b>	<b>358,673</b>	<b>(33,690)</b>	<b>217</b>	<b>741,745</b>	<b>(913,062)</b>	<b>3,412,808</b>
<b>Total liabilities and shareholders' equity</b>	<b>46,905,089</b>	<b>1,010,841</b>	<b>440,864</b>	<b>89,203</b>	<b>680</b>	<b>1,541,588</b>	<b>(1,517,709)</b>	<b>46,928,968</b>

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	2014						Inter segment Balances	Consolidated
	Portugal	Ireland	Angola	Porto Rico	Others	Total		
<b>Assets</b>								
Cash and deposits at central banks	830,474	-	-	-	-	-	-	830,474
Balances due from other banks	240,632	25	-	5,675	630	6,330	(5,744)	241,218
Financial assets held for trading	2,291,734	-	-	-	-	-	-	2,291,734
Available-for-sale financial assets	6,712,555	987,451	-	-	-	987,451	(987,451)	6,712,555
Loans and advances to credit institutions	1,220,665	50,001	-	465,478	334,887	850,366	(850,114)	1,220,917
Loans and advances to customers	25,523,250	-	-	1	-	1	-	25,523,251
Hedging derivatives	195,035	-	-	-	-	-	-	195,035
Non-current assets held for sale	208,375	-	-	-	-	-	-	208,375
Investment properties	420,239	-	-	-	-	-	-	420,239
Other tangible assets	298,758	1	-	-	34	35	(1)	298,792
Intangible assets	28,380	-	-	-	-	-	-	28,381
Investments in associated companies	33,674	-	132,685	-	-	132,685	-	166,359
Current tax assets	14,603	-	-	-	-	-	-	14,603
Deferred tax assets	458,675	-	-	-	-	-	-	458,675
Other assets	249,436	4,498	-	(196)	517	4,819	(4,501)	249,754
<b>Total net assets</b>	<b>38,726,485</b>	<b>1,041,976</b>	<b>132,685</b>	<b>470,958</b>	<b>336,068</b>	<b>1,981,687</b>	<b>(1,847,810)</b>	<b>38,860,362</b>
<b>Liabilities</b>								
Resources of central banks	4,406,312	-	-	-	-	-	-	4,406,312
Financial liabilities held for trading	1,995,019	-	-	-	-	-	-	1,995,019
Resources of other credit institutions	4,030,724	628,141	-	23,046	-	651,187	(651,187)	4,030,724
Resources of customers and other debts	21,505,353	-	-	120,549	-	120,549	-	21,625,902
Debt securities	2,973,111	-	-	-	-	-	-	2,973,111
Hedging derivatives	133,690	-	-	-	-	-	-	133,690
Provisions	71,988	-	-	-	-	-	-	71,988
Current tax liabilities	19,772	-	-	-	-	-	262	20,034
Deferred tax liabilities	126,171	-	-	-	-	-	15,855	142,026
Equity representative instruments	205,979	-	-	-	-	-	-	205,979
Subordinated liabilities	4,306	-	-	-	-	-	-	4,306
Other liabilities	291,899	132,960	-	779	187	133,926	(132,932)	292,893
<b>Total liabilities</b>	<b>35,764,324</b>	<b>761,101</b>	<b>-</b>	<b>144,374</b>	<b>187</b>	<b>905,662</b>	<b>(768,002)</b>	<b>35,901,984</b>
<b>Shareholders' equity</b>								
Shareholders' equity attributable to shareholders of BST	2,961,485	280,875	132,685	30,068	37,396	481,024	(1,079,808)	2,362,701
Non-controlling interests	676	-	-	296,516	298,485	595,001	-	595,677
<b>Total shareholders' equity</b>	<b>2,962,161</b>	<b>280,875</b>	<b>132,685</b>	<b>326,584</b>	<b>335,881</b>	<b>1,076,025</b>	<b>(1,079,808)</b>	<b>2,958,378</b>
<b>Total liabilities and shareholders' equity</b>	<b>38,726,485</b>	<b>1,041,976</b>	<b>132,685</b>	<b>470,958</b>	<b>336,068</b>	<b>1,981,687</b>	<b>(1,847,810)</b>	<b>38,860,362</b>

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In the years ended at December 31, 2015 and 2014, the income statement by geographical segments was as follows:

	2015						
	Portugal	Ireland	Puerto Rico	Others	Total	Inter segment balances	Consolidated
Interest and similar income	1,027,458	5,191	27,210	-	32,401	(32,391)	1,027,468
Interest and similar charges	(466,428)	(737)	(1,122)	-	(1,859)	782	(467,505)
<b>Financial margin</b>	<b>561,030</b>	<b>4,454</b>	<b>26,088</b>	<b>-</b>	<b>30,542</b>	<b>(31,609)</b>	<b>559,963</b>
Income from equity instruments	1,178	-	-	-	-	-	1,178
Income from services and commissions	321,712	655	-	-	655	(655)	321,712
Charges with services and commissions	(59,070)	-	-	(122)	(122)	(7)	(59,199)
Result of assets and liabilities at fair value through profit or loss	84,452	-	-	-	-	-	84,452
Result of available-for-sale financial assets	147,877	-	-	-	-	-	147,877
Result of foreign exchange revaluation	6,182	-	(45)	-	(45)	-	6,137
Result from sale of other assets	61,685	-	-	-	-	-	61,685
Other operating results	(13,753)	-	(5)	(25)	(30)	-	(13,783)
<b>Net income from banking activities</b>	<b>1,111,293</b>	<b>5,109</b>	<b>26,038</b>	<b>(147)</b>	<b>31,000</b>	<b>(32,271)</b>	<b>1,110,022</b>
Staff costs	(274,531)	(14)	(190)	(708)	(912)	(166)	(275,609)
General administrative costs	(206,412)	(28)	(154)	(303)	(485)	(305)	(207,202)
Depreciation in the year	(40,096)	(1)	-	(19)	(20)	-	(40,116)
Provisions, net of reversals	(99,441)	-	-	-	-	-	(99,441)
Loan impairment net of reversals and recoveries	(119,389)	-	-	-	-	-	(119,389)
Impairment of other financial assets net of reversals and recoveries	(10,416)	-	-	-	-	-	(10,416)
Impairment of others assets net of reversals and recoveries	(13,011)	-	-	-	-	-	(13,011)
Result from the acquisition of the activity of Banif	327,159	-	-	-	-	-	327,159
Results from associates	14,498	-	-	-	-	-	14,498
<b>Income before tax and non-controlling interests</b>	<b>689,654</b>	<b>5,066</b>	<b>25,694</b>	<b>(1,177)</b>	<b>29,583</b>	<b>(32,742)</b>	<b>686,495</b>
Current taxes	(67,021)	(633)	-	(4)	(637)	-	(67,658)
Deferred taxes	(51,499)	-	-	-	-	1,034	(50,465)
<b>Income after taxes and before non-controlling interests</b>	<b>571,134</b>	<b>4,433</b>	<b>25,694</b>	<b>(1,181)</b>	<b>28,946</b>	<b>(31,708)</b>	<b>568,372</b>
Non-controlling interests	6	-	-	(1)	(1)	-	5
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>571,140</b>	<b>4,433</b>	<b>25,694</b>	<b>(1,182)</b>	<b>28,945</b>	<b>(31,708)</b>	<b>568,377</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Translation of notes originally issued in Portuguese – Note 53)

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

	2014						Inter segment balances	Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Others	Total		
Interest and similar income	1,194,167	26,396	-	24,206	-	50,602	(50,601)	1,194,168
Interest and similar charges	(647,843)	(12,307)	-	(2,822)	-	(15,129)	12,343	(650,629)
<b>Financial margin</b>	<b>546,324</b>	<b>14,089</b>	-	<b>21,384</b>	-	<b>35,473</b>	<b>(38,258)</b>	<b>543,539</b>
Income from equity instruments	1,222	-	-	-	-	-	-	1,222
Income from services and commissions	335,187	8,805	-	-	-	8,805	(8,805)	335,187
Charges with services and commissions	(58,072)	-	-	-	(238)	(238)	(1)	(58,311)
Result of assets and liabilities at fair value through profit or loss	(244,097)	-	-	-	-	-	-	(244,097)
Result of available-for-sale financial assets	308,722	-	-	-	-	-	-	308,722
Result of foreign exchange revaluation	5,591	-	-	(133)	-	(133)	-	5,458
Result from sale of other assets	17,566	-	-	-	2	2	-	17,568
Other operating results	(14,225)	-	-	(4)	(86)	(90)	1	(14,314)
<b>Net income from banking activities</b>	<b>898,218</b>	<b>22,894</b>	-	<b>21,247</b>	<b>(322)</b>	<b>43,819</b>	<b>(47,063)</b>	<b>894,974</b>
Staff costs	(280,650)	(178)	-	(186)	(578)	(942)	-	(281,592)
General administrative costs	(143,005)	(347)	-	(107)	(285)	(739)	-	(143,744)
Depreciation in the year	(61,834)	(1)	-	-	(22)	(23)	-	(61,857)
Provisions, net of reversals	(46,416)	-	-	-	-	-	-	(46,416)
Loan impairment net of reversals and recoveries	(111,206)	-	-	-	-	-	-	(111,206)
Impairment of other financial assets net of reversals and recoveries	(1,131)	-	-	-	-	-	-	(1,131)
Impairment of other assets net of reversals and recoveries	(33,780)	-	-	-	-	-	-	(33,780)
Results from associates	2,139	-	17,652	-	-	17,652	-	19,791
<b>Income before tax and non-controlling interests</b>	<b>222,335</b>	<b>22,368</b>	<b>17,652</b>	<b>20,954</b>	<b>(1,207)</b>	<b>59,767</b>	<b>(47,063)</b>	<b>235,039</b>
Current taxes	(37,219)	(3,471)	-	-	(10)	(3,481)	-	(40,700)
Deferred taxes	(29,850)	679	-	-	-	679	-	(29,171)
<b>Income after taxes and before non-controlling interests</b>	<b>155,266</b>	<b>19,576</b>	<b>17,652</b>	<b>20,954</b>	<b>(1,217)</b>	<b>56,965</b>	<b>(47,063)</b>	<b>165,168</b>
Non-controlling interests	(6)	6	(10)	(19)	(13)	(36)	48	6
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>155,260</b>	<b>19,582</b>	<b>17,642</b>	<b>20,935</b>	<b>(1,230)</b>	<b>56,929</b>	<b>(47,015)</b>	<b>165,174</b>

The accounting policies used in the preparation of the financial information by segments were consistent with those described in Note 1.3. from these accompanying notes.

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**4. GROUP COMPANIES AND TRANSACTIONS OCURRED DURING THE YEAR**

At December 31, 2015 and 2014, the subsidiaries and associated companies and their most significant financial data, extracted from their respective separate financial statements, excluding conversion adjustments to IAS/IFRS, can be summarized as follows:

Company	Direct Participation (%)		Effective Participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
BANCO SANTANDER TOTTA, S.A.	-	-	100.00	100.00	50,232,462	39,994,424	2,621,463	1,918,640	515,438	134,473
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A. <sup>(9)</sup>	-	-	-	24.96	-	1,843,631	-	313,771	-	70,243
TOTTA & AÇORES FINANCING <sup>(1) (4)</sup>	100.00	100.00	100.00	100.00	46	311,792	46	311,792	9,017	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	41,735	32,819	41,718	32,805	164	227
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,441	1,177	1,249	1,022	(45)	8
TOTTA IRELAND, PLC <sup>(3)</sup>	100.00	100.00	100.00	100.00	1,010,842	1,039,176	416,546	410,739	4,433	945
SANTOTTA-INTERNACIONAL, SGPS, S.A.	100.00	100.00	100.00	100.00	180,859	106,527	180,832	77,628	101,741	5,376
TOTTA URBE - Emp.Admin. e Construções, S.A. <sup>(2)</sup>	100.00	100.00	100.00	100.00	144,563	132,009	135,431	125,479	2,756	1,470
BENIM - Sociedade Imobiliária, S.A.	-	-	25.81	25.81	n/d	n/d	n/d	n/d	n/d	n/d
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	-	100.00	-	100.00	-	15,804	-	15,788	-	(19)
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1) (5)</sup>	100.00	100.00	100.00	100.00	440,858	414,789	358,672	287,511	25,694	20,932
BANIF INTERNATIONAL BANK <sup>(7)</sup>	100.00	-	100.00	-	89,203	-	(33,689)	-	(53,941)	-
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	55,753	55,727	55,747	55,722	25	(2)
PARTANG, SGPS, S.A. <sup>(9)</sup>	-	0.49	-	49.00	-	172,497	-	161,418	-	35,936
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.50	21.50	21.50	21.50	347,230	334,788	137,926	98,274	39,872	10,249
HIPOTOTTA nº 1 PLC	-	-	-	-	157,406	176,126	(722)	(775)	453	798
HIPOTOTTA nº 4 PLC	-	-	-	-	1,009,080	1,081,604	(4,895)	(9,483)	5,826	2,915
HIPOTOTTA nº 5 PLC	-	-	-	-	878,085	930,559	(3,214)	(4,439)	3,741	2,826
LEASETOTTA nº 1 Ltd	-	-	-	-	-	111	-	(6)	-	10,854
HIPOTOTTA nº 1 FTC	-	-	-	-	139,960	158,823	138,460	158,473	(1,263)	310
HIPOTOTTA nº 4 FTC	-	-	-	-	965,241	1,034,833	954,929	1,032,330	(4,169)	(1,305)
HIPOTOTTA nº 5 FTC	-	-	-	-	848,331	901,075	840,639	897,266	(3,352)	(123)
GAMMA STC <sup>(8)</sup>	-	-	-	-	3,635,777	-	(113,002)	-	9,888	-
ATLANTES MORTGAGE 1 PLC <sup>(8)</sup>	-	-	-	-	123,472	-	(7,070)	-	(872)	-
ATLANTES FINANCE 6 <sup>(8)</sup>	-	-	-	-	96,228	-	(85)	-	-	-
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto <sup>(6)</sup>	78.59	77.26	78.59	77.26	408,283	429,050	325,168	330,315	450	(17,324)
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (Santander Multiobrigações) <sup>(6)</sup>	-	64.84	-	64.84	n.a.	374,055	n.a.	372,261	n.a.	3,320

Note: The financial statements of some subsidiaries, associated companies and entities under joint control are still subject to approval by the respective governing bodies. However, the Group Board of Directors believes that there will be no changes with significant impact on the consolidated net income of the Group.

n/a – not available

BANCO SANTANDER TOTTA, S.A.

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

At December 31, 2015 and 2014, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation was as follows:

Company	Business	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Lisbon	Parent company
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A. <sup>(9)</sup>	Banking	Luanda	Equity method
TOTTA & AÇORES FINANCING <sup>(1) (4)</sup>	Banking	Cayman Islands	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Islands	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC <sup>(3)</sup>	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Funchal	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. <sup>(2)</sup>	Real estate management	Lisbon	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate	Lisbon	Equity method
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Lisbon	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1) (5)</sup>	Banking	Puerto Rico	Full
BANIF INTERNATIONAL BANK <sup>(7)</sup>	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Lisbon	Full
PARTANG, SGPS, S.A. <sup>(9)</sup>	Holding company	Lisbon	Equity method
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Credit Card Management	Lisbon	Equity method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
LEASETOTTA nº 1 Ltd	Investment management	Ireland	Full
HIPOTOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
GAMMA STC <sup>(8)</sup>	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC <sup>(8)</sup>	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 <sup>(8)</sup>	Securitized loans fund	Portugal	Equity method
LEASETOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto <sup>(6)</sup>	Investment management	Lisbon	Full
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável <sup>(6)</sup>	Investment management	Lisbon	Full

- (1) The shareholders' equity of these companies includes preference shares subscribed by Santander Group companies (Note 28).
- (2) The shareholders' equity of this subsidiary includes supplementary capital contributions totalling tEuros 99,760.
- (3) As this subsidiary closes its financial year at November 30, the amounts reflected in the columns "Net income of the year" correspond to the net income determined at December of each year. For the period comprised between January 1 and November 30, 2015 and 2014 the net income of Totta Ireland, PLC amounted to tEuros 18,368 and tEuros 23,347.
- (4) At December 31, 2014 the share capital of this subsidiary is made up of 50,000 ordinary shares with a nominal value of 1 United States Dollar each and 300,000 non-voting preference shares with a nominal value of 1,000 Euros each. At December 30, 2015, this entity fully reimbursed its preference shares.
- (5) The share capital of this subsidiary is made up of 5,000,000 ordinary shares with a nominal value of 1 United States Dollar each and 3,600 non-voting preference shares with a nominal value of 100,000 United States Dollars each. Considering preference shares, the Bank's effective participation in this entity is 1.37%.
- (6) These companies were consolidated for the first time during 2013, since the Bank holds more than 50% of their participating units. During 2015 the Bank redeemed the participation units held in Santander Multiobrigações Fund.

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

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

(9) At July 2015, following the exercise of the put option to sell its participation in Partang (Note 15), the Bank no longer has a participation in Partang nor in Banco Caixa Geral Totta Angola.

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Bank's consolidated financial statements include special purpose entities (SPE's) created for securitization operations since the Bank retains control over them, as it holds the majority of the risks and benefits associated with their activity, namely the bonds issued by those entities with a higher degree of subordination – equity pieces (Note 45).

During 2013, the Bank increased its participation in the Fundo de Investimento Imobiliário Novimovest, managed by Santander Asset Management, SGFIM, S.A. ("SAM"), to a holding percentage higher than 50%. According to the accounting policy adopted by the Bank, investment funds are consolidated (by the full consolidation method) when the Bank has control over the fund, specifically when it holds more than 50% of its participating units. This Fund consolidates since July 1, 2013.

For the reasons outlined above, at December 31, 2013, the Bank also consolidated Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável - Santander Multiobrigações, also managed by SAM. In 2015, the Bank redeemed the participating units held in this Fund.

Since the participating units in the Investment Funds referred to above were recorded at their fair value, determined based on the value of the participating units disclosed periodically by SAM in the Portuguese Securities Market Commission (CMVM) site, and given that all the subscriptions of participating units were based on that source of valuation, no goodwill was generated on those acquisitions. Moreover, all subscriptions of participating units in those Funds were made through cash.

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At December 31, 2015 and 2014, the balance of Novimovest Fund, and at December 31, 2014, the balance of Santander Multiobrigações Fund was as follows:

	31-12-2015	31-12-2014		Total
	Novimovest	Novimovest	Multiobrigações	
Securities portfolio	3,096	3,019	318,129	321,148
Real estate portfolio	387,193	401,239	-	401,239
Accounts receivable	14,795	23,640	-	23,640
Cash and banks	513	499	54,677	55,176
Accruals and deferrals	2,686	653	1,249	1,902
	<u>408,283</u>	<u>429,050</u>	<u>374,055</u>	<u>803,105</u>
Fund capital	325,168	330,315	372,261	702,576
Adjustments and provisions	5,485	5,366	383	5,749
Accounts payable	75,201	87,099	1,405	88,504
Accruals and deferrals	2,429	6,270	6	6,276
	<u>408,283</u>	<u>429,050</u>	<u>374,055</u>	<u>803,105</u>

At December 31, 2015 and 2014, the consolidated net income includes a profit and a loss of tEuros 353 and tEuros 13,385, respectively, attributable to Novimovest Fund.

At December 31, 2014, the consolidated net income includes a profit of tEuros 2,153 attributable to the Santander Multiobrigações Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	2015	2014
Cash	284,668	208,014
Demand deposits at Central Banks:		
European Central Bank	2,849,364	622,460
	-----	-----
	3,134,032	830,474
	=====	=====

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

In accordance with European Central Bank Regulation No. 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves consists in all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of customers repayable in less than two years' time, to which 1% is applied and 100,000 Euros is deducted from the amount calculated. The minimum cash reserves earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

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6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Balances due from domestic banks		
Cheques for collection	63,219	64,841
Demand deposits	2,631	709
Balances due from foreign banks		
Demand deposits	393,043	173,847
Cheques for collection	1,074	1,821
Other receivables	3,931	-
	-----	-----
	463,898	241,218
	=====	=====

At December 31, 2015, the caption "Balances due from other banks" includes tEuros 114,619 related to acquired assets under the resolution measure applied to Banif.

At December 31, 2015 and 2014, sub captions "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

At December 31, 2015 and 2014, the caption "Balances due from foreign banks – Demand deposits" included a deposit in the amount of tEuros 67,831, which is being mobilized upon the fulfilment of certain obligations towards third parties.

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
<u>Financial assets held for trading</u>		
Derivatives with positive fair value	1,747,598	1,969,494
Securities – Participating units	3,096	3,019
Securities – Debt instruments	-	319,221
	-----	-----
	1,750,694	2,291,734
	=====	=====
<u>Financial liabilities held for trading</u>		
Derivatives with negative fair value	( 1,721,691 )	( 1,995,019 )
	=====	=====
Net balance of the fair value of derivative financial instruments	25,907	( 25,525 )
	=====	=====

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At December 31, 2015 and 2014, the captions of derivative financial instruments were made up as follows:

	2015			2014		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	22,123	21,261	862	31,123	30,886	237
Swaps						
Currency swaps	14,061	12,732	1,329	19,568	-	19,568
Interest rate swaps	1,412,795	1,396,888	15,907	1,556,561	1,602,271	(45,710)
Equity swaps	55,437	53,976	1,461	36,580	35,348	1,232
Credit-linked notes						
Options	-	-	-	-	7	(7)
Exchange rate contracts	1,163	1,081	82	1,368	1,184	184
Contracts on prices	92,086	88,802	3,284	158,355	156,781	1,574
Caps & Floors	149,933	146,951	2,982	165,939	168,542	(2,603)
	<b>1,747,598</b>	<b>1,721,691</b>	<b>25,907</b>	<b>1,969,494</b>	<b>1,995,019</b>	<b>(25,525)</b>

At December 31, 2015, the captions of assets and liabilities of "Derivative financial instruments" are net of the amounts of approximately tEuros 113,100 and tEuros 152,000, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments" (tEuros 142,400 and tEuros 110,700 at December 31, 2014, respectively).

At December 31, 2015 and 2014, the caption of "Derivative financial instruments – Assets", included the amounts of tEuros 1,315,000 and tEuros 1,420,000, respectively, maintained with Portuguese State-owned enterprises which are in litigation (Note 50).

At December 31, 2015 and 2014, the majority of the derivative financial instruments held for trading celebrated with clients were hedged "back-to-back" with Banco Santander, S.A.

At December 31, 2015 and 2014, the caption "Securities – Participating units" corresponds to the participating units held in the Real Estate Investment Fund Maxirent.

At December 31, 2015 and 2014, the caption "Securities - Debt instruments" was made up as follows:

	Description	Book values
Issued by residents		
Portuguese public debt		11,177
Others		9,531
Issued by non residents		
Public foreign issuers		40,935
Others		257,578
		<b>319,221</b>

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8. AVAILABLE-FOR- SALE FINANCIAL ASSETS

This caption is made up as follows:

	2015								Book Value	
	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Total (Note 26)	Impairment (Note 22)		
				Positive	Negative	Total				
<b>Debt instruments</b>										
Issued by residents										
Treasury Bonds	5,251,118	108,845	20,761	214,425	(562)	213,863	(116)	-	5,594,471	
Other Portuguese Government entities	6,003	-	-	-	(367)	(367)	-	-	5,636	
Other residents										
Acquired in securitization operations	85,996	59	-	-	(4,697)	(4,697)	-	-	81,358	
Unsubordinated debt	466,838	13,464	-	22,833	(4,156)	18,677	(230)	-	498,749	
Subordinated debt	125,647	24	-	-	-	-	-	(5,884)	119,787	
Issued by non-residents										
Unsubordinated debt	97,874	3,217	-	-	(51,872)	(51,872)	-	-	49,219	
<b>Equity instruments</b>										
Issued by residents										
Valued at fair value	96,428	-	-	584	(1,633)	(1,049)	(45,329)	-	50,050	
Valued at cost <sup>(1)</sup>	83,847	-	-	-	-	-	-	(19,486)	64,361	
Issued by non-residents										
Valued at fair value	8	-	-	3,728	-	3,728	-	-	3,736	
Valued at cost	1,192	-	-	-	-	-	(746)	-	446	
	<b>6,214,951</b>	<b>125,609</b>	<b>20,761</b>	<b>241,570</b>	<b>(63,287)</b>	<b>178,283</b>	<b>(71,791)</b>	<b>-</b>	<b>6,467,813</b>	

	2014								Book Value	
	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Total (Nota 26)	Impairment (Nota 22)		
				Positive	Negative	Total				
<b>Debt instruments</b>										
Issued by residents										
Treasury Bonds	4,975,473	133,789	37,423	258,110	-	258,110	(130)	-	5,404,665	
Other Portuguese Government entities	7,502	-	-	-	(672)	(672)	-	-	6,830	
Other residents										
Acquired in securitization operations	79,600	72	-	-	(8,045)	(8,045)	-	-	71,627	
Unsubordinated debt	830,723	14,980	-	35,737	(6,957)	28,780	(230)	-	874,253	
Subordinated debt	139,009	22	-	-	(12,135)	(12,135)	(6,603)	-	120,293	
Issued by non-residents										
Unsubordinated debt	117,420	3,477	-	1,457	(344)	1,113	-	-	122,010	
<b>Equity instruments</b>										
Issued by residents										
Valued at fair value	158,113	-	-	621	(10,859)	(10,238)	(48,017)	-	99,858	
Valued at cost(1)	18,765	-	-	-	-	-	(6,217)	-	12,548	
Issued by non-residents										
Valued at fair value	11	-	-	-	-	-	-	-	11	
Valued at cost	1,206	-	-	-	-	-	(746)	-	460	
	<b>6,327,822</b>	<b>152,340</b>	<b>37,423</b>	<b>295,925</b>	<b>(39,012)</b>	<b>256,913</b>	<b>(61,943)</b>	<b>-</b>	<b>6,712,555</b>	

(1) Includes participating units in restructuring funds and real estate funds previously recorded at fair value. Currently, the Bank performs impairment analysis for these funds.

At December 31, 2015, the caption "Financial assets available for sale" includes tEuros 1,083,808 of acquired assets under the resolution measure applied to Banif.

At December 31, 2015 and 2014, the caption Treasury Bonds included capital gains of tEuros 20,761 and tEuros 37,423, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

Description	2015					2014				
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves
<b>Treasury bonds - Portugal</b>										
. Maturing between one and three years	414,489	4,802	-	(546)	-	418,745	-	-	-	-
. Maturing between three and five years	2,269,602	54,776	34,514	90,039	-	2,448,931	1,790,592	42,375	-	54,782
. Maturing between five and ten years	2,566,540	49,263	(13,753)	124,370	-	2,726,420	3,184,394	91,410	37,423	203,328
Others	487	4	-	(116)	375	487	4	-	(130)	361
	<b>5,251,118</b>	<b>108,845</b>	<b>20,761</b>	<b>213,863</b>	<b>(116)</b>	<b>5,594,471</b>	<b>4,975,473</b>	<b>133,789</b>	<b>37,423</b>	<b>256,913</b>

At December 31, 2015 and 2014, the Bank held in its portfolio Portuguese Treasury Bonds, in the amounts of tEuros 1,207,074 and tEuros 2,002,426 respectively, which were used as collateral in financing operations (Note 19).

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At December 31, 2015 and 2014, the remaining captions of "Debt instruments" included the following securities:

Description	2015					2014				
	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value
Acquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	72,463	51	(4,677)	-	67,837	79,550	72	(8,025)	-	71,597
ATLANTES FINANCE 6 B 03/20/33	9,000	8	-	-	9,008	-	-	-	-	-
ATLANTES FINANCE 6 S 03/20/33	4,483	-	-	-	4,483	-	-	-	-	-
ENERGYON NO.2 CLASS B NOTES 2025	50	-	(20)	-	30	50	-	(20)	-	30
	<b>85,996</b>	<b>59</b>	<b>(4,697)</b>	<b>-</b>	<b>81,358</b>	<b>79,600</b>	<b>72</b>	<b>(8,045)</b>	<b>-</b>	<b>71,627</b>
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	251,273	8,931	15,771	-	275,975	251,991	8,931	21,143	-	282,065
Banco Comercial Português 22/06/2017	103,192	2,505	2,878	-	108,575	105,358	2,512	3,702	-	111,572
CGD 3% 2014/2019	49,974	1,442	3,800	-	55,216	49,965	1,442	4,582	-	55,989
PORTUGAL TELECOM INT FIN 5.875%2	56,025	2,215	(29,642)	-	28,598	57,222	2,221	97	-	59,540
IBERWIND II P- CONSULTORIA SENIOR A	26,058	24	(2,937)	-	23,145	28,046	29	(4,165)	-	23,910
EDIA 2010/2030	19,250	206	(542)	-	18,914	19,250	226	(1,401)	-	18,075
PORTUGAL TELECOM INT FIN 4.625%2	31,230	921	(17,189)	-	14,962	31,373	923	(344)	-	31,952
PORTUGAL TELECOM INT FIN 5 2019	10,620	81	(5,040)	-	5,661	10,714	81	-	-	10,795
PARPÚBLICA 2013/2015	-	-	-	-	200,000	78	4,136	-	-	204,214
Galp Energia 2013/2017	-	-	-	-	99,455	429	1,530	-	-	101,414
SONAE DISTRIBUIÇÃO SET 2007/2015	-	-	-	-	35,000	82	(442)	-	-	34,640
Galp Energia SGPS SA 4,125%-25/01/2019	-	-	-	-	23,885	894	215	-	-	24,994
Other	17,090	356	(294)	(230)	16,922	35,884	609	840	(230)	37,103
	<b>564,712</b>	<b>16,681</b>	<b>(33,195)</b>	<b>(230)</b>	<b>547,968</b>	<b>948,143</b>	<b>18,457</b>	<b>29,893</b>	<b>(230)</b>	<b>996,263</b>
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	123,061	22	-	(3,299)	119,784	122,087	19	-	(6,603)	115,503
TOTTA SEGUROS - OBRIG. SUB. 2002	-	-	-	-	-	14,000	1	(9,213)	-	4,788
Other	2,586	2	-	(2,585)	3	2,922	2	(2,922)	-	2
	<b>125,647</b>	<b>24</b>	<b>-</b>	<b>(5,884)</b>	<b>119,787</b>	<b>139,009</b>	<b>22</b>	<b>(12,135)</b>	<b>(6,603)</b>	<b>120,293</b>

In the last quarter of 2012, the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its fair value. Following this operation, impairment losses of the same amount were recorded. During 2015 and 2014, the Bank reversed impairment losses of tEuros 832 and tEuros 4,590, respectively, on that security due to its appreciation.

At December 31, 2015 and 2014, the caption "Equity instruments" includes the following securities:

Description	2015					2014				
	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value		
Recorded at fair value										
FUNDO SOLUCAO ARRENDAMENTO	28,925	(1,531)	-	27,394	28,925	(1,769)	-	-	27,156	
BANCO BPI, SA	21,502	-	(8,218)	13,284	21,502	(9,010)	-	-	12,492	
VISA EUROPE LIMITED (Share transfer to Visa Inc.)	-	3,727	-	3,727	-	-	-	-	-	
SANTANDER MULTIACTIVOS 0-30	2,852	(50)	-	2,802	3,000	(21)	-	-	2,979	
Unicamp - FEI imobiliário Fechado	1,500	7	-	1,507	1,500	10	-	-	1,510	
GARVAL - SOC. DE GARANTIA MUTUA S.A.	1,110	72	-	1,182	1,443	64	-	-	1,507	
SANTANDER MULTIACTIVOS 20-60	1,120	(36)	-	1,084	3,000	(49)	-	-	2,951	
FCR Portugal Ventures Valor 2	3,836	51	(3,099)	788	3,836	-	(3,099)	-	737	
FUNDO RECUPERACAO FCR	-	-	-	-	33,120	-	(8,109)	-	25,011	
LUSIMOVEST - F.I. IMOBILIÁRIO	-	-	-	-	26,379	186	(2,827)	-	23,738	
Securities with 100% impairment	33,396	-	(33,396)	-	33,396	-	(33,396)	-	-	
Other	2,195	439	(616)	2,018	2,023	351	(586)	-	1,788	
	<b>96,436</b>	<b>2,679</b>	<b>(45,329)</b>	<b>53,786</b>	<b>158,124</b>	<b>(10,238)</b>	<b>(48,017)</b>	<b>99,869</b>		
Recorded at cost										
LUSIMOVEST - F.I. IMOBILIÁRIO	26,379	-	(2,894)	23,485	-	-	-	-	-	
FUNDO RECUPERACAO FCR	33,621	-	(10,515)	23,106	-	-	-	-	-	
SIBS - SOC. INTERBANCÁRIA DE SERVIÇOS S.A.	3,461	-	-	3,461	3,461	-	-	-	3,461	
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3,749	-	(531)	3,218	3,749	-	(531)	-	3,218	
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions)	3,749	-	(531)	3,218	3,749	-	(531)	-	3,218	
BANIF PROPERTY	5,350	-	-	5,350	-	-	-	-	-	
Other	3,274	-	(305)	2,969	3,986	-	(875)	-	3,111	
Securities with 100% impairment	5,456	-	(5,456)	-	5,026	-	(5,026)	-	-	
	<b>85,039</b>	<b>-</b>	<b>(20,232)</b>	<b>64,807</b>	<b>19,971</b>	<b>-</b>	<b>(6,963)</b>	<b>13,008</b>		

In 2015 the Bank measured the share held of Visa Europe Limited at fair value, considering the expected transfer transaction to Visa International Inc.

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At December 31, 2015 and 2014, the Bank held 5,861,770 of participating units of the "Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional" in the amount of tEuros 28,925 which were subscribed through the payment in cash of tEuros 2, the delivery of real estate properties and the remainder through the sale of real estate and the subsequent subscription of participating units.

During 2015 and 2014, the Bank subscribed capital increases of Fundo Recuperação, FCR in the amount of tEuros 501 and tEuros 4,629, respectively. At December 31, 2015 and 2014, the Bank held in its portfolio 33,620 and 33,110 participating units, respectively, corresponding to a participation of 4.12% in the capital of that Fund. Since the Bank believes that there is not enough information to reliably determine the fair value of the participating units of this fund, during 2015, the Bank classified them at historical cost.

During 2014 the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. shares of Banco BPI, S.A. by an amount of tEuros 21,501 (fair value at the acquisition date), which, as of December 31, 2015 and 2014, were recorded by tEuros 13,284 and tEuros 12,492. During 2015, BST recognized impairment for this participation considering its prolonged devaluation.

At December 31, 2015 and 2014, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets presents the following devaluating percentages against their acquisition cost:

	2015				
	Acquisition cost	Interest receivable	Gain/loss on hedging operations	Negative reserve	Book Value
<b>Debt instruments</b>					
. Between 0% and 25%	451,227	3,011	-	(9,762)	444,476
. Between 25% and 50%	10,669	81	-	(5,060)	5,690
. Over 50%	87,255	3,136	-	(46,832)	43,559
	<u>549,151</u>	<u>6,228</u>	<u>-</u>	<u>(61,654)</u>	<u>493,725</u>
<b>Equity instruments</b>					
. Between 0% and 25%	33,325	-	-	(1,628)	31,697
. Between 25% and 50%	19	-	-	(5)	14
	<u>33,344</u>	<u>-</u>	<u>-</u>	<u>(1,633)</u>	<u>31,711</u>
	<u>582,495</u>	<u>6,228</u>	<u>-</u>	<u>(63,287)</u>	<u>525,436</u>
	2014				
	Acquisition cost	Interest receivable	Gain/loss on hedging operations	Negative reserve	Book Value
<b>Debt instruments</b>					
. Between 0% and 25%	219,676	1,430	-	(15,998)	205,108
. Between 25% and 50%	50	-	-	(20)	30
. Over 50%	16,922	3	-	(12,135)	4,790
	<u>236,648</u>	<u>1,433</u>	<u>-</u>	<u>(28,153)</u>	<u>209,928</u>
<b>Equity instruments</b>					
. Between 0% and 25%	35,001	-	-	(1,849)	33,152
. Between 25% and 50%	21,502	-	-	(9,010)	12,492
	<u>56,503</u>	<u>-</u>	<u>-</u>	<u>(10,859)</u>	<u>45,644</u>
	<u>293,151</u>	<u>1,433</u>	<u>-</u>	<u>(39,012)</u>	<u>255,572</u>

Despite the devaluation of the debt instruments, as per the accounting described in Note 1.3.e), the Board of Directors of the Bank considered that there was no impairment event.

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9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2014</u>	<u>2015</u>
Loans and advances to other Portuguese banks		
Deposits	220,221	200,000
Loans	45,704	22,212
Other applications	7,247	-
Interest receivable	3,918	5,806
	-----	-----
	277,090	228,018
	-----	-----
Loans and advances to other foreign banks		
Deposits	807,694	833,764
Very short term loans and advances	364,522	71,574
Other applications	65,284	55,883
Interest receivable	20,846	31,678
	-----	-----
	1,258,346	992,899
	-----	-----
	1,535,436	1,220,917
	=====	=====

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

At December 31, 2015 and 2014, the caption "Loans and advances to other foreign banks - Other applications" includes margin accounts of tEuros 64,966 and tEuros 46,926, respectively.

10. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Unsecuritized loans		
Domestic loans		
To corporate clients		
Loans	3,821,047	3,793,601
Factoring	1,236,759	1,057,039
Finance leasing	695,460	733,256
Current account loans	662,027	738,311
Discount and other credit securities	139,833	139,255
Overdrafts	93,396	95,541
Other credits	21,435	19,866
To individuals		
Mortgage loans	12,268,881	12,199,253
Consumer credit and other loans	1,663,375	1,652,604
Foreign loans		
To corporate clients		
Loans	124,454	147,724
Discount and other credit securities	141	140
Factoring	52,624	71,325
Current account loans	6,378	7,263
Finance leasing	5,863	1,272
Overdrafts	44	62
Other credits	849	3
To individuals		
Mortgage loans	321,904	334,883
Consumer credit and other loans	26,679	27,812
	-----	-----
	21,141,149	21,019,210
	-----	-----
Loans represented by securities		
Non-subordinated debt securities	2,907,921	2,390,245
	-----	-----
Non-derecognized securitized assets (Note 45)		
To individuals		
Loans		
Mortgage loans		
. Hipototta No. 1	131,006	157,613
. Hipototta No. 4	884,221	1,031,230
. Hipototta No. 5	802,221	894,145
	-----	-----
	1,817,448	2,082,988
	-----	-----

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	<u>2015</u>	<u>2014</u>
Overdue loans and interest		
Up to 90 days	16,942	41,490
More than 90 days	868,168	1,079,431
Non-derecognized securitized assets – up to 90 days	5,775	1,620
Non-derecognized securitized assets – more than 90 days	63,988	43,696
	-----	-----
	954,873	1,166,237
	-----	-----
	26,821,391	26,658,680
	-----	-----
Interest receivable		
Unsecuritized loans	33,971	39,206
Loans represented by securities	12,839	11,498
Non-derecognized securitized assets	1,549	2,180
Deferred expenses	65,659	69,414
Commissions associated with amortized cost (net)	( 99,885 )	( 100,355 )
Value adjustments of hedged assets	3,527	4,246
	-----	-----
	17,660	26,189
	-----	-----
	26,839,051	26,684,869
	-----	-----
Credit transferred from former Banif:		
. Credit granted to corporate clients	2,380,224	-
. Mortgage loans	2,303,848	-
. Oitante's debt instruments	746,000	-
. Other loans granted to individuals	429,246	-
. Consumer credits	89,383	-
. Other loans	14,226	-
	-----	-----
	5,962,927	-
	-----	-----
	32,801,978	26,684,869
Impairment of loans and advances to customers (Note 22)	( 1,021,013 )	( 1,161,618 )
	-----	-----
	31,780,965	25,523,251
	=====	=====

In 2015 and 2014, the Bank sold mortgage loans and company loans portfolios, most of which had already been written off. As a result of these transactions, net gains were recorded in 2015 and 2014 amounting to tEuros 9,021 and tEuros 1,120, respectively (Note 38).

At December 31, 2015 and 2014, the caption "Domestic loans - To individuals – Mortgage loans" included loans allocated to the autonomous pool of the covered bonds issued by the Bank (excluding former Banif) totalling tEuros 7,669,850 and tEuros 8,021,820, respectively (Note 21).

At December 31, 2015, the loans transferred from former Banif included tEuros 3,290,657 generated through securitization transactions (Note 21).

During 2014 the Bank liquidated in advance the securitization operation named Leasetotta No. 1.

Changes in impairment of loans and advances to customers during 2015 and 2014 are presented in Note 22.

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(Translation of notes originally issued in Portuguese – Note 53)

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

At December 31, 2015 and 2014, overdue loans and interest (except loans transferred from former Banif) are made up as follows:

	<u>2015</u>	<u>2014</u>
Up to three months	22,717	43,110
Between three and six months	21,479	61,723
Between six months and one year	153,789	127,866
Between one year and three years	355,559	545,546
More than three years	401,329	387,992
	-----	-----
	954,873	1,166,237
	=====	=====

The portfolio of loans and advances to customers (except loans transferred from former Banif) as of December 31, 2015 and 2014, by business sector, was as follows:

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

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	2014			
	Performing	Overdue	Total	%
Agriculture and forestry	146,259	7,973	154,232	0.58%
Fishing	3,758	44	3,802	0.01%
Mining	16,617	1,043	17,660	0.07%
Manufacturing:				
Food, beverage and tobacco	363,292	21,155	384,447	1.44%
Textiles, leather and clothing	194,547	8,379	202,926	0.76%
Wood and cork	94,716	5,254	99,970	0.37%
Paper and publishing	193,675	2,361	196,036	0.74%
Chemical industry	171,963	3,774	175,737	0.66%
Ceramics, glass and cement	164,282	3,488	167,770	0.63%
Metal-working	117,888	8,559	126,447	0.47%
Machines and vehicles	162,960	12,526	175,486	0.66%
Electricity, water and gas	683,108	2,474	685,582	2.57%
Construction and public works	1,195,295	228,721	1,424,016	5.34%
Commerce and hotels:				
Wholesale trading	650,927	55,595	706,522	2.65%
Retail sale	948,063	66,781	1,014,844	3.81%
Restaurants and hotels	367,792	21,709	389,501	1.46%
Transport and communications	401,804	16,327	418,131	1.57%
Non-monetary financial institutions	561,191	13,535	574,726	2.16%
Government administration	556,792	2,096	558,888	2.10%
Other service companies	1,262,402	128,172	1,390,574	5.22%
Loans to individuals	15,816,560	532,171	16,348,731	61.33%
Foreign loans	306,597	5,112	311,709	1.17%
Holding companies	881,678	11,911	893,589	3.35%
Other loans	230,277	7,077	237,354	0.89%
	<b>25,492,443</b>	<b>1,166,237</b>	<b>26,658,680</b>	<b>100.00%</b>

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(Translation of notes originally issued in Portuguese – Note 53)

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

At December 31, 2015 and 2014, the overdue and performing loans (except loans transferred from former Banif), with and without evidence of impairment, considering the segments used for the calculation of impairment losses by the Bank, were as follows:

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

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(Translation of notes originally issued in Portuguese – Note 53)

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

		2014		
		Overdue loans	Performing loans	Total loans
Corporate loans				
. Without objective evidence of impairment		-	8,720,896	8,720,896
. With objective evidence of impairment		613,100	425,763	1,038,863
		-----	-----	-----
		613,100	9,146,659	9,759,759
		-----	-----	-----
Mortgage loans				
. Without objective evidence of impairment		-	13,934,517	13,934,517
. With objective evidence of impairment		350,449	682,607	1,033,056
		-----	-----	-----
		350,449	14,617,124	14,967,573
		-----	-----	-----
Consumer loans				
. Without objective evidence of impairment		-	1,028,509	1,028,509
. With objective evidence of impairment		50,726	42,686	93,412
		-----	-----	-----
		50,726	1,071,195	1,121,921
		-----	-----	-----
Loans granted through credit cards				
. Without objective evidence of impairment		-	236,810	236,810
. With objective evidence of impairment		37,268	4,407	41,675
		-----	-----	-----
		37,268	241,217	278,485
		-----	-----	-----
Other loans to individuals				
. Without objective evidence of impairment		-	372,546	372,546
. With objective evidence of impairment		114,694	43,702	158,396
		-----	-----	-----
		114,694	416,248	530,942
		-----	-----	-----
		1,166,237	25,492,443	26,658,680
		=====	=====	=====

**11. HEDGING DERIVATIVES**

This caption is made up as follows:

	2015			2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	24,634	80,782	(56,148)	32,926	45,158	(12,232)
Equity swaps	16,218	18,329	(2,111)	38,092	20,577	17,515
Auto Callable options	-	1,593	(1,593)	-	208	(208)
Cash-flows hedge						
Interest rate swaps	89,440	69,429	20,011	124,017	67,747	56,270
	130,292	170,133	(39,841)	195,035	133,690	61,345

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

At December 31, 2015 and 2014, the breakdown of the derivative financial instruments was as follows:

Type of financial instrument	Book Value	2015						Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts	EUR
									Other
<b>1. Derivatives held for trading (Note 7)</b>									
Forwards									
. Purchased	862	76,292	80,815	15,578	205	-	172,890	85,500	87,390
. Sold		76,214	80,786	15,553	204	-	172,757	87,225	85,532
Currency swaps									
. Purchased	1,329	838,715	-	-	-	-	838,715	-	838,715
. Sold		847,133	-	-	-	-	847,133	847,133	-
Other swaps	15,907	870,380	578,144	169,621	604,488	10,012,699	12,235,332	10,972,766	1,262,566
Equity swaps	1,461	139,009	70,000	-	180,519	-	389,528	389,528	-
Exchange rate options									
. Purchased	82	7,006	13,778	24,800	-	-	45,584	-	45,584
. Sold		7,006	13,778	24,800	-	-	45,584	-	45,584
Contracts on prices (options)									
. Purchased	3,284	-	195,899	125,104	1,929	-	322,932	321,003	1,929
. Sold		-	195,899	125,104	1,929	-	322,932	321,003	1,929
Caps	310	1,106	1,340	5,101	710,303	1,021,780	1,739,630	1,739,630	-
Floors	2,672	-	-	-	649,000	399,322	1,048,322	1,048,322	-
	<b>25,907</b>	<b>2,862,861</b>	<b>1,230,439</b>	<b>505,661</b>	<b>2,148,577</b>	<b>11,433,801</b>	<b>18,181,339</b>	<b>15,812,110</b>	<b>2,369,229</b>
<b>2. Hedging derivatives</b>									
Fair value hedge									
Interest rate swaps									
. Liabilities and loans	20,833	19,442	33,721	18,219	66,055	314,058	451,495	451,495	-
. Available-for-sale financial assets	(76,981)	-	-	-	-	850,000	850,000	850,000	-
Auto Callable options	(1,593)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	(2,111)	325,583	300,481	525,399	1,531,074	153,632	2,836,169	2,649,122	187,047
Cash flow hedge									
Interest rate swaps									
. Cash flow	20,011	275,000	300,000	600,000	225,000	1,300,000	2,700,000	2,700,000	-
	<b>(39,841)</b>	<b>620,025</b>	<b>634,202</b>	<b>1,143,618</b>	<b>2,018,645</b>	<b>2,617,690</b>	<b>7,034,180</b>	<b>6,847,133</b>	<b>187,047</b>
<b>2014</b>									
Type of financial instrument	Book Value	Notional amounts						Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts	EUR
									Other
<b>1. Derivatives held for trading (Note 7)</b>									
Forwards									
. Purchased	237	50,478	46,467	16,221	180	-	113,346	52,872	60,474
. Sold		50,369	46,414	16,173	175	-	113,131	59,219	53,912
Currency swaps									
. Purchased	19,568	1,177,015	-	-	-	-	1,177,015	-	1,177,015
. Sold		1,157,722	-	-	-	-	1,157,722	1,157,722	-
Others swaps	(45,710)	733,977	79,160	457,056	1,049,816	4,458,982	6,778,991	6,710,385	68,606
Equity swaps	1,232	-	133,900	170,004	279,520	70,000	653,424	653,424	-
Exchange rate options									
. Purchased	184	30,560	43,043	51,373	-	-	124,976	-	124,976
. Sold		30,560	43,043	51,373	-	-	124,976	-	124,976
Contracts on prices (options)									
. Purchased	1,574	-	-	29,053	1,819	-	30,872	29,053	1,819
. Sold		-	-	29,053	1,819	-	30,872	29,053	1,819
Caps	(178)	1,047	4,145	38,207	679,144	1,155,913	1,878,456	1,878,456	-
Floors	(2,425)	-	-	5,805	649,000	448,733	1,103,538	1,103,539	(1)
Credit linked notes	(7)	-	-	7,000	-	-	7,000	7,000	-
	<b>(25,525)</b>	<b>3,231,728</b>	<b>396,172</b>	<b>871,318</b>	<b>2,661,473</b>	<b>6,133,628</b>	<b>13,294,319</b>	<b>11,680,723</b>	<b>1,613,596</b>
<b>2. Hedging derivatives</b>									
Fair value hedge									
Interest rate swaps									
. Liabilities and loans	28,636	7,100	25,873	74,588	89,178	179,974	376,713	376,713	-
. Available-for-sale financial assets	(40,868)	-	-	-	-	200,000	200,000	200,000	-
Auto Callable options	(208)	-	-	21,253	-	-	21,253	21,253	-
Equity swaps	17,515	293,305	398,095	610,838	1,870,023	141,301	3,313,562	3,118,223	195,339
Cash flow hedge									
Interest rate swaps									
. Cash flow	56,270	200,000	-	-	1,400,000	1,300,000	2,900,000	2,900,000	-
	<b>61,345</b>	<b>500,405</b>	<b>423,968</b>	<b>706,679</b>	<b>3,359,201</b>	<b>1,821,275</b>	<b>6,811,528</b>	<b>6,616,189</b>	<b>195,339</b>

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

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

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

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

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

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

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

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

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

## 12. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Property received as settlement of defaulting loans	253,401	271,204
Own property for sale	36,792	38,790
Participating units	18,663	18,663
Equipment	2,254	3,464
Other properties	100	100
	-----	-----
	311,210	332,221
	-----	-----
Impairment (Note 22)	( 120,615 )	( 123,846 )
	-----	-----
	190,595	208,375
	=====	=====

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

The changes occurred under the caption "Non-current assets held for sale" during 2015 and 2014 were as follows:

	2015									December 31, 2015		
	December 31, 2014			Integration impact of former Banif			Impairment (Note 22)			Gross amount	Impairment	Net amount
	Gross amount	Impairment	Increases	Sales	Transfers	Increases	Reversals	Utilization				
<b>Property:</b>												
Received as settlement of defaulting loans	271,204	(92,406)	100,266	(119,538)	1,469	-	(23,334)	5,284	20,860	253,401	(89,596)	163,805
Own property for sale	38,890	(24,941)	158	(4,505)	-	2,349	(2,165)	1,115	610	36,892	(25,381)	11,511
Equipment	3,464	(2,499)	838	(2,048)	-	-	(554)	641	774	2,254	(1,639)	616
Participating units	18,663	(4,000)	-	-	-	-	-	-	-	18,663	(4,000)	14,663
	<b>332,221</b>	<b>(123,846)</b>	<b>101,262</b>	<b>(126,091)</b>	<b>1,469</b>	<b>2,349</b>	<b>(26,053)</b>	<b>7,040</b>	<b>22,244</b>	<b>311,210</b>	<b>(120,615)</b>	<b>190,595</b>
<b>2014</b>												
	December 31, 2013									December 31, 2014		
	Gross amount	Impairment	Increases	Sales	Transfers	Impairment (Note 22)			Gross amount	Impairment	Net amount	
						(Notes 14 e 17)						
<b>Property:</b>												
Received as settlement of defaulting loans	268,035	(87,677)	110,040	(106,219)	(652)	(30,183)	6,210	19,244	271,204	(92,406)	178,798	
Own property for sale	28,806	(17,978)	124	(1,200)	11,160	(8,067)	121	983	38,890	(24,941)	13,949	
Equipment	4,021	(2,927)	1,758	(2,315)	-	(1,823)	1,262	989	3,464	(2,499)	965	
Participating units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663	
	<b>319,525</b>	<b>(112,582)</b>	<b>111,922</b>	<b>(109,734)</b>	<b>10,508</b>	<b>(40,073)</b>	<b>7,593</b>	<b>21,216</b>	<b>332,221</b>	<b>(123,846)</b>	<b>208,375</b>	

In 2014, the amount of tEuros 652 associated with property received as settlement of defaulting loans, was transferred to the caption "Other assets – Promises and other assets received as settlement of defaulting loans".

At December 31, 2015 and 2014, the caption "Participating units" included participating units in the Real Estate Investment Fund - Imorent, acquired as a result of a debt settlement agreement established with a client.

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

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

a) Comparative market method

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

b) Income method

The purpose of this method is to estimate the value of the property from the capitalization of its net income (rent) discounted to the present time, using discounted cash flows.

c) Cost method

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

The valuations of the properties mentioned above were performed by specialized independent entities, which are certified by the Portuguese Securities Market Commission (CMVM).

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**13. INVESTMENT PROPERTIES**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Properties held by Novimovest Fund	387,193	401,239
Hotel	-	19,000
	-----	-----
	387,193	420,239
	=====	=====

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

At December 31, 2015 and 2014, the properties held by Novimovest Fund had the following characteristics:

	<u>2015</u>	<u>2014</u>
Land		
Urbanized	15,129	38,651
Non-urbanized	1,196	9,378
Finished constructions		
Rented	267,848	278,440
Not rented	66,873	74,770
Other construction projects	36,147	-
	-----	-----
	387,193	401,239
	=====	=====

On the other hand, during 2015 and 2014, the properties held by Novimovest Fund generated, amongst others, the following revenues and annual charges:

	<u>2015</u>	<u>2014</u>
Rents (Note 39)	18,228	19,630
Taxes	( 1,834 )	( 3,913 )
Condominium expenses	( 1,385 )	( 1,339 )
Maintenance and repair expenses	( 1,232 )	( 1,382 )
Insurances	( 264 )	( 279 )
	-----	-----
	13,513	12,717
	=====	=====

During the second semester of 2013, the Bank received as settlement of a non performing loan one hotel valued at that date by the amount of tEuros 18,660. Simultaneously, the Bank celebrated an operational lease contract for that property for a period of 1 year automatically renewable. At December 31, 2014, the Bank updated the fair value of that property.

During the first semester of 2015, the Bank celebrated a financial lease over the hotel, transferring all the economic rights to the leaseholder. As a result, the Bank recorded the financial lease as loans and advances to customers.

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

The changes occurred under the caption "Investment properties" during the 2015 and 2014, were as follows:

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

	2014				
	Balances at December 31, 2013	Increases	Fair value valuation	Sales	Balances at December 31, 2014
Properties held by Novimovest Fund	449,758	-	(22,507)	(26,012)	401,239
Hotel	18,191	-	809	-	19,000
	<u>467,949</u>	<u>-</u>	<u>(21,698)</u>	<u>(26,012)</u>	<u>420,239</u>

The impact of the fair value valuation of the properties held by Novimovest Fund was recognized in the income statement caption "Other operating results - Unrealized gains/losses on investment properties" (Note 39). The impact in 2014 of the fair value valuation of the Hotel was recognized in the income statement caption "Result from the sale of other assets" (Note 38).

In 2015, investment properties held by the Bank are valued mostly on a biannual basis, or whenever occurs an event which raises doubts about the value included in the last appraisal performed, using specialized independent entities, in accordance with the valuation methodologies described in Note 12.

At December 31, 2015 and 2014, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	31-12-2015			
	Valuation techniques			Total
	Level 1	Level 2	Level 3	
Investment properties	-	-	387,193	387,193

	31-12-2014			
	Valuation techniques			Total
	Level 1	Level 2	Level 3	
Investment properties	19,000	-	401,239	420,239

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Following the requirements of IFRS 13, for the investment properties with a higher amount in the Bank's portfolio at December 31, 2015 and 2014, a summary of their main features, the valuation techniques adopted and the relevant inputs used in the estimation of their fair value are presented below:

Property description	Status	Amount in 2015	Amount in 2014	Valuation method	Relevant inputs
Hotel Delfim - Alvor Hotel in Portimão	Rented	34,253	33,284	Income method	Rent value by square meter Yield
Stº Cruz do Bispo - Plots of land 1, 2 and 3 Land in Matosinhos	Urban area	30,017	22,110	Comparative market method / Residual value method	Yield Land price and construction and sale costs by square meter
Galerias Saldanha Residence Shopping center in Lisbon	Rented	26,420	29,347	Income method / Comparative market method	Rent value by square meter Yield
Hotel in Cascais	n.a.	n.a.	19,000	Purchase agreement (2014)	n.a.
Warehouse in Perafita Warehouse in Matosinhos	Rented	15,721	16,855	Income method / Comparative market method	Rent value by square meter Yield
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Rented	12,373	12,441	Income method / Comparative market method	Rent value by square meter Yield
Estrada da Outurela, 119, Camaxide Offices in Oeiras	Rented	12,854	12,021	Income method/ Comparative market method (2015) Income method/ Cost method (2015)	Rent value by square meter Yield
Golf courses "Vila Sol" - G1 and G2 Golf courses in Loulé	Rented	11,722	11,738	Income method/ Cost method	Rent value by square meter Yield
Logistic Park SPC Warehouses 1 and 4 Warehouses in Vila Franca de Xira	Rented (SPC 1) Not rented (SPC 4)	10,455	10,216	Income method/ Comparative market method (2015) Income method/ Cost method (2014)	Rent value by square meter Yield
Alfena - Valongo land Land in Valongo	Non urban area	6,130	8,224	Comparative market method / Cost method/ Residual value method	Land price and construction and sale costs by square meter
		<b>159,945</b>	<b>175,236</b>		

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

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## 14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions in 2015 and 2014 were as follows:

	2015															December 31, 2015		
	December 31, 2014			Integration impact of former Banif		Write-offs and sales		Transfers		From/to non-current assets held for sale (Note 12)		Depreciation in the year		Foreign exchange differences				
	Gross amount	Accumulated depreciation	Impairment (Nota 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Transfers	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Nota 22)	Net amount	
Tangible assets																		
Property																		
.Property for own use	399,602	135,286	3,843	5,430	321	3,414	40	(6,932)	(4,611)	(35)	7,236	-	385,972	137,871	3,843	244,258		
.Leasedhold expenditure	25,363	12,222	-	759	150	10,692	10,669	(130)	(130)	-	3,861	18	15,468	105,202	-	10,266		
.Other property	306	7	20	2	706	-	-	-	-	-	-	-	1014	7	20	987		
Tangible assets in progress																		
.Property for own use	1,453	-	-	7,581	-	-	-	-	-	-	-	-	9,034	-	-	9,034		
	597,724	247,415	3,863	13,772	177	14,106	10,709	(7,062)	(4,741)	(35)	11,097	18	511,488	243,080	3,863	264,545		
Equipment																		
.Furniture and fixtures	22,441	20,471	-	497	-	9,401	9,401	-	-	-	756	4	4	13,541	11,830	-	1,711	
.Machinery and tools	3,755	3,683	-	56	-	118	118	-	-	-	35	5	5	2,698	2,605	-	93	
.Computer hardware	27,703	17,426	-	2,751	6	40,471	40,460	-	-	-	3,682	2	2	89,991	80,650	-	9,341	
.Indoor facilities	13,345	8,945	-	3,673	2	588	565	(51)	(24)	35	1871	-	21416	10,227	-	11,189		
.Vehicles	20,977	13,69	-	3,971	2	3,561	3,498	-	-	-	1593	(59)	(59)	21,330	11,205	-	10,125	
.Security equipment	26,651	26,302	-	353	-	18,282	18,283	(1)	(1)	-	206	-	-	8,721	8,224	-	497	
.Other equipment	5,704	4,770	-	279	-	813	813	-	-	-	363	-	-	5,170	4,320	-	850	
Tangible assets in progress		-	-	-	14	-	-	-	-	-	-	-	-	14	-	-	14	
	225,576	194,766	-	11,594	10	74,234	74,138	(52)	(25)	35	8,506	(48)	(48)	162,881	129,061	-	33,820	
Other tangible assets																		
.Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-	
.Work of Art	1,536	-	-	4	289	-	-	-	-	-	-	-	-	1,829	-	-	1,829	
	1817	281	-	4	289	-	-	-	-	-	-	-	-	2,110	281	-	1,829	
	745,117	442,462	3,863	25,370	1476	88,340	84,847	(7,114)	(4,766)	-	19,603	(30)	(30)	676,479	372,422	3,863	300,194	
Intangible assets																		
Software purchased	376,056	348,778	-	16,978	-	-	-	-	-	-	929	20,513	-	393,963	368,691	-	25,272	
Intangible assets in progress	503	-	-	6,208	-	-	-	-	-	-	(929)	-	-	5,782	-	-	5,782	
Goodwill	3,464	3,464	-	-	-	118	118	-	-	-	-	-	-	3,346	3,346	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	380,023	351,642	-	23,186	-	118	118	-	-	-	20,513	-	-	403,091	372,037	-	31,054	

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	2014																
	December 31, 2013 (proforma)				Transfers				From/to non-current assets held for sale (Note 12)			Depreciation in the year			Foreign exchange differences		
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Transfers		Gross Amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount	
<b>Tangible assets</b>																	
Property																	
. Property for own use	404,845	132,012	3,843	1,250	552	181	(14,931)	(3,804)	(10)	7,259	-	-	390,602	135,286	3,843	251,473	
. Leasehold expenditure	129,254	10,979	-	526	4,441	4,441	-	-	5	5,565	19	19	125,363	112,122	-	13,241	
. Other property	312	6	20	-	6	-	-	-	-	1	-	-	306	7	20	279	
Tangible assets in progress																	
. Property for own use	537	-	-	906	-	-	-	-	10	-	-	-	1,453	-	-	1,453	
. Leasehold expenditure	5	-	-	-	-	-	-	-	(5)	-	-	-	-	-	-	-	
	<b>534,953</b>	<b>242,997</b>	<b>3,863</b>	<b>2,682</b>	<b>4,999</b>	<b>4,622</b>	<b>(14,931)</b>	<b>(3,804)</b>	<b>-</b>	<b>12,825</b>	<b>19</b>	<b>19</b>	<b>517,724</b>	<b>247,415</b>	<b>3,863</b>	<b>266,446</b>	
<b>Equipment</b>																	
. Furniture and fixtures	22,257	19,528	-	279	100	100	-	-	-	1,038	5	5	22,441	20,471	-	1,970	
. Machinery and tools	3,745	3,652	-	14	9	9	-	-	-	35	5	5	3,755	3,683	-	72	
. Computer hardware	125,098	115,542	-	4,562	1,959	1,959	-	-	-	3,841	2	2	127,703	117,426	-	10,277	
. Indoor facilities	91,840	83,017	-	2,621	75,977	75,969	(139)	(106)	-	2,003	-	-	18,345	8,945	-	9,400	
. Vehicles	19,135	13,131	-	3,470	1,638	1,611	-	-	-	1,640	10	9	20,977	13,169	-	7,808	
. Security equipment	27,016	26,506	-	89	454	454	-	-	-	250	-	-	26,651	26,302	-	349	
. Other equipment	5,730	4,414	-	183	211	194	-	-	2	550	-	-	5,704	4,770	-	934	
. Tangible assets in progress	2	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	
	<b>294,823</b>	<b>265,790</b>	<b>-</b>	<b>11,218</b>	<b>80,348</b>	<b>80,296</b>	<b>(139)</b>	<b>(106)</b>	<b>-</b>	<b>9,357</b>	<b>22</b>	<b>21</b>	<b>225,576</b>	<b>194,766</b>	<b>-</b>	<b>30,810</b>	
<b>Other tangible assets</b>																	
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-	
. Work of Art	1,536	-	-	-	-	-	-	-	-	-	-	-	1,536	-	-	1,536	
	<b>831,593</b>	<b>509,068</b>	<b>3,863</b>	<b>13,900</b>	<b>85,347</b>	<b>84,918</b>	<b>(15,070)</b>	<b>(3,910)</b>	<b>-</b>	<b>22,182</b>	<b>41</b>	<b>40</b>	<b>745,117</b>	<b>442,462</b>	<b>3,863</b>	<b>298,792</b>	
<b>Intangible assets</b>																	
Software purchased	361,034	308,566	-	15,588	63	63	-	-	(503)	39,675	-	-	376,056	348,178	-	27,878	
Intangibles assets in progress	-	-	-	-	-	-	-	-	503	-	-	-	503	-	-	503	
Goodwill	3,464	3,464	-	-	-	-	-	-	-	-	-	-	3,464	3,464	-	-	
	<b>364,498</b>	<b>312,030</b>	<b>-</b>	<b>15,588</b>	<b>63</b>	<b>63</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,675</b>	<b>-</b>	<b>-</b>	<b>380,023</b>	<b>351,642</b>	<b>-</b>	<b>28,381</b>	

The caption "Software purchased" on December 31, 2015 and 2014 included software acquired from Santander Tecnología y Operaciones A.E.I.E., an european economic interest group owned by Santander Group, amounting to, net of depreciation, tEuros 25,127 and tEuros 25,414, respectively.

During 2014, the Bank revised the expected useful life of its computer platform Partenon from 5 to 3 years. As a result of that review, the depreciation in the year in the caption "Software purchased" increased by approximately tEuros 7,300 in comparison with the one recorded in the previous year.

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15. INVESTMENTS IN ASSOCIATED COMPANIES

This caption is made up as follows:

		2015		2014	
		Effective participation (%)	Book value	Effective participation (%)	Book value
<b>Investments in associates</b>					
Domestic					
· Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	21.50	41,635	21.50	33,109	
· Benim - Sociedade Imobiliária, S.A.	25.81	2,078	25.81	2,065	
· Atlantes Finance 6 C	23.00	744	-	-	
· Partang, SGPS, S.A	-	-	49.00	132,685	
		-----		-----	
		44,457		167,859	
		-----		-----	
<b>Impairment of investments in associates (Note 22)</b>					
· Benim – Sociedade Imobiliária, S.A. (Benim)	( 1,500 )		( 1,500 )		
		-----		-----	
		42,957		166,359	
		=====		=====	

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

Under the terms of the agreement entered into between BST and CGD, at July 5, 2010 CGD exercised its purchase option over 1% of Partang's share capital. Following this operation, the Bank reduced its participation to 49% of the share capital of Partang, having lost its joint control over BCGTA. In accordance with IAS 27, the Bank measured the remaining participating interest at the date when joint control was lost at fair value. Thus, that participation started to be recognized in accordance with the equity method of accounting.

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

At May 29, 2015, the Bank exercised the put option to sell its participation in Partang to CGD (49% of the share capital held directly and indirectly). The sale price amounted to approximately 191 million US dollars. The transfer of shares, the corresponding settlement of the sale price and the derecognition of this financial investment from the financial statements occurred in July, 2015. The BST recognized a profit in the consolidated accounts in the amount of 41,042 tEuros (Note 38).

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

At December 31, 2015 and 2014, the investments held in Unicre included goodwill. The impairment test performed over the goodwill of Unicre did not evidence any impairment loss arising from this financial investment.

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

16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2015 and 2014, these captions were made up as follows:

	<u>2015</u>	<u>2014</u>
Current tax assets:		
. Corporate income tax receivable	16,458	14,538
. Other	- 65	65
	-----	-----
	16,458	14,603
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	33,090	16,122
. Tax on rental income (Novimovest Fund)	- 3,912	3,912
. Other	4,657	-
	-----	-----
	37,747	20,034
	=====	=====
Deferred tax assets:		
. Relating to temporary differences	418,317	432,718
. Tax losses carried forward	- 25,957	25,957
	-----	-----
	418,317	458,675
	=====	=====
Deferred tax liabilities:		
. Relating to temporary differences	119,609	138,521
. Relating to tax credits	3,311	3,505
	-----	-----
	122,920	142,026
	=====	=====

At December 31, 2015, the caption "Current tax assets – Corporate income tax receivable" included tEuros 8,641 (tEuros 7,856 at December 31, 2014), regarding payments performed by the Bank concerning some corrections made by the Tax Authorities to its tax declarations in previous years. Since the Bank does not agree with the fundamentals of such corrections it recorded those payments as an asset and appealed to the competent court.

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At December 31, 2015 and 2014, income tax for the year was made up as follows:

	<u>2015</u>	<u>2014</u>
<b>Current tax</b>		
. Of the year	( 49,138 )	( 21,137 )
. Special contribution to the banking sector	( 16,716 )	( 13,922 )
. Consortiums ("ACE's")	( 1,722 )	( 1,833 )
. Other	( 82 )	( 3,808 )
	-----	-----
	( 67,658 )	( 40,700 )
	-----	-----
<b>Deferred tax</b>		
. Increases and reversals of temporary differences	( 24,170 )	( 14,597 )
. (Expense)/Income for tax credits	( 26,295 )	( 14,574 )
	-----	-----
	( 50,465 )	( 29,171 )
	-----	-----
	( 118,123 )	( 69,871 )
	=====	=====

Changes in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014 were as follows:

	2015			
	Balances at December 31, 2014	Other Comprehensive Income	Income statement	Balances at December 31, 2015
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	230,321	-	( 9,324 )	220,997
Liabilities relating to potential capital losses	( 1,958 )	-	140	( 1,818 )
Revaluation of tangible assets	( 3,505 )	-	194	( 3,311 )
Pensions:				
Early retirement pensions	31,989	-	( 8,893 )	23,096
Retirement pensions and actuarial deviations	120,819	-	( 19,190 )	101,629
Transfer of pension liabilities to the Social Security	5,140	-	( 302 )	4,838
Long service bonuses	10,571	-	290	10,861
Securitization operations:				
Premium/discount on debt issued	( 214 )	-	29	( 185 )
Recognition of an interest accrual regarding the notes with higher subordination	( 4,360 )	-	89	( 4,271 )
Results on intra-Group securities purchases	( 20,414 )	-	( 1,228 )	( 21,642 )
Tax losses carried forward	25,957	-	( 25,957 )	-
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	468	-	( 1,027 )	( 559 )
Cash flow hedges	( 6,346 )	6,478	-	132
Available-for-sale financial assets	( 74,436 )	22,735	-	( 51,701 )
Deferred commissions	1,424	-	446	1,870
Capital gains only considered for tax purposes	( 1,226 )	-	( 314 )	( 1,540 )
Application of the equity method in the valuation of investments in associated companies	( 392 )	-	62	( 330 )
Long-term incentives plan	1,929	-	33	1,962
Investments in subsidiaries, associates and joint ventures	883	-	( 883 )	-
Integration costs	-	-	15,370	15,370
Other	( 1 )	-	-	( 1 )
	316,649	29,213	( 50,465 )	295,397

At December 31, 2015, the Bank did not recognize tEuros 272,955 of deferred tax assets transferred from former Banif, as described in Note 1.4.

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	2014				
	Balances at December 31, 2013	Other Comprehensive Income	Income statement	Other	Balances at December 31, 2014
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	241,282	-	(10,961)	-	230,321
Liabilities relating to potential capital losses	(1,999)	-	41	-	(1,958)
Revaluation of tangible assets	(3,765)	-	260	-	(3,505)
Pensions:					
Early retirement pensions	24,244	-	7,745	-	31,989
Retirement pensions and actuarial deviations	139,771	-	(18,952)	-	120,819
Transfer of pension liabilities to the Social Security	4,921	-	219	-	5,140
Long service bonuses	8,423	-	2,148	-	10,571
Securitization operations:					
Premium/discount on debt issued	(251)	-	37	-	(214)
Recognition of an interest accrual regarding the notes with higher subordination	(8,573)	-	4,213	-	(4,360)
Results on intra-Group securities purchases	(18,417)	-	(1,997)	-	(20,414)
Tax losses carried forward	40,531	-	(14,574)	-	25,957
Valuations and adjustments temporarily not accepted for tax purposes:					
Tangible and intangible assets	(1,518)	-	1,986	-	468
Cash flow hedges	(13,092)	6,746	-	-	(6,346)
Available-for-sale financial assets	68,640	(143,419)	-	343	(74,436)
Deferred commissions	-	-	1,424	-	1,424
Capital gains only considered for tax purposes	(1,767)	-	541	-	(1,226)
Application of the equity method in the valuation of investments in associated companies	(457)	-	65	-	(392)
Long-term incentives plan	2,495	-	(566)	-	1,929
Investments in subsidiaries, associates and joint ventures	1,685	-	(802)	-	883
Other	(2)	-	2	(1)	(1)
	482,151	(136,673)	(29,171)	342	316,649

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

In 2015 and 2014, the reconciliation between the nominal tax rate and the effective tax rate was as follows:

	2015		2014	
	Income Tax Rate	Amount	Income Tax Rate	Amount
Income before taxes		686,495		235,039
Income tax based on the current tax rate in force in Portugal and in the countries where the subsidiaries are established	19.87%	136,436	20.20%	47,489
Special contribution to the banking sector	2.43%	16,716	5.92%	13,922
Recognition of deferred tax assets associated with early retirement pensions not recorded previously	0.00%	-	-4.66%	(10,954)
Recognition of deferred tax assets associated with tax losses carried forward not recorded previously	0.00%	-	-4.59%	(10,793)
Constitution/(reversal) of provisions	0.97%	6,662	3.01%	7,080
Adjustments in the deferred tax assets associated with corrections made by Tax Authorities	0.00%	-	2.58%	6,069
Impact on the effective tax rate of income from associated companies	-0.44%	(3,045)	-2.32%	(5,442)
Insufficiency/(excess) of tax estimate of the previous year	-0.26%	(1,767)	1.62%	3,808
Impact of the income tax rate change in deferred tax calculation	0.00%	-	3.95%	9,283
State surtax	3.15%	21,601	2.34%	5,509
Autonomous taxation	0.38%	2,636	1.27%	2,994
Adjustments in the deferred taxes resulting from long-term incentives	0.02%	114	0.38%	889
Tax benefits	-0.04%	(273)	-0.22%	(507)
Tax exempt dividends	0.00%	-	-0.12%	(290)
Non taxable results arising from the sale of investments	-1.26%	(8,619)	0.00%	-
Differences in tax rate used for the determination on current and deferred tax	0.72%	4,958	0.00%	-
Early retirement pensions	0.94%	6,433	0.00%	-
Fiscal neutrality of the result in the purchase of ex-Banif	-10.01%	(68,703)	0.00%	-
Other	0.72%	4,974	0.35%	814
Income tax for the year	17.21%	118,123	29.73%	69,871

Following the changes occurred in the tax legislation for 2015, in 2014 the Bank began to measure and recognize the deferred tax assets related to tax losses carried forward at a rate of 21% and the deferred taxes associated with temporary differences at a rate of 29%.

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

Tax authorities may review the Bank's tax situation during a period of four years (five years for Social Security), except in the cases when tax losses carried forward exist, as well as of any other tax deduction or credit. In those cases, the right to the corrections expires in the year of the usage of that right.

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

Regarding the additional tax assessments received, the Bank has paid them. However, the Bank has challenged the majority of those additional tax assessments.

The Bank records in the liability caption "Provisions" the amount considered to be necessary to cover the risks arising from the additional tax assessments received as well as the contingencies relating to the years not yet reviewed by the Tax Authorities (Note 22).

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

17. OTHER ASSETS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Other available funds	311	327
Debtors and other applications		
Debtors resulting from operations with futures	7,484	9,523
VAT recoverable	4,024	2,055
Debtors for loan interest subsidies	2,485	3,780
Other debtors	1,413	46,369
Debtors and other applications - overdue capital	6,683	6,666
Debtors - unrealised capital	38	38
Escrow accounts	823	-
Other applications	480	-
Shareholders' loans:		
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2,465	2,458
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestínsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Gold, other precious metals, coins and medals	3,062	2,483
Promises and other assets received as settlement of defaulting loans	42,479	65,440
Income receivable	32,645	29,796
Other income receivable - securitization	2,982	3,867
Deferred costs on participations in consortiums		
Nortrem - Aluguer Material Ferroviário ACE	-	1,138
Deferred costs	3,293	5,592
Liabilities with pensions (Note 44)		
. BST liabilities	( 887,696 )	-
. Fair value of BST Pension Fund	914,204	-
. Former Banif liabilities	( 118,021 )	-
. Fair value of former Banif Pension Fund	117,138	-
. London branch liabilities	( 44,559 )	-
. Fair value of the London branch Pension Fund	40,125	-
Other	164,769	94,020
	-----	-----
	297,117	274,042
	-----	-----
Impairment losses (Note 22):		
. Shareholders' loans	( 2,398 )	( 2,392 )
. Assets received as settlement of defaulting loans	( 9,725 )	( 15,849 )
. Debtors and other applications	( 5,924 )	( 6,047 )
	-----	-----
	( 18,047 )	( 24,288 )
	-----	-----
	279,070	249,754
	=====	=====

The caption "Debtors and other applications - Debtors resulting from operations with futures" corresponds to the current accounts maintained by the Bank in international financial institutions related to the trading of futures. Customer's futures margin accounts are recorded under the caption "Creditors and other resources - Creditors resulting from operations with futures" (Note 25).

The caption "Debtors and other applications - Other debtors" at December 31, 2014, included the amounts of the credit rights held over Lusimovest Fund totalling tEuros 17,600, respectively, relating to participating units redemptions settled on that Fund account.

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At December 31, 2015 and 2014, the caption "Debtors and other applications - overdue capital" included tEuros 6,157 and tEuros 6,141, respectively, related to overdue rents leased by Novimovest Fund.

At December 31, 2015 and 2014, the caption "Income receivable" included essentially commission's receivable from insurance companies related to the sale of its insurance products (Note 43).

At December 31, 2015 and 2014, the caption "Other income receivable - securitization" corresponds to the interest amount receivable arising from the swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles (Note 45). The amount payable related to these transactions is recorded under the caption "Other liabilities – Accrued costs – Relating to swap agreements" (Note 25).

At December 31, 2015 and 2014, the caption "Other" includes transactions pending settlement in accordance with the following detail:

	December 31, 2015	December 31, 2014
	Other Assets (Note 25)	Other Liabilities (Note 25)
Interest receivable from swap contracts established with Portuguese State-owned enterprises (Note 50)	341,894	178,048
Cheques, values in transit and other transactions to be settled	(74,553)	(216)
Amounts receivable/(payable) to group companies	10,666	(1,940)
Transfers within SEPA	(62,355)	(77,400)
Balances to be settled in ATMs	(46,945)	(34,988)
Other	(3,938)	(1,258)
	<u>164,769</u>	<u>(1,474)</u>
	<u>94,020</u>	<u>(770)</u>

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	2015	2014
Resources of the European Central Bank		
Deposits	4,946,000	4,406,000
Interest payable	2,209	261
Resources of other Central Banks		
Deposits	4,470	51
	-----	-----
	4,952,679	4,406,312
	=====	=====

At December 31, 2015, the caption "Resources of the European Central Bank" includes tEuros 819,639 recognized by the Bank under the resolution measure applied to Banif.

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19. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Resources of domestic credit institutions		
Deposits	172,731	67,468
Loans	2,349	-
Very short term resources	13,777	-
Other resources	6,305	-
Interest payable	29	26
	-----	-----
	195,191	67,494
	-----	-----
Resources of foreign credit institutions		
Sale operations with repurchase agreement	2,183,614	2,797,788
Deposits	487,926	706,026
Other resources	675,909	425,429
Very short term resources	947	33,770
Interest payable	1,642	217
	-----	-----
	3,350,038	3,963,230
	-----	-----
	3,545,229	4,030,724
	=====	=====

At December 31, 2015 and 2014, the caption "Resources of foreign credit institutions – Sale operations with repurchase agreement", is made up as follows, by type of underlying asset:

Type of underlying asset	2015			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1,207,074	215	(158)	1,207,131
Non-subordinated debt	292,031	50	(17)	292,064
Bonds issued by residents	41,428	(37)	12	41,403
Bonds issued by non-residents (ex-Banif)	643,016	-	-	643,016
	<u>2,183,549</u>	<u>228</u>	<u>(163)</u>	<u>2,183,614</u>
Type of underlying asset	2014			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	2,002,426	2,009	(557)	2,003,878
Non-subordinated debt	401,744	182	(122)	401,804
Bonds issued by BST Group in securitization operations	371,789	159	(66)	371,882
Bonds issued by non-residents	20,222	4	(2)	20,224
	<u>2,796,181</u>	<u>2,354</u>	<u>(747)</u>	<u>2,797,788</u>

At December 31, 2015 and 2014, the caption "Resources of foreign credit institutions – Other resources" includes tEuros 600,000 and tEuros 400,000, respectively, related to loans obtained from the European Investment Bank (EIB).

At December 31, 2015, the caption "Resources of other credit institutions" includes tEuros 750,189 of liabilities assumed by the Bank under the resolution measure applied to Banif.

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20. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Term deposits	14,431,359	12,880,868
Demand deposits	8,636,032	5,522,964
Structured deposits	3,798,996	3,006,349
Savings deposits	76,759	27,710
Advance notice deposits	19,190	19,346
	-----	-----
	26,962,336	21,457,237
	-----	-----
Interest payable	120,614	140,635
Cheques and orders payable	48,729	30,097
Value adjustments of hedging operations	( 4,423 )	( 2,067 )
Expenses of deferred charges	( 943 )	-
	-----	-----
	163,977	168,665
	-----	-----
	27,126,313	21,625,902
	=====	=====

At December 31, 2015, the caption "Resources of customers and other debts" includes tEuros 4,180,600 of liabilities assumed by the Bank under the resolution measure applied to Banif.

21. DEBT SECURITIES

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Bonds in circulation		
Covered bonds		
Issued	6,785,000	6,000,000
Repurchased	( 4,285,000 )	( 4,250,000 )
Interest payable and other deferred costs and income	14,410	13,283
Cash bonds		
Issued	193,056	273,608
Repurchased	( 10,780 )	( 105,021 )
Interest payable and other deferred costs and income	2,749	6,324
Bonds issued in securitization operations		
Issued	5,660,994	2,140,550
Repurchased	( 3,401,765 )	( 1,137,116 )
Interest payable and other deferred costs and income	( 257 )	( 1,330 )
	-----	-----
	4,958,407	2,940,298
	-----	-----

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	<u>2015</u>	<u>2014</u>
Other		
EMTN Programme - Issued	32,300	32,300
Repurchased	( 1,250 )	( 1,250 )
Interest payable	2	2
	-----	-----
	31,052	31,052
	-----	-----
Deposit certificates	52,392	-
Interests payable	796	-
	-----	-----
	53,188	-
	-----	-----
Value adjustments of hedging operations	798	1,761
	-----	-----
	5,043,445	2,973,111
	=====	=====

At December 31, 2015, the caption "Debt securities" includes liabilities assumed by the Bank under the resolution measure applied to Banif amounting to tEuros 1,653,875, of which tEuros 1,435,413 corresponds to bonds issued under securitization operations and tEuros 52,392 on deposit certificates.

In accordance with the corresponding law, the holders of covered bonds have a special credit privilege over the autonomous pool of assets, which constitutes a guarantee of the debt to which the bondholders have access in case of insolvency of the issuer.

The conditions of the covered bonds and cash bonds are described in Appendix I.

Between May 2008 and December 2015, BST made fifteen issues of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". At December 31, 2015 and 2014, the covered bonds had an autonomous pool of assets comprised by:

	<u>2015</u>	<u>2014</u>
Loans and advances to customers (Note 10)	7,669,850	8,021,820
Interest on loans	6,914	7,938
Commissions	( 34,141 )	( 35,378 )
Deferred expenses	6,625	8,458
	-----	-----
	7,649,248	8,002,838
	=====	=====

Covered bonds transferred from former Banif, amounting to tEuros 285,000, were fully repurchased on the date of resolution. At January 27, 2016 the Bank repaid in advance those issues, followed by the early termination of the respective programme.

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Changes in the debt issued by the Bank during the years of 2014 and 2015 were as follows:

	Deposit Certificates	Bonds outstanding		EMTN Programme	
		Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2013 (proforma)	-	7,746,857	(6,511,293)	141,830	(2,940)
. Issues made	-	2,501,211	-	-	-
. Issues repaid	-	(3,974,460)	2,755,750	(109,530)	1,690
. Issues repurchased	-	-	(599,478)	-	-
Balances at December 31, 2014	-	6,273,608	(4,355,021)	32,300	(1,250)
. Issues from former Banif	52,392	452,867	-	-	-
. Issues made	-	1,500,000	-	-	-
. Issues repaid	-	(1,248,483)	1,096,038	-	-
. Issues repurchased	-	-	(1,036,797)	-	-
. Rate exchange	-	64	-	-	-
Balances at December 31, 2015	52,392	6,978,056	(4,295,780)	32,300	(1,250)

At December 31, 2015 and 2014, the Bank had the following bonds issued under its Euro Medium Term Notes Programme:

	2015	2014
Bonds with remuneration indexed to Euribor		
. Maturity up to one year	32,300	-
. Maturity between one and three years	-	32,300
	-----	-----
	32,300	32,300
	=====	=====

Changes in bonds issued associated with securitization operations during 2015 and 2014 were as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2013 (proforma)	2,714,309	(1,538,636)
Redemptions	(573,759)	499,820
Repurchases		
- Hipototta No. 4 - Class A	-	(31,736)
- Hipototta No. 5 - Class A2	-	(66,564)
	-	(98,300)
Balances at December 31, 2014	2,140,550	(1,137,116)
Transferred from former Banif	3,674,999	(2,239,586)
Redemptions	(154,555)	86,204
Repurchases:		
- Hipototta No. 4 - Class A	-	(15,132)
- Hipototta No. 5 - Class A2	-	(96,135)
	-	(111,267)
Balances at December 31, 2015	5,660,994	(3,401,765)

In 2015 and 2014, the Bank repurchased bonds issued associated with securitization operations having recorded gains of tEuros 6,329 and tEuros 8,900 respectively (Note 38).

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**22. CHANGES IN PROVISIONS AND IMPAIRMENT**

Changes in provisions and impairment during 2015 and 2014, were as follows:

	2015					
	December 31, 2014	Changes in the consolidation perimeter	Increases	Reversals	Utilizations	December 31, 2015
Provision for tax contingencies	4,167	-	8,449	(484)	(70)	12,062
Provision for pensions and other charges	28,185	75,000	2,295	-	(6,036)	99,444
Impairment and provisions for guarantees and other sureties given	11,554	-	4,076	(4,445)	-	11,185
Other provisions	28,082	107,822	99,265	(9,715)	(25,055)	200,399
	<b>71,988</b>	<b>182,822</b>	<b>114,085</b>	<b>(14,644)</b>	<b>(31,161)</b>	<b>323,090</b>
	2014					
	December 31, 2013	Increases	Reversals	Utilizations	December 31, 2014	
Provision for tax contingencies	4,474	-	(307)	-	-	4,167
Provision for pensions and other charges	25,478	32,783	(5,468)	(24,608)	-	28,185
Impairment and provisions for guarantees and other sureties given	9,124	8,263	(5,833)	-	-	11,554
Other provisions	22,963	31,552	(14,574)	(11,859)	-	28,082
	<b>62,039</b>	<b>72,598</b>	<b>(26,182)</b>	<b>(36,467)</b>	-	<b>71,988</b>
	2015					
	December 31, 2014	Impairment losses	Reversal of impairment losses	Utilizations	December 31, 2015	Impairment recovery
Impairment of loans and advances to customers (Note 10):						
Domestic loans	229,543	55,512	(84,683)	-	200,372	-
Foreign loans	1,101	-	(535)	-	566	-
Non-derecognized securitized loans	10,644	200	(1,461)	-	9,383	-
Other securitized loans and receivables	7,227	-	(1,336)	-	5,891	-
Impairment of overdue loans and interest (Note 10):						
Domestic loans	861,754	258,939	(103,738)	(255,731)	761,224	(2,532)
Foreign loans	19,223	2,865	(5,342)	(625)	16,121	(234)
Non-derecognized securitized loans	30,107	11,875	(9,228)	(6,404)	26,350	-
Other securitized loans and receivables	2,019	-	(913)	-	1,106	-
	<b>1,161,618</b>	<b>329,391</b>	<b>(207,236)</b>	<b>(262,760)</b>	<b>1,021,013</b>	<b>(2,766)</b>
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 8)	61,943	14,504	(4,088)	(568)	71,791	-
Impairment of investments in associated companies (Note 15)	1,500	-	-	-	1,500	-
	<b>63,443</b>	<b>14,504</b>	<b>(4,088)</b>	<b>(568)</b>	<b>73,291</b>	<b>-</b>
Impairment of non-financial assets:						
Non-current assets held for sale (Note 12)	123,846	26,053	(7,040)	(22,244)	120,615	-
Other tangible assets (Note 14)	3,863	165	(165)	-	3,863	-
Other assets (Note 17)	24,288	16,259	(22,261)	(239)	18,047	-
	<b>151,997</b>	<b>42,477</b>	<b>(29,466)</b>	<b>(22,483)</b>	<b>142,525</b>	<b>-</b>
	<b>1,377,058</b>	<b>386,372</b>	<b>(240,790)</b>	<b>(285,811)</b>	<b>1,236,829</b>	<b>(2,766)</b>

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	2014				
	December 31, 2013	Impairment losses	Reversal of impairment losses	Utilizations	December 31, 2014
<b>Impairment of loans and advances to customers (Note 10):</b>					
Domestic loans	287,036	116,807	(174,300)	-	229,543
Foreign loans	1,657	-	(556)	-	1,101
Non-derecognized securitized loans	14,669	183	(4,208)	-	10,644
Other securitized loans and receivables	12,296	74	(5,143)	-	7,227
<b>Impairment of overdue loans and interest (Note 10):</b>					
Domestic loans	694,768	258,490	(59,110)	(32,394)	861,754
Foreign loans	20,803	3,673	(5,162)	(91)	19,223
Non-derecognized securitized loans	46,647	9,647	(25,804)	(383)	30,107
Other securitized loans and receivables	-	2,019	-	-	2,019
	<b>1,077,876</b>	<b>390,893</b>	<b>(274,283)</b>	<b>(32,868)</b>	<b>1,161,618</b>
					<b>(5,404)</b>
<b>Impairment of other financial assets:</b>					
Impairment of available-for-sale financial assets (Note 8)	61,738	5,525	(4,834)	(486)	61,943
	<b>1,060</b>	<b>440</b>	<b>-</b>	<b>-</b>	<b>1,500</b>
	<b>62,798</b>	<b>5,965</b>	<b>(4,834)</b>	<b>(486)</b>	<b>63,443</b>
<b>Impairment of investments in associated companies (Note 15):</b>					
	112,582	40,073	(7,593)	(21,216)	123,846
Non-current assets held for sale (Note 12)	3,863	-	-	-	3,863
Other tangible assets (Note 14)	23,098	25,968	(24,668)	(110)	24,288
Other assets (Note 17)	139,543	66,041	(32,261)	(21,326)	151,997
	<b>1,280,217</b>	<b>462,899</b>	<b>(311,378)</b>	<b>(54,680)</b>	<b>1,377,058</b>
					<b>(5,404)</b>

At December 31, 2015 and 2014, the provision for pensions and other charges is made up as follows:

	<u>2015</u>	<u>2014</u>
Restructuring plans	78,768	9,804
Supplementary pension plan of the Board of Directors (Note 47)	20,676	18,381
	-----	-----
	99,444	28,185
	=====	=====

In 2014, the increases and the utilizations of provisions for pensions and other charges are justified essentially by the retirement of some employees of the Bank in accordance with the clause No. 137 of the Collective Labour Agreement.

At December 31, 2015 and 2014, the caption "Other provisions" included:

- Provisions for several contingencies associated with the integration of former Banif, by the end of the year 2015, amounting to tEuros 107,822 (Note 1.4)
- Provisions for legal proceedings raised against the Bank by its customers and by its employees in the amounts of tEuros 20,434 and tEuros 16,780, respectively. The Legal Department of the Bank estimates the expected loss for each process, based on the developments reported by each lawyer; and
- Other provisions allocated essentially to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

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**23. EQUITY REPRESENTATIVE INSTRUMENTS**

At December 31, 2015 and 2014, this caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Participating units in Novimovest Fund not held by the Bank	69,309	75,109
Participating units in Multiobrigações Fund not held by the Bank	-	130,870
	-----	-----
	69,309	205,979
	=====	=====

**24. SUBORDINATED LIABILITIES**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-----	-----
	288,540	288,540
Repurchased securities	( 284,265 )	( 284,265 )
Interest payable	27	31
	-----	-----
	4,302	4,306
	=====	=====

The conditions of the subordinated liabilities are detailed in Appendix II.

25. OTHER LIABILITIES

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Creditors and other resources		
Creditors resulting from operations with futures (Note 17)	7,484	9,523
Other resources		
Secured account resources	53,475	52,698
Collateral account resources	924	1,458
Other resources	1,529	1,452
Public sector		
VAT payable	3,629	5,487
Withholding taxes	25,524	19,295
Social Security contributions	5,272	3,931
Other	593	558
Collections on behalf of third parties	454	161
Contributions to other health systems	1,535	1,532
Other creditors		
Creditors under factoring contracts	33,324	31,757
Creditors for the supply of goods	5,525	5,388
Other creditors	40,953	18,637
Accrued costs:		
Relating to personnel		
Long service bonuses	42,890	36,452
Vacation and vacation subsidy	33,988	30,567
Other variable remuneration	28,523	28,011
Other personnel costs	631	467
General administrative costs	37,564	27,371
Relating to swap agreements (Note 17)	3,419	4,356
Integration costs of former Banif (Notes 1.4 and 41)	53,000	-
Other	5,035	3,306
Liabilities with pensions (Note 44):		
BST liabilities	-	907,691
Fair value of BST Pension Fund	-	( 910,580 )
London branch liabilities	-	42,855
Fair value of the London branch Pension Fund	-	( 38,223 )
Other deferred income	3,177	1,580
Amounts to be settled with banks and customers		
Liability operations to be settled	9,380	6,393
Other (Note 17)	1,474	770
	-----	-----
	399,302	292,893
	=====	=====

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

**26. SHAREHOLDERS' EQUITY**

At December 31, 2015 and 2014, the Bank's share capital was represented by 956,723,284 shares and 656,723,284 shares, respectively, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	2015		
	<u>Number of shares</u>	<u>% of participation</u>	<u>Amount</u>
Santander Totta, SGPS, S.A.	941,226,328	98.38	941,227
Taxagest, SGPS, S.A. (own shares)	14,593,315	1.53	14,593
Own shares	290,435	0.03	290
Other	613,206	0.06	613
	-----	-----	-----
	956,723,284	100.00	956,723
	=====	=====	=====

	2014		
	<u>Number of shares</u>	<u>% of participation</u>	<u>Amount</u>
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (own shares)	14,593,315	2.22	14,593
Own shares	271,244	0.04	271
Other	589,105	0.09	589
	-----	-----	-----
	656,723,284	100.00	656,723
	=====	=====	=====

At December 30, 2015, the Bank increased its share capital by issuance of 300,000,000 new shares.

During 2015 and 2014, the Bank acquired 19,191 and 21,817 own shares by the amount of tEuros 117 and tEuros 132, respectively.

Within the terms of Dispatch No. 408/99, of June 4, published in the Diário da República – I Série B, No. 129, the share premium, amounting to tEuros 193,390, cannot be used to pay out dividends or to purchase own shares.

The “Other equity instruments” correspond to supplementary capital contributions made by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined redemption term. These instruments can only be redeemed by decision of the Bank's Board of Directors with the previous approval of the Bank of Portugal.

During 2015 the Bank paid dividends in the amount of tEuros 65,714 (net of the dividends allocated to own shares) which corresponded to a dividend of approximately 0.1001 Euros per share.

During 2014 the Bank paid dividends in the amount of tEuros 1,202 (net of the dividends allocated to own shares) which corresponded to a dividend of approximately 0.0018 Euros per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

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

At December 31, 2015 and 2014, the revaluation reserves were made up as follows:

	<u>2015</u>	<u>2014</u>
<b>Revaluation reserves</b>		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	178,283	256,913
Available-for-sale financial assets of companies		
under the equity method	8,262	4,354
Cash-flow hedging instruments	( 456 )	21,883
Actuarial gains and losses (Note 44)		
Pension Fund of BST	( 639,140 )	( 666,672 )
Pension Fund of the London branch of BST	( 8,397 )	( 8,867 )
Actuarial gains and losses of companies		
under the equity method	( 975 )	( 1,508 )
Foreign exchange differences	2,566	( 486 )
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	-----	-----
	( 436,612 )	( 371,138 )
	-----	-----
<b>Deferred tax reserves</b>		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Available-for-sale financial assets	( 51,701 )	( 74,436 )
Available-for-sale financial assets of companies		
under the equity method	( 2,394 )	( 967 )
Cash-flow hedging instruments	132	( 6,346 )
Tax impact of actuarial gains and losses	171,745	177,625
Tax impact from the change in accounting policies		
of companies under the equity method	285	422
Relating to the revaluation of tangible assets	( 3,505 )	( 3,765 )
Relating to the revaluation of tangible assets		
of companies under the equity method	4	( 132 )
	-----	-----
	114,566	92,400
	-----	-----
	( 322,046 )	( 278,738 )
	=====	=====

During the years ended December 31, 2014 and 2015, changes in the caption "Deferred tax reserves - Tax impact of actuarial gains and losses", were as follows:

Balance at December 31, 2013	176,863
	-----
Tax impact resulting from financial and actuarial deviations of the year	4,958
	-----
Tax impact resulting from the adjustments made by Tax Authorities	
to the actuarial gains and losses deducted by the Bank in 2011 and 2012	( 4,196 )
	-----
Balance at December 31, 2014	177,625
	-----
Tax impact resulting from financial and actuarial deviations of the year	( 5,880 )
	-----
Balance at December 31, 2015	171,745
	=====

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to increase capital.

During 1998, under Decree-Law No. 31/98, of February 11, the Bank revalued its tangible fixed assets, which resulted in an increase in the respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was recognized in revaluation reserves. The net amount resulting from the revaluation may only be used for capital increases or to offset losses through the use (amortization) or sale of the assets it relates to.

At December 31, 2015 and 2014, the caption "Other reserves and retained earnings" was made up as follows:

	<u>2015</u>	<u>2014</u>
Legal reserve	259,554	246,107
-----	-----	-----
Other reserves		
Reserves of consolidated companies	203,626	157,336
Reserves of companies consolidated under the equity method	44,283	89,770
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	264	284
-----	-----	-----
	915,432	914,649
-----	-----	-----
Retained earnings	428,624	373,840
-----	-----	-----
	1,603,610	1,534,596
=====	=====	=====

Legal reserve

In accordance with the provisions of Decree Law No. 298/92, of December 31, amended by Decree Law No. 201/2002, of September 26, BST set up a legal reserve fund up to the amount of the share capital or of the sum of the free reserves and the retained earnings, if greater. For this purpose, a portion of the annual net income on a stand-alone basis is transferred to this reserve each year until the aforementioned amount is reached.

This reserve may only be used to offset accumulated losses or to increase share capital.

Merger reserve

Under the current legislation, the merger reserve is equivalent to the legal reserve and may only be used to offset accumulated losses or to increase the share capital.

Subsequent events

At February 29, 2016, the Shareholders General Meeting of the Bank approved a capital increase of tEuros 300,000, through the issue of 300,000,000 new shares with a nominal value of 1 Euro each. This capital increase was fully subscribed and paid up in March 2016.

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27. CONSOLIDATED NET INCOME FOR THE YEAR

The consolidated net income for 2015 and 2014 may be summarized as follows:

	2015	2014		
	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)	515,438	515,438	134,473	134,473
Net income of other Group companies:				
Santotta - Internacional, SGPS, S.A.	101,741	101,741	5,376	5,376
BST International Bank, Inc.	25,694	25,694	20,953	20,953
Totta Ireland, Plc. <sup>(1)</sup>	22,801	22,801	24,292	24,292
Totta & Açores, Financing, Ltd	9,017	9,017	12,360	12,360
Unicre, Instituição Financeira de Crédito, S.A.	39,872	8,572	10,249	2,203
Totta Urbe, Empresa de Administração e Construções, S.A.	2,756	2,756	1,414	1,414
Totta & Açores, Inc. - Newark	(45)	(45)	8	8
Taxagest, S.A.	25	25	(2)	(2)
Novimovest - Fundo de Investimento Imobiliário Aberto	450	353	(17,324)	(13,385)
Partang, SGPS, S.A.	-	-	35,936	17,609
Banco Caixa Geral Totta de Angola, S.A.	-	-	70,243	17,554
Santander Gestão de Ativos, SGPS, S.A.	-	-	(19)	(19)
Santander Multiobrigações - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável	-	-	3,320	2,153
Serfin International Bank & Trust	164	164	258	258
	<u>202,475</u>	<u>171,078</u>	<u>167,064</u>	<u>90,774</u>
Elimination of dividends:				
Totta Ireland, Plc.	(18,368)	(18,368)	(26,079)	(26,079)
Santotta - Internacional, SGPS, S.A.	(15,920)	(15,920)	(5,336)	(5,336)
Unicre, Instituição Financeira de Crédito, S.A.	(1,436)	(1,436)	(1,161)	(1,161)
BST International Bank, Inc.	(9,943)	(9,943)	-	-
Santander Gestão de Ativos, SGPS, S.A.	-	-	(7,763)	(7,763)
Banco Caixa Geral Totta Angola, S.A.	-	-	(6,382)	(6,382)
Partang, SGPS, S.A.	-	-	(5,390)	(5,390)
	<u>(45,667)</u>	<u>(45,667)</u>	<u>(52,111)</u>	<u>(52,111)</u>
Elimination of the equity method application by Partang in the participation held in BCGTA		-	(11,394)	
Capital gains on the sale of Partang, SGPS, S.A.	(55,150)	-	-	
Dissolution of Santander Gestão de Ativos, SGPS, S.A.	(8,370)	-	-	
Gains on the repurchase by the Group of bonds issued associated with securitization operations (Note 38)	6,329	6,329	8,900	8,900
Adjustments related with securitization operations:				
Impairment and deferral of commissions related to securitized loans recorded by BST	(9,583)	(9,583)	(8,127)	(8,127)
Other adjustments	(2,957)	(2,957)	(6,383)	(6,383)
Reversal of impairment recorded by BST for the participating units held in Novimovest - Fundo de Investimento Imobiliário Aberto	-	-	13,807	13,807
Elimination of the valuation recorded for the participating units held by BST in Fundo Multiobrigações	-	-	(2,153)	(2,153)
Other	(2,741)	(2,741)	(2,612)	(2,612)
Consolidated net income for the year	<u>568,377</u>	<u>568,377</u>	<u>165,174</u>	<u>165,174</u>

(1) The amount reflected corresponds to the net result for the period comprised from January 1 to November 30, 2015 and 2014, which amounted to tEuros 18,368 and tEuros 23,347, respectively, plus the net result of December, as this entity closes its financial year at November 30.

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Consolidated net income attributable to the shareholders of BST	568,377	165,174
Weighted average number of ordinary shares issued	658,367,120	656,723,284
Weighted average number of own shares	14,866,611	14,843,537
Weighted average number of ordinary shares outstanding	643,500,509	641,879,747
Basic earnings per share attributable to the shareholders of BST (in Euros)	0.88	0.26

Basic earnings per share are equivalent to the diluted ones since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

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28. NON-CONTROLLING INTERESTS

Third parties participations in Group's companies in 2015 and 2014 have the following detail by entity:

	2015	2014		
	Balance sheet	Income statement	Balance sheet	Income statement
Preference shares of BST International Bank, Inc.	330,670	-	296,516	-
Taxagest	557	-	557	-
Dividends received in advance	( 10,027 )	-	( 1,515 )	-
Preference shares of TAF	-	-	300,000	-
Other	115	5	119	6
	-----	---	-----	---
	321,315	5	595,677	6
	=====	==	=====	==

At June 30, 2006 BST International Bank, Inc (BST Puerto Rico) issued 3,600 non-voting preference shares of 100,000 United States Dollars (USD) each, fully subscribed and paid up by Banco Santander, S.A.. BST Puerto Rico guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56% payable if and when declared by BST Puerto Rico's directors, at the beginning of January of each year. BST Puerto Rico may redeem the preference shares, in full or in part, from June 30, 2016 at 100,000 USD per share plus the amount of the dividend accrued monthly since the last payment made.

At June 29, 2005 TAF issued 300,000 non-voting preference shares of 1,000 Euros each, fully subscribed and paid up by Banco Santander, S.A.. TAF guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 4.12% payable if and when declared by TAF's directors, at the beginning of January of each year. TAF may redeem the preference shares, in full or in part, as from June 30, 2015 at 1,000 Euros per share plus the amount of the dividend accrued monthly since the last payment made. At December 30, 2015 TAF repaid in full the preference shares.

The above-mentioned issues were recorded as equity in accordance with IAS 32. Under this Standard, the preference shares issued are recorded as equity if:

- The Issuer does not have a contractual liability to deliver cash or other financial asset to the holders of the financial instruments; and
- Payment of dividends and repayment of the preference shares are at the sole discretion of the Issuer.

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At December 31, 2015 and 2014, the main financial data of BST International Bank, Inc. (BST Puerto Rico) and of Totta & Açores Financing (TAF), was as follows:

	2015		2014	
	BST Puerto Rico (*)	TAF	BST Puerto Rico (*)	TAF
<b>Balance Sheet</b>				
Cash and deposits at central banks	-	46	-	11,792
Balances due from other banks	479,874	-	570,598	297,750
Loans and advances to customers	-	-	1	-
Other assets	88	-	1,437	2,250
	<u>479,962</u>	<u>46</u>	<u>572,036</u>	<u>311,792</u>
Resources of other credit institutions	11,564	-	27,977	-
Resources of customers and other debts	77,245	-	145,653	-
Other liabilities	667	-	1,900	-
	<u>89,476</u>	<u>-</u>	<u>175,530</u>	<u>-</u>
Shareholders' equity (excluding net income)	362,000	(8,971)	368,719	299,432
Net income for the year	28,486	9,017	27,787	12,360
	<u>479,962</u>	<u>46</u>	<u>572,036</u>	<u>311,792</u>
<b>Statement of income</b>				
Net interest income	28,923	9,425	28,358	13,110
Operating income	28,868	9,879	28,176	13,335
Income before tax	28,486	9,017	27,787	12,360
Net income for the year	28,486	9,017	27,787	12,360

(\*) Amounts expressed in thousands of United States Dollars.

29. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	<u>2015</u>	<u>2014</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,157,321	1,084,029
Guarantees and sureties (former Banif)	303,627	-
Documentary credits	235,635	216,516
Documentary credits (former Banif)	19,861	-
Assets pledged as guarantee		
Bank of Portugal	142,884	143,700
Deposit Guarantee Fund	68,251	75,300
Investor Indemnity System	5,803	5,792
Assets pledged as guarantee (former Banif)	1,402,876	-
Other contingent liabilities	6	6
	-----	-----
	3,336,264	1,525,343
	=====	=====
Commitments		
Credit lines		
Revocable	4,291,040	4,205,060
Irrevocable	570,393	417,809
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	3,745	4,139
Other revocable commitments	-	216
Commitments (former Banif)		
Credit lines		
Revocable	308,311	-
Irrevocable	87,954	-
Deposit Guarantee Fund	9,563	-
Investor Indemnity System	1,146	-
Overdraft facilities	88,274	-
Other revocable commitments	105,511	-
Other	690	-
	-----	-----
	5,520,719	4,681,316
	=====	=====
Liabilities for services rendered		
Deposit and custodial services	18,798,249	57,931,149
Deposit and custodial services (former Banif)	2,176,807	-
Amounts received for collection	97,050	125,186
Amounts received for collection (former Banif)	109,984	-
Assets managed by the Bank		
Other values	5	7
Other values (former Banif)	398	-
	-----	-----
	21,182,493	58,056,342
	=====	=====

At March 27, 2015, the Bank has ceased to be the custodian bank for Clearstream Banking, which explains the decrease occurred in the caption “Deposit and custodial services”.

Deposit Guarantee Fund

The Deposit Guarantee Fund was created in November 1994 in accordance with Decree-Law No. 298/92, dated December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, which was established by Ministerial Order of the Ministry of Finance, was made through the delivery of cash and deposit securities, and was amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

Until 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, also accepted an irrevocable commitment to the Deposit Guarantee Fund to pay the remaining 10% of the annual contribution if and when required to do so. The total accumulated unpaid amount of this commitment as of December, 2015 and 2014 amounted to tEuros 63,655 and tEuros 54,092, respectively. Assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet captions at market value. In the years ended 2015 and 2014, the Bank paid and registered the full amount of the annual contribution amounting to tEuros 728 and tEuros 4,222, respectively (Note 39).

Investor Indemnity System (SII)

The liability towards the Investor Indemnity System is not recorded as a cost but is guaranteed by the acceptance of an irrevocable commitment to pay that liability, if required to do so, being part (50%) of the commitment guaranteed by a pledge of Portuguese Treasury Bonds. As of December 31, 2015 and 2014, such liability amounted to tEuros 4,891 and tEuros 4,139, respectively.

30. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	66	229
In credit institutions	31	14
Interest on applications		
In domestic credit institutions		
In other credit institutions	3,554	4,953
In foreign credit institutions	31,989	36,844
Interest on loans and advances to customers		
Domestic loans	488,634	554,366
Foreign loans	11,307	15,460
Other loans and receivables (commercial paper)	59,612	65,102
Income from commissions received associated to amortized cost	37,141	33,444
Interest from securitized assets not derecognized	24,444	33,402
Interest on overdue loans (Note 48)	9,777	7,178
Interest and similar income on other financial assets		
Available-for-sale financial assets	155,423	214,435
Hedging derivatives	176,065	184,551
Financial assets held for trading	1,866	7,593
Debtors and other applications	130	147
Other financial assets at fair value through profit or loss	-	630
Other interest and similar income		
Swap agreements	25,360	33,480
Other	2,069	2,340
	-----	-----
	1,027,468	1,194,168
	=====	=====

**31. INTEREST AND SIMILAR CHARGES**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Interest on customers' deposits		
Public sector	385	1,365
Emigrants	11,341	13,268
Other-residents	203,038	296,169
Non-residents	13,479	19,813
	-----	-----
	228,243	330,615
	-----	-----
Interest on resources of Central Banks		
Bank of Portugal	3,247	20,941
Interest on resources of credit institutions		
Domestic	504	1,681
Foreign	16,322	37,820
Interest on debt securities issued		
Bonds	52,667	50,678
EMTN	192	338
Deposit certificates	44	-
Interest on hedging derivatives	137,539	173,535
Interest and commissions on other subordinated liabilities	190	188
Commissions paid associated with amortized cost of credit	41	61
Other interest and similar charges		
Swap agreements	28,516	34,772
	-----	-----
	239,262	320,014
	-----	-----
	467,505	650,629
	=====	=====

**32. INCOME FROM EQUITY INSTRUMENTS**

This caption refers to dividends and income received and is made up as follows:

	<u>2015</u>	<u>2014</u>
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	1,090	1,090
Unicampus	85	88
Other	3	44
	-----	-----
	1,178	1,222
	=====	=====

**33. INCOME FROM SERVICES AND COMMISSIONS**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
On guarantees given		
Guarantees and sureties	13,909	15,227
Documentary credits	3,351	3,633
On commitments to third parties		
Revocable	1,212	2,389
Irrevocable	1,130	1,622
On services rendered		
Card transactions	62,082	63,476
Credit operations	33,324	32,494
Real estate and mutual fund management	19,925	18,123
Annuities	15,264	15,357
Asset management and collection	8,567	8,964
Other	6,786	7,990
On operations carried out on behalf of third parties		
On securities	21,929	28,366
Other	240	317
Other commission received		
Insurance companies (Note 43)	87,218	93,802
Demand deposits	27,951	26,354
Cheques	8,154	8,175
Passbooks	10,667	8,896
Other	3	2
	-----	-----
	321,712	335,187
	=====	=====

**34. CHARGES WITH SERVICES AND COMMISSIONS**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
On guarantees received		
Guarantees and sureties	801	1,761
On banking services rendered by third parties		
Customer transactions	32,442	29,000
Credit operations	12,733	12,912
Funds for collection and management	1,585	1,974
Other	7,933	9,057
On operations carried out by third parties		
Securities	1,654	1,875
Other	1,096	1,047
Other commission paid	955	685
	-----	-----
	59,199	58,311
	=====	=====

35. RESULT OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

These captions are made up as follows:

	<u>2015</u>	<u>2014</u>
Financial assets held for trading:		
Debt instruments	( 1,698 )	1,135
Equity instruments	10,337	( 127 )
Derivative instruments:		
. Swaps:		
Currency swaps	353	( 41 )
Interest rate swaps	75,470	( 244,690 )
Equity swaps	70	1,135
Other	( 435 )	( 2,464 )
. Futures:		
Contracts on prices	19	( 10 )
. Options:		
Foreign exchange rate contracts	128	183
Contracts on prices	( 6 )	199
Other	8	60
. Interest rate guarantee contracts	61	374
	-----	-----
	84,307	( 244,246 )
	-----	-----
Hedging derivatives:		
Swaps		
. Interest rate swaps	11,615	180,038
. Equity swaps	3,700	( 1,990 )
. "Auto-callable" options	( 1,195 )	2,530
Value adjustments of hedged assets and liabilities	( 13,975 )	( 180,429 )
	-----	-----
	145	149
	-----	-----
	84,452	( 244,097 )
	=====	=====

At December 31, 2014, the balance of the caption "Financial assets held for trading - Derivative instruments: Swaps: Interest rate swaps" included tEuros 238,335 related to the cancellation of the positive valuation of some hedged items as a consequence of the sale of a group of securities (Note 36) for which hedge accounting had been applied. At December 31, 2015, this caption mainly includes variation of the year of "Credit Value Adjustments" and "Debit Value Adjustments".

**36. RESULT OF AVAILABLE-FOR- SALE FINANCIAL ASSETS**

This caption is made up as follows:

	2015			2014		
	Gains	Losses	Net	Gains	Losses	Net
<b>Debt instruments</b>						
Issued by residents						
National public issuers	144,833	(1)	144,832	171,005	-	171,005
Non- residents	3,014	-	3,014	-	-	-
Issued by non-residents						
Foreign public issuers	-	-	-	137,760	-	137,760
<b>Equity instruments</b>						
Valued at fair value	53	(4)	49	82	-	82
Valued at historical cost	13	(31)	(18)	967	(1)	966
Other	-	-	-	-	(1,091)	(1,091)
	<b>147,913</b>	<b>(36)</b>	<b>147,877</b>	<b>309,814</b>	<b>(1,092)</b>	<b>308,722</b>

At December 31, 2015 and 2014 the gains recorded under the caption "Result of available-for-sale financial assets" were mainly justified by the sale of Portuguese and Spanish Treasury Bonds.

**37. RESULT OF FOREIGN EXCHANGE REVALUATION**

This caption is made up as follows:

	2015	2014
Gains on the revaluation of the foreign exchange position	128,451	52,118
Losses on the revaluation of the foreign exchange position	(121,377)	(46,660)
Exchange losses on investments in foreign operations	(937)	-
	-----	-----
	6,137	5,458
	=====	=====

**38. RESULT FROM THE SALE OF OTHER ASSETS**

This caption is made up as follows:

	2015	2014
Gains on the repurchase of bonds issued		
associated with securitization operations (Note 21)	6,329	8,900
Gains on disposal of investments in subsidiaries and associates (Note 15)	41,042	-
Gains on non-current assets held for sale	5,862	3,663
Gains on tangible assets	2,967	3,806
Gains on the sale of loans and advances to customers (Note 10)	9,041	1,220
Other	777	3,392
	-----	-----
	66,018	20,981
	-----	-----

	<u>2015</u>	<u>2014</u>
Losses on non-current assets held for sale	( 1,113 )	( 1,360 )
Losses associated with the participating units of Multiobrigações		
Fund held by non-controlling interests	- ( 1,180 )	
Losses on tangible assets	( 3,083 ) ( 706 )	
Losses on the sale of loans and advances to customers (Note 10)	( 20 ) ( 92 )	
Losses on disposal of investments in subsidiaries and associates	( 17 ) -	
Other	( 100 ) ( 75 )	
	-----	-----
	( 4,333 ) ( 3,413 )	
	-----	-----
	61,685 17,568	
	=====	=====

**39. OTHER OPERATING RESULTS**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Other operating income		
Capital gains on investment properties	19,734 7,885	
Rents received	18,622 20,240	
Rents of automatic payment terminals	13,735 14,612	
Income from rendering of services	3,735 3,714	
Reimbursement of expenses	2,648 2,656	
Gains associated with the participating units of Novimovest		
Fund held by non-controlling interests	1,150 4,556	
Other	805 2,190	
	-----	-----
	60,429 55,853	
	-----	-----
Other operating expenses		
Unrealized losses on investment properties	( 25,295 ) ( 30,392 )	
Contributions to the Resolution Fund	( 15,675 ) ( 2,528 )	
Other charges and operating expenses	( 12,426 ) ( 12,341 )	
Subscriptions and donations	( 6,501 ) ( 5,255 )	
Charges related to transactions made by customers	( 6,438 ) ( 7,903 )	
Expenses with automatic teller machines	( 4,060 ) ( 4,456 )	
Contributions to the Deposit Guarantee Fund (Note 29)	( 728 ) ( 4,222 )	
Other taxation		
Direct	( 1,780 ) ( 1,645 )	
Indirect	( 1,309 ) ( 1,425 )	
	-----	-----
	( 74,212 ) ( 70,167 )	
	-----	-----
	( 13,783 ) ( 14,314 )	
	=====	=====

At December 31, 2015 and 2014, the caption "Rents received" includes the amounts of tEuros 18,228 and tEuros 19,630, respectively, related to the income earned by Novimovest Fund.

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The Decree-Law No. 24/2013 of February 19, established the contributions regime of the banks to the new Resolution Fund created with the purpose of prevention, mitigation and containment of systemic risk. According to the Notice No. 1/2013 and the Instructions No. 6/2013 and 7/2013 of the Bank of Portugal, the Bank should pay an initial and a regular contribution to the Resolution Fund. In 2015 the BST contribution regular was tEuros 2,357.

In accordance with the Single Resolution Mechanism these contributions will be transferred to the Single Resolution Fund until January 31, 2016, in accordance with Article 3, paragraph 3 of the Agreement on the transfer and pooling of contributions to the Single Resolution Fund signed in Brussels at May 21, 2014.

The Bank of Portugal, as the resolution authority, determines the value of the contribution of each institution based on the risk profile of each entity. At December 2015 the Bank paid an additional contribution to the resolution fund in the amount of tEuros 13,318, according to the letter received from the Bank of Portugal at November 2015.

40. STAFF COSTS

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
<b>Remuneration</b>		
Management and supervisory boards (Note 46)	8,078	8,174
Employees	183,958	191,993
Stock option plans (Note 47)	395	669
Other variable remuneration	24,268	21,975
	-----	-----
	216,699	222,811
	-----	-----
<b>Mandatory social charges</b>		
Charges on remuneration	50,775	50,624
Charges with pensions and other benefits (Note 44)	2,352	2,149
Other mandatory social charges	816	766
	-----	-----
	53,943	53,539
	-----	-----
<b>Other staff costs</b>		
Staff transfers	650	678
Supplementary retirement plan (Note 44)	148	583
Other	4,169	3,981
	-----	-----
	4,967	5,242
	-----	-----
	275,609	281,592
	=====	=====

During 2015 and 2014, the Bank did not record any cost with early retirements as it used part of the provisions recorded for that purpose (Note 22).

**41. GENERAL ADMINISTRATIVE COSTS**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Maintenance of software and hardware	77,907	42,962
Specialized services	63,787	40,549
Communications	12,270	11,933
Advertising and publishing	14,331	9,526
Rent and leases	9,409	10,077
External supplies		
Water, electricity and fuel	7,599	7,576
Current consumable material	1,732	1,822
Other	272	234
Travel, lodging and representation expenses	5,087	4,560
Maintenance and repairs	4,329	4,414
Transportation	2,541	2,283
Staff training	1,576	1,480
Insurance	1,326	1,125
Other	5,036	5,203
	-----	-----
	207,202	143,744
	=====	=====

At December 2015, the Bank recognized integration costs related to former Banif amounting to tEuros 53,000 (Notes 1.4 and 25), of which tEuros 30,000 relating to maintenance of software and computer equipment and tEuros 18,000 related to specialized services.

**42. RESULTS FROM ASSOCIATES**

This caption is made up as follows:

	<u>2015</u>	<u>2014</u>
Partang, SGPS, S.A.	7,486	17,652
Unicre - Instituição Financeira de Crédito, S.A.	6,999	2,203
Benim - Sociedade Imobiliária, S.A.	13	( 64 )
	-----	-----
	14,498	19,791
	=====	=====

At December 31, 2014 Partang SGPS, S.A. was held by the Bank in 49% and in turn held 51% of the share capital of Banco Caixa Geral Totta de Angola, S.A.. In May 2015, the Bank exercised the put option to sell its participation in Partang to CGD (Note 15).

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**43. INSURANCE BROKERAGE SERVICES RENDERED**

Income from the insurance brokerage services rendered refers mainly to the commissions charged related to the commercialization of life and non-life insurance products, and is made up as follows:

	2015			2014		
	Life insurance	Non-life insurance	Total	Life insurance	Non-life insurance	Total
Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	48,917	-	48,917	81,997	162	82,159
Aegon Santander Portugal Vida – Companhia de Seguros de Vida, S.A.	25,588	-	25,588	-	-	-
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	509	509	-	-	-
Liberty Seguros	-	11,496	11,496	-	10,726	10,726
Other	-	708	708	-	917	917
	<b>74,505</b>	<b>12,713</b>	<b>87,218</b>	<b>81,997</b>	<b>11,805</b>	<b>93,802</b>

At December 31, 2015 and 2014, the caption “Other assets – Income receivable” (Note 17) included commission's receivable from insurance companies, as follows:

	2015	2014
Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	12,975	20,128
Aegon Santander Portugal Vida – Companhia de Seguros de Vida, S.A.	6,756	-
Aegon Santander Portugal Não Vida – Companhia de Seguros, S.A.	238	-
Other	1,003	918
	-----	-----
	20,972	21,046
	=====	=====

These amounts refer essentially to the commissions earned on insurance premiums sold and not invoiced during the last quarter of 2015 and the last quarter of 2014, respectively.

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44. EMPLOYEES' POST EMPLOYMENT BENEFITS

For the purpose of determining BST's past service liability relating to the servicing and retired employees, actuarial studies were carried out in 2015 and 2014 by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability and the corresponding current service cost were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy as of December 31, 2015 and in the four previous years, as well as the respective coverage, are as follows:

	2015	2014	2013	2012	2011
Estimated past service liability					
- Pensions					
. Current employees	303,523	308,223	282,028	251,252	210,669
. Pensioners	26,928	26,343	22,891	21,002	18,455
. Retired and early retired staff	399,942	415,679	399,434	388,656	387,608
	730,393	750,245	704,353	660,910	616,732
- Healthcare benefits (SAMS)	151,544	151,903	137,970	129,267	117,422
- Death subsidy	5,759	5,543	4,562	4,331	16,973
	887,696	907,691	846,885	794,508	751,127
Coverage of the liability					
- Net assets of the Fund	914,204	910,580	840,543	784,937	758,244
Amount overfunded / (underfunded)	26,508	2,889	(6,342)	(9,571)	7,117
Actuarial and financial deviations generated in the year					
- Changes in assumptions	-	37,912	42,565	73,518	(103,831)
- Experience adjustments					
. Other actuarial (gains) / losses	(9,857)	6,580	(1,775)	(25,383)	(23,708)
. Financial (gains) / losses	(17,675)	1,111	(3,115)	(15,796)	339,627
	(27,532)	7,691	(4,890)	(41,179)	315,919
	(27,532)	45,603	37,675	32,339	212,088

The increase in the responsibilities in 2014 was mainly explained by the decrease in the discount rate used to calculate the responsibilities for past services. In 2015 the discount rate remained unchanged.

In 2011, a three party agreement was established, between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), regarding the transfer to the Social Security of part of the liabilities with pensioners who at December 31, 2011 were covered by the substitutive regime of the Social Security under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's Pension Fund assets covering such liabilities were also transferred to the Social Security. Following Decree Law N. 127/2011, dated December 31, the amount of the pension liabilities transferred to the Social Security was determined considering the following assumptions:

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

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The liabilities transferred to the Social Security amounted to tEuros 456,111 and were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the financial and actuarial assumptions used by it, amounted to tEuros 435,260. The difference between the liabilities transferred to the Social Security calculated using the assumptions set out in Decree Law No. 127/2011, dated December 31 (tEuros 456,111) and those used by the Bank (tEuros 435,260), amounting to tEuros 20,851, was recorded in the caption "Staff costs" of the income statement for 2011.

The assumptions used by the Bank for the determination of the liabilities immediately before the transfer to the Social Security were the following:

	<u>Serving Employee's</u>	<u>Retired Employee's</u>
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above referred assumptions amounted to tEuros 1,186,387 of which tEuros 435,260 corresponded to the liabilities transferred to the Social Security, as mentioned above.

The main assumptions used by the Bank for determining its liabilities with pensions as of December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	2.50%	2.50%
Actuarial technical rate (discount rate)		
- Serving employees	2.50%	2.50%
- Retired employees	2.50%	2.50%
Salary growth rate for 2016 (2015)	0.75%	0.50%
Salary growth rate for 2017 (2016)	0.75%	0.75%
Salary growth rate after 2017	1.00%	1.00%
Pension growth rate for 2016 and 2017 (2015 and 2016)	0.00%	0.00%
Pension growth rate after 2017 (2016)	0.75%	0.75%
Inflation rate	0.75%	0.75%

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector should reduce the pension to be provided under that ACT, the following assumptions were used at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Salary growth rate to calculate the deductible pension:		
. For 2015	-	0.50%
. For 2016	0.75%	0.75%
. After 2017	1.00%	1.00%
Inflation (n. 1 of Article 27)	0.75%	0.75%
Inflation (n. 2 of Article 27)	0.90%	0.90%
Sustainability factor for 2015 (Dispatch No. 27/2014)	13.02%	-
Sustainability factor for 2014 (Dispatch No. 378-G/2013)	-	12.34%
Age of access to pension		66 years
Future sustainability factor		Increase of 0.5% per year

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Decree-Law No. 167-E/2013, of December 31, changed the retirement age for the general Social Security regime for 2014 and 2015 to 66 years old. Nevertheless, the sustainability factor charge will not apply to the pensioners who retire with that age.

The discount rate used in the calculation of liabilities was determined based on the market rates of low risk corporate bonds, for similar maturities as those of the Plan's liabilities.

The economic environment and the sovereign debt crisis in Southern Europe have brought volatility and disruption to the debt market in the Euro Zone, with a consequent abrupt reduction in the market yields of the debt of the companies with the best ratings and have limited the available basket of these bonds. In order to maintain the representativeness of the discount rate, taking into consideration the universe of the Euro Zone, at December 31, 2014 BST incorporated in the determination of the discount rate information regarding interest rates that is possible to obtain from Euro denominated bonds, including public debt, which it had considered to be of high quality in terms of credit risk.

Changes in the past service liabilities for the years ended December 31, 2015 and 2014 may be detailed as follows, with regard to the Bank's pension plan:

	<u>2015</u>	<u>2014</u>
Liabilities at the beginning of the year	907,691	846,885
Current service cost	1,916	1,783
Interest cost	21,738	30,942
Actuarial (gains)/losses	( 9,857 )	44,492
Early retirement	3,940	19,790
Amounts paid	( 40,095 )	( 38,532 )
Contributions of employees	2,363	2,331
-----	-----	-----
Liabilities at the end of the year	887,696	907,691
-----	-----	-----

The cost of the year relating to pensions includes the current service cost and the interest cost, deducted from the estimated return from the assets of the Pension Fund. In 2015 and 2014, pension's costs were made up as follows (Note 40):

	<u>2015</u>	<u>2014</u>
Current service cost	1,916	1,783
Interest cost	21,738	30,942
Return on assets calculated with the discount rate	( 21,738 )	( 30,942 )
-----	-----	-----
Defined benefits plan	1,916	1,783
Defined contribution plan	54	45
London Branch plan	382	321
-----	-----	-----
	2,352	2,149
=====	=====	=====

As from January 1, 2009, employees hired by BST are integrated in the Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. That plan is supported by contributions of the employees (1.5%) and of BST (1.5%) taking in consideration the amount of the effective monthly salary. For this purpose, each employee can choose a Pension Fund to which BST transfers its contribution.

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Changes occurred in actuarial gains and losses in 2015 and in 2014 were as follows:

Balance at December 31, 2013 (pro forma)	621,069
-----	
Actuarial losses on pensions generated in 2014	31,163
Financial losses on pensions generated in 2014	896
Actuarial losses on healthcare benefits and death subsidy in 2014	13,329
Financial losses on healthcare benefits and death subsidy in 2014	215
-----	
Balance at December 31, 2014 (Note 26)	666,672
-----	
Actuarial gains on pensions generated in 2015	( 10,197 )
Financial gains on pensions generated in 2015	( 14,895 )
Actuarial losses on healthcare benefits and death subsidy in 2015	340
Financial gains on healthcare benefits and death subsidy in 2015	( 2,780 )
-----	
Balance at December 31, 2015 (Note 26)	639,140
=====	

The actuarial deviations on pensions occurred in 2015 and 2014 may be explained as follows:

	<u>2015</u>	<u>2014</u>
Changes in actuarial assumptions	-	25,033
Changes in the salary table		
with impact on pensions and salaries	( 11,229 )	4,064
Changes in population	3,972	636
Mortality deviations		
. Due to departures	( 6,554 )	( 5,474 )
. Due to maintenance	5,001	3,774
. Due to survival pensions and orphan hood	3,132	3,519
Transfer from early retirement to retirement	( 4,519 )	( 389 )
-----		-----
	( 10,197 )	31,163
=====		=====

In 2014 the changes in the actuarial assumptions included the effect of reducing the discount rate from 4.0% to 2.5%, on average.

The estimated increases in salaries and pensions were revised taking in consideration the current economic environment in Portugal and the consequent prospects of smaller increases in the future, or even of maintenance of the current amounts, particularly in the years 2016 and 2017.

The effective salary growth in 2015 and in 2014 for purposes of the contributions to the Social Security relating to the employees of the former Totta was 2.68% and 1.02% respectively.

There was no effective increase in the pensions and in the salary table in 2015 and 2014.

The actuarial deviations in healthcare benefits and in the death subsidy in 2015 and 2014 can be explained as follows:

	<u>2015</u>	<u>2014</u>
Change in actuarial assumptions	-	12,878
Salary and level changes	230	358
Other	110	93
	-----	-----
	340	13,329
	====	=====

In 2016, BST estimates to make a contribution of tEuros 6,159 to its defined benefit plan.

The average duration of BST's pension liability with employees is 17 years, including serving and retired ones.

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. At December 31, 2015 and 2014, the number of participants of the Fund was as follows:

	<u>2015</u>	<u>2014</u>
Current employees <sup>(1)</sup>	5,238	5,262
Pensioners	1,052	1,031
Retired and early retired staff	5,325	5,373
	-----	-----
	11,615	11,666
	=====	=====

(1) Of whom 236 and 195 employees are included in the new defined contribution plan as of December 31, 2015 and 2014, respectively.

The main demographic changes occurred in 2015 and 2014, were the following:

	Current employees			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number at December 31, 2013 (proforma)	181	5,228	5,339	996
Exits:				
. Current employees	(11)	(45)	-	-
. By death	-	-	(94)	(31)
Transfers	-	(120)	120	-
Entries	25	4	8	66
Total number at December 31, 2014	195	5,067	5,373	1,031
Exits:				
. Current employees	(14)	(24)	-	(10)
. By death	-	(2)	(101)	(28)
Transfers	-	(43)	43	-
Entries	55	4	10	59
Total number at December 31, 2015	236	5,002	5,325	1,052

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Changes occurred in BST's Pension Fund during 2015 and 2014 were the following:

Net assets at December 31, 2013 (pro forma)	840,543
<hr/>	
Contributions made by the Bank (cash)	76,410
Contributions made by employees	2,331
Net return of the Fund:	
Return on assets calculated with the discount rate	30,942
Fund performance below the discount rate	( 1,114 )
Pensions paid	( 38,532 )
<hr/>	
Net assets at December 31, 2014	910,580
<hr/>	
Contributions made by the Bank (cash)	1,943
Contributions made by employees	2,363
Net return of the Fund:	
Return on assets calculated with the discount rate	21,738
Fund performance above the discount rate	17,675
Pensions paid	( 40,095 )
<hr/>	
Net assets at December 31, 2015	914,204
<hr/>	

The return rates of the Pension Fund in the 2015 and in 2014 were 4.33% and 3.55%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including stocks, bonds, other debt instruments, participations in collective investment institutions, bank deposits and other assets of a monetary nature as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, having the manager of the Fund the choice to adopt a more or less conservative policy, by increasing or decreasing the exposure to shares or bonds, according to its expectations about the market developments and in accordance with the defined investment limits.

The current investment policy of BST's Pension Fund defines the following limits:

<u>Classes of assets</u>	<u>Limits</u>
Bonds	40% to 95%
Real Estate	0% to 25%
Shares	0% to 20%
Liquidity	0% to 15%
Others	0% to 10%
Commodities	0% to 5%

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At December 31, 2015 and 2014, BST's Pension Fund breakdown was as follows:

	<u>2015</u>	<u>2014</u>
Debt instruments:		
. Rating A	10,605	1,110
. Rating BBB	239,174	106,271
. Rating BB	97,990	170,057
. Without rating attributed either to the issue or the issuer	46,689	85,396
Real estate investment funds	196,957	192,145
Securities investment funds	180,399	157,337
Deposits	27,385	94,420
Real Estate:		
. Retail buildings	52,060	54,708
. Land	862	860
Equity instruments:		
. Portuguese listed companies	1,636	3,588
. Portuguese unlisted companies	120	152
. Foreign listed companies	47,968	41,927
Derivative financial instruments:		
. Listed options	852	( 790 )
Other	11,507	3,399
	-----	-----
	914,204	910,580
	=====	=====

At December 31 2015 and 2014, the methodology adopted by the Management Company of BST's Pension Fund to determine the fair value of the assets and liabilities above referred, taking in consideration IFRS 13 (Note 48), was as follows:

	31-12-2015				31-12-2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	386,182	-	8,276	394,458	327,908	13,829	21,097	362,834
Investment funds	153,618	-	223,738	377,356	144,334	2	205,146	349,482
Equity instruments	49,604	-	120	49,724	45,515	-	152	45,667
Derivative financial instruments	852	-	-	852	( 790 )	-	-	( 790 )
Real estate	-	-	52,922	52,922	-	-	55,568	55,568
	<u>590,256</u>	<u>-</u>	<u>285,056</u>	<u>875,312</u>	<u>516,967</u>	<u>13,831</u>	<u>281,963</u>	<u>812,761</u>

At December 31, 2015 and 2014, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	<u>2015</u>	<u>2014</u>
Leased property	15,726	16,509
Securities (including participating units in Funds managed by the Group)	190,563	184,108
	-----	-----
	206,289	200,617
	=====	=====

In 2010 a life insurance policy was taken out with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from a new supplementary retirement plan granted to the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2015 and 2014, the premium paid by the Bank amounted to tEuros 148 and tEuros 583, respectively (Note 40).

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This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disability.

For all the possibilities, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of death of the beneficiary that amount will be increased by 6,000 Euros.

At December 31, 2015 and 2014, 107 and 113 executives were covered by this plan, respectively.

Defined benefit pension plan – London branch

At December 31, 2015 and 2014, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London branch of BST were the following:

	<u>2015</u>	<u>2014</u>
Mortality table	AMC00/AFC00	AMC00/AFC00
Actuarial technical rate (discount rate)	3.80%	3.60%
Salary growth rate	3.40%	3.40%
Pension growth rate	2.00%	2.00%
Inflation rate	2.40%	2.40%

At December 31, 2015 and 2014, the liabilities with the defined benefit pension plan of the London branch of BST and its coverage were as follows:

	<u>2015</u>	<u>2014</u>
Estimated liabilities for past services	44,559	42,855
Net assets of the Pension Fund	40,125	38,223
	-----	-----
Not financed amount – London branch	( 4,434 )	( 4,622 )
	=====	=====

In relation to the specific pension plan of the London branch of BST, the changes in the past service liabilities in the years ended December 31, 2015 and 2014 may be presented as follows:

Liabilities at December 31, 2013 (pro forma)	35,037
	-----
Current service cost	168
Interest cost	1,712
Actuarial losses	4,622
Amounts paid	( 1,139 )
Foreign exchange fluctuations	2,455
	-----
Liabilities at December 31, 2014	42,855
	-----
Current service cost	202
Interest cost	1,627
Actuarial gains	( 1,892 )
Amounts paid	( 857 )
Foreign exchange fluctuations	2,624
	-----
Liabilities at December 31, 2015	44,559
	=====

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Changes in the Pension Fund of the London branch of BST during the years ended December 31, 2014 and 2015 were as follows:

Net assets at December 31, 2013 (pro forma)	30,720
	-----
Net return of the fund	3,690
Contribution made by the branch	2,790
Pensions paid	( 1,139 )
Foreign exchange fluctuations	2,162
	-----
Net assets at December 31, 2014	38,223
	-----
Net return of the fund	305
Contribution made by the branch	113
Pensions paid	( 857 )
Foreign exchange fluctuations	2,341
	-----
Net assets at December 31, 2015	40,125
	=====

The costs with the defined benefit pension plan of BST's London branch in 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	202	168
Interest cost	1,627	1,712
Return on assets calculated with the discount rate	( 1,447 )	( 1,559 )
	-----	-----
	382	321
	==	==

The changes and the detail of the actuarial gains and losses of BST's London branch in 2014 and in 2015 were as follows:

Balance at December 31, 2013 (pro forma)	6,076
	-----
Actuarial losses on pensions in 2014	4,622
Financial gains on pensions in 2014	( 2,131 )
Foreign exchange fluctuations	300
	-----
Balance at December 31, 2014 (Note 26)	8,867
	-----
Actuarial gains on pensions in 2015	( 1,892 )
Financial losses on pensions in 2015	1,142
Foreign exchange fluctuations	280
	-----
Balance at December 31, 2015 (Note 26)	8,397
	=====

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At December 31, 2015 and 2014, the BST's London branch Pension Fund portfolio included the following assets:

	<u>2015</u>	<u>2014</u>
Debt instruments	34,374	32,564
Equity instruments	5,667	5,582
Deposits	84	77
	-----	-----
Fund's net asset value	40,125	38,223
	=====	=====

The liabilities with defined benefit pension plans exposes the Bank to the following risks:

- Investment risk – the discounted value of the liabilities is calculated based on a discount rate determined by reference to bonds denominated in Euros with high quality in terms of credit risk; if the profitability of the Pension Fund is lower than the discount rate, it will create a shortfall in the funding of the liabilities.
- Interest rate risk – a decrease in the bonds interest rate will increase pension liabilities.
- Longevity risk – the discounted value of the liabilities is calculated considering the best estimate of the expected mortality of the participants before and after the date of retirement. An increase in life expectancy of plan participants will increase pension liabilities.
- Salary risk – the discounted value of the liabilities is calculated based in an assumption of the estimated future salaries of the participants. Thus, an increase in participant's salaries will increase pension liabilities.

At December 31, 2015 and 2014, a sensitivity analysis to a variation of the main financial assumptions reported to those dates would lead to the following impacts in the current past services liabilities of the Bank (excluding those associated with the London branch and those associated with former Banif):

	2015		2014	
	(Decrease) / Increase %	Amount	(Decrease) / Increase %	Amount
Change in discount rate				
. Increase of 0.5%	(7.3%)	(63,421)	(7.2%)	(65,686)
. Decrease of 0.5%	8.1%	70,540	8.2%	74,417
Change of salary growth rate:				
. Increase of 0.5%	6.0%	51,995	5.6%	50,729
. Decrease of 0.5%	(5.2%)	(45,343)	(4.8%)	(43,462)
Change of pension growth rate:				
. Increase of 0.5%	7.9%	68,906	7.5%	67,806
. Decrease of 0.5%	(7.4%)	(64,581)	(6.9%)	(62,587)

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At December 31, 2015 and 2014, the amount of liabilities associated with healthcare benefits (SAMS) resulting from a 1% change in the contribution rate can be presented as follows:

	2015			2014		
	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%
Current employees (Defined benefit plan)	5,002	42,463	57,905	5,067	40,282	54,930
Current employees (Defined contribution plan)	236	250	340	195	190	258
Pensioners	1,052	5,199	7,089	1,031	5,147	7,019
Retired and early retired staff	5,325	80,317	109,525	5,373	82,915	113,065
	11,615	128,229	174,859	11,666	128,534	175,272

These sensitivity analysis may not be representative of the changes that may occur in the future in the pension plan since they are being considered alone and some of them are correlated.

Pension Fund - former Banif

Following the measure resolution applied to Banif at December 20, 2015, a group of employees of former Banif were transferred to BST, including their liabilities for past services. It was also transferred the responsibilities with 511 retired employees, early retirees, pensioners and former participants with acquired rights.

At January 27, 2016, the Bank requested the approval of the Insurance and Pension Fund Supervisory Authority to the transfer to BST of Banif's position as a member of Banif Pension Fund, in the defined benefit pension plan, subpopulations A and B and in the defined contribution pension plans II and III.

The employees of former Banif were covered by different types of pension plans:

- a) The first defined benefit pension plan, was subdivided into Banif and former Banco Banif and Comercial dos Açores (BBCA), with different benefits. Defined benefit pension plan I – subpopulation BANIF: (i) payment of disability, presumed disability and survival pensions supplement of Social Security; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS). For employees that are eligible for retirement pension, the contribution of 6.5% is made on pensions and for employees with defined contribution plan, the benefit is changed to capital only at retirement, based on the initial contribution added to the value of future contributions.
- b) Defined benefit pension plan I – subpopulation former BBCA (closed to new participants): (i) payment of retirement, disability, presumed disability and survival pensions, according to ACT and the changes introduced by Decree-Law 1-a/ 2011 of January, 3 and Decree-Law No. 127/2011 of December 31; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS), with a rate of 6.5% and (iii) death benefit, under the ACTV.

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Former Banif also had two defined contribution pension plans:

- c) Pension Plan II – Monthly contribution of former Banif of 4.5% of the reference remuneration and an initial contribution at the date of establishment of the Plan which included all employees admitted to service in former Banif before January 1, 2007, with the exception of those employees admitted following the merger with the former BBCA, which are not covered by the Enterprise Agreement. The initial contribution, associated with each individual account, was calculated according to: (i) the supplementary old-age pensions estimated in the assessment of responsibility made by the responsible Actuary of the Pension Plan at December 31, 2006; and (ii) the present value of future contributions.
- d) Pension Plan III – monthly contribution of former Banif of 1.5% of the reference remuneration of the employees admitted to active service after January 1, 2007, which had not passed away or terminated its employment up to the date of the Enterprise Agreement.

Former Banif's responsibilities in pension plans were assumed by BST. The detail of the transferred population is as follows:

	Subpopulation Banif	Subpopulation former BBCA	Total
Current employees	894	228	1,122
Retired staff and pensioners	90	193	283
Early retired staff	14	182	196
Ex-participants with acquired rights	-	32	32
Total at December 31, 2015	<u>998</u>	<u>635</u>	<u>1,633</u>

Defined contribution pension plan - employees covered

Plan II	594
Plan III	313
Total at December 31, 2015	<u>907</u>

At December 31, 2015 the estimated liabilities for past services, assuming the assumptions used by BST, for the defined benefit pension plan (considering both subpopulations from former Banif and from former BBCA), are as follows:

	Responsibilities			
	Pensions	Healthcare systems (SAMS)	Death subsidy	Total
Current employees	32,982	5,104	104	38,190
Retired staff	54,312	5,170	125	59,607
Pensioners	4,695	670	-	5,365
Early retired staff	16,005	3,506	167	19,678
Ex-participants with acquired rights	4,213	-	-	4,213
Total responsibilities for past services	<u>112,207</u>	<u>14,450</u>	<u>396</u>	<u>127,053</u>
Book value of the transferred pension fund				117,138
Insufficient funding				<u>(9,915)</u>

The liabilities for past services of employees of former Banif amount to tEuros 127,053 which are recognized as follows:

Other assets (Note 17)	118,021
Provisions (Note 22)	9,032
	-----
	127,053
	=====

Based on the analysis made by BST to the assets of the transferred pension fund, an additional provision of tEuros 6,791 of provision was recorded (Note 22).

The 7.8% of insufficient funding was recognized in other assets (Note 17). In 2016, the Bank will make an extraordinary contribution to the Pension Fund to reduce that deficit, in the amount of tEuros 9,900.

The portfolio of former Banif Pension Fund associated with the defined benefit pension plan at December 31, 2015 was as follows:

Type of asset	Total	Relative weight
Debt instruments	46,205	38.16%
Securities investment fund	49,094	40.54%
Real estate fund	3,388	2.80%
Properties	18,885	15.60%
Equity instruments	1,332	1.10%
Deposits	1,314	1.09%
Other	869	0.72%
	121,087	
Portfolio to be transferred	(3,949)	
	117,138	

The amount of portfolio to be transferred corresponds to the part of the assets of the pension fund that will cover the liabilities of the employees of former Banif that were not transferred to the BST Group.

45. SECURITIZATION OPERATIONSDescription of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolio, through twelve operations, with a total initial amount of tEuros 23,250,000. The loans were sold at their nominal value (book value) to Hipototta FTC Funds, with the exception of the last securitization operations (Hipototta No. 11 and Hipototta No. 12), for which the credits were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus). Substantial part of the securitization operations were repurchased by BST under those agreements. At December 31, 2015 the remaining securitization operations are: Hipototta No. 1, Hipototta No. 4 and Hipototta No. 5.

In December 2014, BST liquidated LeaseTotta No. 1 FTC. This liquidation occurred after a “Consumer Receivables Retransfer Agreement”, under which the Bank repurchased the loans initially securitized for tEuros 280,175.

Funds Hipototta FTC are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under those loans to Hipototta Funds. Santander Group do not hold any direct or indirect participation in Navegator.

To finance these operations, Hipototta Funds issued participating units for the same amount of the loans portfolios purchased, which were fully subscribed by the Hipototta PLC Funds, which are incorporated in Ireland.

Furthermore, Hipototta Funds FTC pay all the amounts received from BST and from the Portuguese Treasury (“Direcção Geral do Tesouro”) to the Hipototta PLC Funds, segregating the instalments between principal and interest.

To finance these operations, the Hipototta PLC Funds issued bonds with different levels of subordination and rating and, consequently, of return. At December 31, 2015, the bonds issued and still outstanding are as follows:

Issued debt	Hipototta No. 1 PLC						Up to early redemption date	After early redemption date
	Amount		Rating		Redemption Date	Early Redemption Date		
	Initial	Current	S&P	Moody's				
Class A	1,053,200	128,165	A	A1	November 2034	August 2012	Euribor 3 m + 0.27%	Euribor 3 m + 0.54%
Class B	32,500	8,264	A-	A3	November 2034	August 2012	Euribor 3 m + 0.65%	Euribor 3 m + 0.95%
Class C	14,300	3,642	A-	Baa1	November 2034	August 2012	Euribor 3 m + 1.45%	Euribor 3 m + 1.65%
	<u>1,100,000</u>	<u>140,071</u>						
Class D	17,600	11,000			November 2034	August 2012	Residual income of the securitized portfolio	
	<u>1,117,600</u>	<u>151,071</u>						

Issued debt	Hipototta No. 4 PLC						Up to early redemption date	After early redemption date
	Amount		Rating		Redemption date	Early redemption rate		
	Initial	Current	Fitch					
Class A	2,616,040	839,380	A		December 2048	December 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%
Class B	44,240	30,538	A		December 2048	December 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%
Class C	139,720	96,443	CCC		December 2048	December 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%
	<u>2,800,000</u>	<u>966,361</u>						
Class D	14,000	14,000			December 2048	December 2014	Residual income of the securitized portfolio	
	<u>2,814,000</u>	<u>980,361</u>						

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Issued debt	Hipototta No. 5 PLC				Redemption date	Early redemption date	Remuneration	
	Amount	Rating					Up to early redemption date	After early redemption date
	Initial	Current	S&P	Moody's				
Class A1	200,000	-			February 2060	February 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1,693,000	739,102	A-	A1	February 2060	February 2014	Euribor 3 m + 0.13%	Euribor 3 m + 0.26%
Class B	26,000	26,000	A-	Baa1	February 2060	February 2014	Euribor 3 m + 0.17%	Euribor 3 m + 0.34%
Class C	24,000	24,000	BB+	Baa3	February 2060	February 2014	Euribor 3 m + 0.24%	Euribor 3 m + 0.48%
Class D	26,000	26,000	BB+	Ba3	February 2060	February 2014	Euribor 3 m + 0.50%	Euribor 3 m + 1.00%
Class E	31,000	31,000	BB-	B3	February 2060	February 2014	Euribor 3 m + 1.75%	Euribor 3 m + 3.50%
	<u>2,000,000</u>	<u>846,102</u>						
Class F	10,000	8,461	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>854,563</u>						

The bonds issued by Hipototta No. 1 PLC and Hipototta No. 4 PLC pay interest quarterly at March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta No 5 PLC pay interest quarterly at February 28, May 30, August 31 and November 30 of each year.

BST has the option to early redeem the bonds on the above-mentioned dates. For all Hipototta, BST has the possibility of repurchase the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or less than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, all Hipototta have the option to make partial repayments of the Classes A, B and C notes, as well as the Classes D and E notes in the case of Hipototta No PLC, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

The Class D notes of Hipototta No. 1 and Hipototta No. 4, and the Class F notes of Hipototta No. 5 are the last liabilities to be paid.

Remuneration of these notes corresponds to the difference between the income generated by the securitized loan portfolio and the sum of all costs related to the operation, namely:

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were issued, the estimated income of the securitized loans portfolios included in the computation of the remuneration of the Class D notes for Hipototta No. 1 PLC and Hipototta No. 4 PLC corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F notes of Hipototta No. 5 PLC it corresponded to an annual average of 0.9% of the total loan portfolio.

When the securitization operations were issued, subordinated loans were granted by BST to Hipotottas as facilities / credit lines in case of need for liquidity by Hipotottas. "Swap Agreements" were also signed between the Santander Group and the first issued Hipotottas and between BST and the remaining securitization vehicles to cover the interest rate risk.

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**Securitization operations by former Banif**

Following the resolution measure applied to former Banif, BST acquired a number of securitization operations issued by this entity, and the corresponding securitized loans and issued notes were transferred.

Securitization operations acquired are presented below:

**Atlantes Mortgage No. 1**

Operation implemented in February 2003 by former Banif, where mortgage loans were sold to Atlantes Mortgage No.1 FTC, a securitization fund, which issued participating units subscribed by Atlantes Mortgage No.1 PLC based in Ireland. For funding purposes, Atlantes Mortgage No.1 PLC issued notes with different levels of subordination and rating and consequently, of remuneration. This securitization is managed by Navegator.

Issued debt	Atlantes Mortgage No. 1 PLC					
	Amount	Rating	Redemption		Remuneration	
Initial	Current	S&P	Moody's	date		
Class A	462,500	53,016	A	A3	January 2036	Euribor 3 m + 0.54%
Class B	22,500	22,500	BB-	Baa2	January 2036	Euribor 3 m + 1.3%
Class C	12,500	12,500	B-	Ba3	January 2036	Euribor 3 m + 2.6%
Class D	2,500	2,500	B-	B3	January 2036	Euribor 3 m + 4.75%
	<u>500,000</u>	<u>90,516</u>				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	<u>515,400</u>	<u>105,916</u>				

**Azor Mortgage No. 1**

Operation implemented in November 2004 by former Banif, where mortgage loans originated in previous BBCA (Banif and Banco Comercial dos Açores, S.A.) were sold to Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes, bonds fully subscribed by Azor Mortgages PLC, based in Ireland. For funding purposes, Azor Mortgages PLC issued bonds with different levels of subordination and rating and consequently, of remuneration. In December 2006, the Azor Notes and the respective rights to receive payment for the loans and duties of payment to Azor Mortgages PLC were transferred from Sagres STC to Gamma Society Credit Securitization (Gamma STC), a company currently owned by Oitante.

Issued debt	Azor Mortgage No. 1					
	Amount	Rating	Redemption		Remuneration	
Initial	Current	S&P	Moody's	date		
Class A	253,000	17,398	A	Baa3	September 2047	Euribor 3 m + 0.3%
Class B	19,000	19,000	BB	Ba1	September 2047	Euribor 3 m + 0.76%
Class C	9,000	9,000	BB	Ba3	September 2047	Euribor 3 m + 1.75%
	<u>281,000</u>	<u>45,398</u>				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	<u>291,000</u>	<u>55,398</u>				

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Atlantes Mortgage No. 2

Operation implemented in March 2008 by former Banif, where mortgages loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No.2 Classes A, B, C and D notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes Mortgage No. 2					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Fitch			
Class A	349,100	184,655	BBB+	A	September 2060	Euribor 3 m + 0.33%
Class B	18,400	13,817	BB+	BB	September 2060	Euribor 3 m + 0.95%
Class C	7,500	5,632	B-	BB	September 2060	Euribor 3 m + 1.65%
	<u>375,000</u>	<u>204,104</u>				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	<u>391,125</u>	<u>220,229</u>				

Azor Mortgage No. 2

Operation implemented in July 2008 by former Banif, where mortgage loans originated by former BBCA were sold to Gamma STC. To finance the operation, Gamma STC issued Azor Mortgages No. 2 Classes A, B and C notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Azor Mortgage No. 2					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Fitch			
Class A	253,500	145,249	A+	A	December 2065	Euribor 3 m + 0.3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0.8%
	<u>300,000</u>	<u>188,329</u>				
Class C	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	<u>306,750</u>	<u>195,079</u>				

Atlantes Mortgage No. 3

Operation implemented in October 2008 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 3 Classes A, B and C notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes Mortgage No. 3					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Fitch			
Class A	558,600	310,028	A	A+	August 2061	Euribor 3 m + 0.2%
Class B	41,400	36,211	NR	NR	August 2061	Euribor 3 m + 0.5%
	<u>600,000</u>	<u>346,239</u>				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	<u>657,668</u>	<u>403,907</u>				

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Atlantes Mortgage No. 4

Operation implemented in February 2009 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 4 Classes A, B and C notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes Mortgage No. 4					
	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		
Class A	514,250	355,248	A+	A+	December 2064	Euribor 3 m+ 0.15%
Class B	35,750 550,000	35,750 390,998	NR	NR	December 2064	Euribor 3 m + 0.3%
Class C	74,250 624,250	74,250 465,248	NR	NR	December 2064	Residual income of the securitized portfolio

Atlantes Mortgage No. 5

Operation implemented in December 2009 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 5 Classes A, B and C notes with different levels of subordination and rating and consequently, remuneration.

Issued debt	Atlantes Mortgage No. 5					
	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		
Class A	455,000	304,204	A+	A+	November 2068	Euribor 3 m + 0.15%
Class B	45,000 500,000	43,806 348,010	NR	NR	November 2068	Euribor 3 m + 0.3%
Class C	66,250 566,250	66,250 414,260	NR	NR	November 2068	Residual income of the securitized portfolio

Atlantes Mortgage No. 6

Operation implemented in June 2010 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 6 Classes A and B notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes Mortgage No. 6					
	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		
Class A	91,000	50,847	NR	NR	December 2016	4.50%
	91,000	50,847				
Class B	22,000 113,000	22,000 72,847	NR	NR	December 2016	Residual income of the securitized portfolio

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Altantes Mortgage No. 7

Operation implemented in June 2010 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Altantes Mortgage No. 7 Classes A, B and C notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Altantes Mortgage No. 7					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Fitch			
Class A	357,300	230,744	A+	A+	August 2066	Euribor 3 m + 0.15%
Class B	39,700	38,636	NR	NR	August 2066	Euribor 3 m + 0.3%
	<u>397,000</u>	<u>269,380</u>				
Class C	63,550	63,550	NR	NR	August 2066	Residual income of the securitized portfolio
	<u>460,550</u>	<u>332,930</u>				

Altantes NPL No. 1

Operation implemented in December 2012, under which Banif and Banif Banco Mais (currently Cofidis) sold to Gamma STC a portfolio of mortgage or real estate collateralized loans. The transaction was financed through the issuance of Altantes NPL No. 1 Classes A and B notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Altantes NPL No. 1					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Moody's			
Class A	168,000	107,141	NR	NR	December 2018	6.00%
	<u>168,000</u>	<u>107,141</u>				
Class B	45,000	45,000	NR	NR	December 2018	Residual income of the securitized portfolio
	<u>213,000</u>	<u>152,141</u>				

Altantes Finance No. 6

Operation implemented in December 2013, under which Banif and Banif Banco Mais (currently Cofidis) sold to Gamma STC a consumer loans portfolio. The transaction was financed through the issuance of Altantes Finance No. 6 Classes A, B, C and S notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Altantes Finance No. 6					
	Amount		Rating		Redemption date	Remuneration
Initial	Current	S&P	Moody's			
Class A	176,800	43,239	A-	NR	March 2033	Euribor 3 m + 2.4%
Class B	40,100	40,100	NR	NR	March 2033	Euribor 3 m + 3%
	<u>216,900</u>	<u>83,339</u>				
Class C	10,900	8,334	NR	NR	March 2033	Residual income of the securitized portfolio
Class S	7,400	4,483	NR	NR	March 2033	Without pay
	<u>235,200</u>	<u>96,156</u>				

As mentioned above, the Bank has only 22% of the equity piece (Class C), therefore, the loans were derecognized. The notes held are recorded under "Financial assets available for sale" and "Investments in associates".

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Atlantes SME No. 4

Operation implemented in September 2014 by former Banif, where a corporate loans portfolio was sold to Gamma STC. To finance this operation, Gamma STC issued Atlantes SME No. 4 Classes A, B, C, D and S notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes SME No. 4					
	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		
Class A	465,000	141,425	A	NR	December 2043	Euribor 3 m + 0.98%
Class B	55,000	55,000	BB	NR	December 2043	Euribor 3 m + 1.48%
Class C	180,000	180,000	BB	NR	December 2043	Euribor 3 m + 6.00%
	<u>700,000</u>	<u>376,425</u>				
Class D	186,400	186,400	NR	NR	December 2043	Residual income of the securitized portfolio
Class S	41,000	23,382	NR	NR	December 2043	Without pay
	<u>927,400</u>	<u>586,207</u>				

Atlantes SME No. 5

Operation implemented in July 2015 by former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes SME No. 5 Classes A, B, C, D and S notes with different levels of subordination and rating and consequently, of remuneration.

Issued debt	Atlantes SME No. 5					
	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		
Class A	440,000	365,348	A-	A3	January 2044	Euribor 3 m + 1.2%
Class B	35,600	35,600	BBB	B1	January 2044	Euribor 3 m + 1.75%
Class C	164,400	164,400	NR	NR	January 2044	Euribor 3 m + 6%
	<u>640,000</u>	<u>565,348</u>				
Class D	172,800	172,800	NR	NR	January 2044	Residual income of the securitized portfolio
Class S	33,200	30,333	NR	NR	January 2044	Without pay
	<u>846,000</u>	<u>768,481</u>				

The book value recorded under the caption "Debt securities" at December 20, 2015 related to securitization operations transferred from former Banif corresponded to its fair value, as described in Note 1.4. Since the amounts presented in this note are nominal values outstanding, they are not identical to those recorded in that caption by the Bank.

**46. RELATED ENTITIES DISCLOSURES**

The related entities of the Bank with which it had balances or transactions in 2015 were the following:

	<b>Name of the related entity</b>	<b>Head office</b>
<b>Entities that directly or indirectly control the Group</b>		
Santander Totta, SGPS, S.A.		Portugal
Santusa Holding, S.L.		Spain
Banco Santander, S.A.		Spain
<b>Entities under direct or indirect control by the Group</b>		
Totta & Açores Financing, Ltd.		Cayman Islands
Serfin International Bank & Trust		Cayman Islands
Banif International Bank, Ltd.		Bahamas
Totta & Açores, Inc. - Newark		USA
Totta Ireland, PLC		Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.		Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.		Portugal
bst International Bank, Inc.		Puerto Rico
Taxagest, SGPS, S.A.		Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações		Portugal
Fundo de Investimento Imobiliário Novimovest		Portugal
<b>Entities significantly influenced by the Group</b>		
Benim - Sociedade Imobiliária, S.A.		Portugal
Partang, SGPS, S.A.		Portugal
Banco Caixa Geral Totta de Angola, S.A.		Angola
Unicre - Instituição Financeira de Crédito, S.A.		Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>		
HIPOTOTTA NO. 1 PLC		Ireland
HIPOTOTTA NO. 4 PLC		Ireland
HIPOTOTTA NO. 5 PLC		Ireland
HIPOTOTTA NO. 1 FTC		Portugal
HIPOTOTTA NO. 4 FTC		Portugal
HIPOTOTTA NO. 5 FTC		Portugal
Gamma STC <sup>(1)</sup>		Portugal
Atlantes Mortgage 1 PLC		Ireland
Atlantes Mortgage 1 FTC		Portugal

<sup>(1)</sup> See note 4

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Name of the related entity	Head office
<b>Entities under direct or indirect common control by the group</b>	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancario, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestão Comércio & Aluguer Veículos, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities, Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários, S.A.	Spain

The related entities of the Bank with which it had balances or transactions in 2014 were the following:

	Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>		
Santander Totta, SGPS, S.A.		Portugal
Santusa Holding, S.L.		Spain
Banco Santander, S.A.		Spain
<b>Entities under direct or indirect control by the Group</b>		
Totta & Açores Financing, Ltd.		Cayman Islands
Serfin International Bank & Trust		Cayman Islands
Totta & Açores, Inc. - Newark		USA
Totta Ireland, PLC		Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.		Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.		Portugal
bst International Bank, Inc.		Puerto Rico
Taxagest, SGPS, S.A.		Portugal
Santander - Gestão de Activos, SGPS, S.A.		Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações		Portugal
Fundo de Investimento Imobiliário Novimovest		Portugal
<b>Entities significantly influenced by the Group</b>		
Benim - Sociedade Imobiliária, S.A.		Portugal
Partang, SGPS, S.A.		Portugal
Banco Caixa Geral Totta de Angola, S.A.		Angola
Unicre - Instituição Financeira de Crédito, S.A.		Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>		
HIPOTOTTA NO. 1 PLC		Ireland
HIPOTOTTA NO. 4 PLC		Ireland
HIPOTOTTA NO. 5 PLC		Ireland
LEASETOTTA NO. 1 Ltd		Ireland
HIPOTOTTA NO. 1 FTC		Portugal
HIPOTOTTA NO. 4 FTC		Portugal
HIPOTOTTA NO. 5 FTC		Portugal
LEASETOTTA NO.1 FTC		Portugal

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Name of the related entity	Head office
<b>Entities under direct or indirect common control by the group</b>	
Abbey National Treasury Services plc	United Kingdom
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Iberica de Compras Corporativas	Spain
Ingeniería de Software Bancario, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A. SGIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities, Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Santander, Asset Management, SGFIM, S.A.	Portugal
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliarios, S.A.	Spain
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliarios, S.A.	Spain

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At December 31, 2015 and 2014, the balances and off-balance sheet items maintained with related entities were as follows:

	2015		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
Balances due from banks	21,036	-	525
Financial assets held for trading	174,230	-	4,192
Available-for-sale financial assets	-	-	400
Loans and advances to credit institutions	952,003	1	228,887
Loans and advances to customers	-	39,027	5,851
Hedging derivatives	127,036	-	-
Investments in associated companies	-	42,213	-
Other assets	10,505	7,840	22,067
<b>Liabilities:</b>			
Financial liabilities held for trading	1,534,391	-	46,867
Resources of other credit institutions	359,041	65,046	1,639
Resources of customers and other debts	93,652	-	1,100,942
Debt securities	69,592	-	18,095
Hedging derivatives	170,095	-	-
Subordinated liabilities	-	-	4,302
Other liabilities	3,462	-	1,694
<b>Costs:</b>			
Interest and similar charges	138,134	30	39,518
Charges with services and commissions	990	-	3,870
Result of assets and liabilities at fair value through profit or loss	963,166	-	35,760
Result of foreign exchange revaluation	-	937	-
General administrative costs	-	-	49,016
<b>Income:</b>			
Interest and similar income	192,925	23	4,429
Result of assets and liabilities at fair value through profit or loss	952,619	6,867	31,903
Income from services and commissions	231	-	99,907
Result from the sale of other assets	-	41,042	-
Result from associates	-	14,499	-
Result of foreign exchange revaluation	1,794	-	-
Other operating results	-	-	156
<b>Off balance sheet items:</b>			
Guarantees provided and other contingent liabilities	25,717	-	13,005
Guarantees received	1	-	1,000
Commitments to third parties	71,074	3,000	153,768
Currency operations and derivatives	13,642,089	-	453,067
Responsibilities for services rendered	590,996	-	2,221,970

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	2014		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
Balances due from banks	15,855	-	604
Financial assets held for trading	222,816	35,326	2,671
Available-for-sale financial assets	-	-	5,189
Loans and advances to credit institutions	945,038	826	206,433
Loans and advances to customers	-	35,065	5,551
Hedging derivatives	190,764	-	-
Investments in associated companies	-	166,359	-
Other assets	13,396	5,392	23,237
<b>Liabilities:</b>			
Financial liabilities held for trading	1,806,191	-	52,548
Resources of other credit institutions	1,118,533	101,906	3,933
Resources of customers and other debts	88,755	11,176	1,275,346
Debt securities	84,358	-	33,374
Hedging derivatives	133,100	-	-
Subordinated liabilities	-	-	4,306
Other liabilities	4,384	-	3,183
<b>Costs:</b>			
Interest and similar charges	185,308	290	53,991
Charges with services and commissions	256	-	5,996
Result of assets and liabilities			
at fair value through profit or loss	1,348,551	1,966	35,499
Result of foreign exchange revaluation	5	-	-
General administrative costs	-	-	46,097
Impairment on investments in associated companies	-	440	-
<b>Income:</b>			
Interest and similar income	207,818	60	6,690
Result of assets and liabilities			
at fair value through profit or loss	716,098	3,814	32,580
Result of foreign exchange revaluation	-	-	51
Income from services and commissions	189	-	102,670
Result from associates	-	19,791	-
Other operating results	-	-	207
<b>Off balance sheet items:</b>			
Guarantees provided and other contingent liabilities	19,786	-	15,249
Guarantees received	1	-	16,000
Commitments to third parties	25,788	6,829	174,687
Currency operations and derivatives	15,159,296	29,744	591,437
Responsibilities for services rendered	2,805,584	35,017	2,692,136

**MANAGEMENT AND SUPERVISORY BOARDS****Board of Directors**

At December 31, 2015 and 2014 loans and advances granted to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 554 and tEuros 809, respectively. Fixed and variable remuneration at these dates amounted to tEuros 8,078 and tEuros 8,174, respectively (Note 40).

Santander Group, which includes BST, has a worldwide long term incentive plan, described in Note 47, which was divided into cycles. In 2015 the Bank approved a new individual long term incentive plan. For the members of the Board of Directors the amount recorded in the caption "Staff costs" in the years ended December 31, 2015 and 2014 is presented below:

	<u>2015</u>	<u>2014</u>
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	-	7
Individual Long Term Incentive	230	115
	----	----
	230	122
	---	---

The cycles of the share plans linked to objectives of the members of the Board of Directors ended on the dates indicated below and shares were attributed at the following amount per share:

<u>Cycle</u>	<u>Maturity date</u>	<u>Number of shares attributed</u>	<u>Value per share</u>
First	July 6, 2009	97,676	8.49 Euros
Second	July 8, 2010	136,719	8.77 Euros
Third	July 11, 2011	133,727	7.51 Euros
Fourth	July 9, 2012	35,850	4.88 Euros
Fifth	July 31, 2013	-	n.a.
Sixth	July 31, 2014	-	n.a.

In 2015 and 2014, the members of the Board of Directors did not receive any shares, since the minimum parameters defined in the plan were not achieved.

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. I).

In the Shareholders' General Meeting held at May 30, 2007, the BST's shareholders approved the "Regulation for supplementary attribution of retirement pensions for age or disability" for the executive members of the Board of Directors of the former Totta that are executive members of the BST's Board of Directors (Executive Committee) and will be in office for more than fifteen years, consecutive or interpolated. Under this Regulation they will be entitled to a pension supplement equivalent to 80% of its gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when the time in office is less than fifteen years. For these situations, it is currently defined that the supplement of the pension will be 65% of gross annual salary, whenever the time in office is equal to or is more than ten years, and 75% of gross annual salary, whenever the time in office is equal to or is more than twelve years. This defined benefit plan is a supplementary plan dependent from the general Social Security system.

At December 31, 2015 and 2014, the liabilities with this plan amounted to 20,676 tEuros and 18,381 tEuros, respectively, and were covered by a provision of the same amount recorded in the caption "Provision for pensions and other charges" (Note 22).

With regard to employment termination benefits, in accordance with the Commercial Companies Law ("Código das Sociedades Comerciais"), whenever the term of a member of the management or supervisory board is early terminated by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

Statutory Auditors

The fees invoiced or to be invoiced by the statutory auditors of the Bank and its subsidiaries in 2015, excluding VAT, were as follows:

Statutory audit and external auditor services rendered (a)	719
Other assurance services (a)	905
Tax consulting (b)	105
Other (b)	1,370
	-----
	3,099
	====

(a) Represents the amounts agreed for 2015, regardless of its invoicing date, not considering the impact of former Banif.  
(b) Represents the amounts invoiced during 2015.

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47. LONG-TERM INCENTIVE PLANS

The “Share Plan Linked to the Santander Group’s Objectives” was approved in a Shareholders’ General Meeting of Banco Santander, S.A.. This plan is divided into cycles, and so far six cycles have been approved. BST is also included in this plan.

Each beneficiary of the plan had the right to receive a maximum number of Banco Santander, S.A.’s shares. The final number allocated was determined by multiplying the maximum number of shares initially allocated, by the sum of coefficients indexed to the evolution of Banco Santander, S.A. in comparison with other entities included in a predefined group. That comparison was performed taking in consideration two parameters: total shareholders’ return and increase in earnings per share for the first three cycles and for the remaining cycles the comparison is measured by the total shareholders’ return only.

The maturity dates of the cycles of the “Share Plan Linked to the Santander Group’s Objectives”, the total number of shares granted and the value per share are as follows:

Cycle	Maturity date	Total number of shares granted	Value per share
First	July 6, 2009	326,681	8.49 Euros
Second	July 8, 2010	540,822	8.77 Euros
Third	July 11, 2011	571,640	7.51 Euros
Fourth	July 9, 2012	200,897	4.88 Euros
Fifth	July 31, 2013	-	n.a.
Sixth	July 31, 2014	-	n.a.

As described in Note 1.3. o), the accounting of the share incentive plans consists in recognizing the right of the Bank’s employees to such instruments in the income statement for the year under the caption “Staff costs”, as it corresponds to a remuneration for services rendered. Management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees covered by the worldwide Plan.

In 2015 and 2014, the total cost of the “Share Plan Linked to the Santander Group’s Objectives” for all the employees of the Bank covered by it was as follows:

	<u>2015</u>	<u>2014</u>
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	-	445
Individual Long Term Incentive	395	224
	-----	-----
	395	669
	====	====

During 2015, an individual Long Term Incentive was approved for a restricted number of employees. This incentive takes into account the behaviour, relative to 2014, of the Total Shareholder Return (TSR) of Banco Santander, S.A. comparing with a bucket of 15 credit institutions. The reference to the individual Long Term Incentive value is 15% of the Bank base performance bonus, corresponding to 100% of that value if Banco Santander’s TSR is ranked in the first eight positions of the credit institutions bucket, 50% if it is ranked between the ninth and twelfth position and 0% if it is in a lower position.

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The employees are entitled to the shares upon their permanence in the Santander Group. The cost per share as well as date of availability are summarized in the following table:

Stock's Plans	Number of shares	Cost per share (Euros)	Estimated delivery date of the shares	Number of employees	Entitlement date
<b>Plans in place at December 31, 2013 (proforma)</b>					
PI14	606,758	4.5254	July 2014	308	2011
Changes in 2014:					
PI14 - Shares not available	(606,758)	-	-	(308)	-

In 2015 and 2014, the Group employees did not receive any shares, since the minimum parameters defined in the plan were not achieved.

48. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13**BALANCE SHEET****Categories of financial instruments**

At December 31, 2015 and 2014, financial instruments presented the following book value:

	2015				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	2,849,364	284,668	-	3,134,032
Balances due from other banks	-	399,605	64,293	-	463,898
Financial assets held for trading	1,750,694	-	-	-	1,750,694
Available-for-sale financial assets	6,454,565	-	85,039	(71,791)	6,467,813
Loans and advances to credit institutions	-	1,535,436	-	-	1,535,436
Loans and advances to customers	195,661	32,606,317	-	(1,021,013)	31,780,965
Hedging derivatives	130,292	-	-	-	130,292
	<b>8,531,212</b>	<b>37,390,722</b>	<b>434,000</b>	<b>(1,092,804)</b>	<b>45,263,130</b>
<b><u>Liabilities</u></b>					
Resources of central banks	-	4,952,679	-	-	4,952,679
Financial liabilities held for trading	1,721,691	-	-	-	1,721,691
Resources of other credit institutions	-	3,545,229	-	-	3,545,229
Resources of customers and other debts	3,215,210	23,862,374	48,729	-	27,126,313
Debt securities	16,261	5,027,184	-	-	5,043,445
Hedging derivatives	170,133	-	-	-	170,133
Subordinated liabilities	-	4,302	-	-	4,302
	<b>5,123,295</b>	<b>37,391,768</b>	<b>48,729</b>	<b>-</b>	<b>42,563,792</b>
	2014				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	622,460	208,014	-	830,474
Balances due from other banks	-	174,556	66,662	-	241,218
Financial assets held for trading	2,291,734	-	-	-	2,291,734
Available-for-sale financial assets	6,754,527	-	19,971	(61,943)	6,712,555
Loans and advances to credit institutions	-	1,220,917	-	-	1,220,917
Loans and advances to customers	37,394	26,647,475	-	(1,161,618)	25,523,251
Hedging derivatives	195,035	-	-	-	195,035
	<b>9,278,690</b>	<b>28,665,408</b>	<b>294,647</b>	<b>(1,223,561)</b>	<b>37,015,184</b>
<b><u>Liabilities</u></b>					
Resources of central banks	-	4,406,312	-	-	4,406,312
Financial liabilities held for trading	1,995,019	-	-	-	1,995,019
Resources of other credit institutions	-	4,030,724	-	-	4,030,724
Resources of customers and other debts	3,555,668	18,040,137	30,097	-	21,625,902
Debt securities	175,460	2,797,651	-	-	2,973,111
Hedging derivatives	133,690	-	-	-	133,690
Subordinated liabilities	-	4,306	-	-	4,306
	<b>5,859,837</b>	<b>29,279,130</b>	<b>30,097</b>	<b>-</b>	<b>35,169,064</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

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(Translation of notes originally issued in Portuguese – Note 53)

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

In 2015 and 2014 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

### **INCOME STATEMENT**

In the years ended December 31, 2015 and 2014, the net gains and losses on financial instruments were as follows:

	2015					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	2,075,382	(1,989,208)	86,174	-	-	-
Available-for-sale financial assets	291,940	(14,540)	277,400	-	(78,630)	(78,630)
Balances in central banks and other credit institutions	35,640	-	35,640	-	-	-
Loans and advances to customers	940,942	(394,555)	546,387	-	-	-
Hedging derivatives	211,079	(158,433)	52,646	-	(22,339)	(22,339)
Resources in central banks and other credit institutions	-	(20,073)	(20,073)	-	-	-
Resources of customers and other debts	52,843	(232,924)	(180,081)	-	-	-
Debt securities	8,068	(52,903)	(44,835)	-	-	-
Subordinated liabilities	-	(190)	(190)	-	-	-
	<u>3,615,894</u>	<u>(2,862,826)</u>	<u>753,068</u>	<u>-</u>	<u>(100,969)</u>	<u>(100,969)</u>
Guarantees given	<u>18,681</u>	<u>(1,107)</u>	<u>17,574</u>	<u>-</u>	<u>-</u>	<u>-</u>
Credit lines	<u>5,187</u>	<u>(2,969)</u>	<u>2,218</u>	<u>-</u>	<u>-</u>	<u>-</u>
2014						
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
	1,629,977	(1,866,631)	(236,654)	-	-	-
Financial assets and liabilities held for trading	342,117	(7,056)	335,061	490,688	-	490,688
Available-for-sale financial assets	42,040	-	42,040	-	-	-
Balances in central banks and other credit institutions	1,218,386	(593,193)	625,193	-	-	-
Loans and advances to customers	392,060	(200,465)	191,595	-	(22,499)	(22,499)
Hedging derivatives	-	(60,442)	(60,442)	-	-	-
Resources in central banks and other credit institutions	44,757	(332,779)	(288,022)	-	-	-
Resources of customers and other debts	70,970	(100,167)	(29,197)	-	-	-
Debt securities	-	(188)	(188)	-	-	-
Subordinated liabilities	<u>3,740,307</u>	<u>(3,160,921)</u>	<u>579,386</u>	<u>490,688</u>	<u>(22,499)</u>	<u>468,189</u>
Guarantees given	<u>19,435</u>	<u>(3,139)</u>	<u>16,296</u>	<u>-</u>	<u>-</u>	<u>-</u>
Credit lines	<u>9,270</u>	<u>(5,124)</u>	<u>4,146</u>	<u>-</u>	<u>-</u>	<u>-</u>

The above referred amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the years ended December 31, 2015 and 2014 corresponded to net gains of tEuros 6,137 and tEuros 5,458, respectively (Note 37).

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

In the years ended December 31, 2015 and 2014, the income and expenses with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	2015			2014		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Cash and deposits at central banks	66	-	66	229	-	229
Balances due from other banks	31	-	31	14	-	14
Available-for-sale financial assets	155,423	-	155,423	214,435	-	214,435
Loans and advances to credit institutions	35,543	-	35,543	41,797	-	41,797
Loans and advances to customers	630,906	(40)	630,866	708,952	(61)	708,891
	<u>821,969</u>	<u>(40)</u>	<u>821,929</u>	<u>965,427</u>	<u>(61)</u>	<u>965,366</u>
<b><u>Liabilities</u></b>						
Resources of central banks	-	(3,247)	(3,247)	-	(20,941)	(20,941)
Resources of other credit institutions	-	(16,826)	(16,826)	-	(39,501)	(39,501)
Resources of customers and other debts	-	(228,243)	(228,243)	-	(330,615)	(330,615)
Debt securities	-	(52,903)	(52,903)	-	(51,038)	(51,038)
Subordinated liabilities	-	(190)	(190)	-	(188)	(188)
	<u>-</u>	<u>(301,409)</u>	<u>(301,409)</u>	<u>-</u>	<u>(442,283)</u>	<u>(442,283)</u>
Guarantees given	17,260	-	17,260	18,860	-	18,860
Credit Lines	<u>2,342</u>	<u>-</u>	<u>2,342</u>	<u>4,011</u>	<u>-</u>	<u>4,011</u>

In the years ended December 31, 2015 and 2014, commissions income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	2015			2014		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Loans and advance to customers	<u>38,974</u>	<u>(13,829)</u>	<u>25,145</u>	<u>37,954</u>	<u>(13,958)</u>	<u>23,996</u>
<b><u>Liabilities</u></b>						
Resources of customers and other debts	<u>45,719</u>	<u>-</u>	<u>45,719</u>	<u>44,428</u>	<u>-</u>	<u>44,428</u>

In 2015 and 2014, the Bank recognized financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to tEuros 9,777 and tEuros 7,178, respectively (Note 30).

**OTHER DISCLOSURES****Hedge accounting**

At December 31, 2015 and 2014, hedging derivatives and financial instruments designated as hedged items were as follows:

	2015				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value		
<b>Fair value hedges</b>						
Loans and advances to customers	191,785	191,919	3,527	195,446	191,787	(3,792)
Available-for-sale financial assets	850,000	887,212	20,761	907,973	850,000	(76,981)
Resources of customers and other debts	(3,189,489)	(3,219,633)	4,423	(3,215,210)	3,277,463	19,604
Debt securities	(14,930)	(15,463)	(798)	(16,261)	14,930	1,317
<b>Cash flow hedges</b>						
Loans and advances to customers	2,767,567	2,767,567	-	2,767,567	2,050,000	89,440
Debt securities	794,542	794,542	-	794,542	650,000	(69,429)
	<u>1,399,475</u>	<u>1,406,144</u>	<u>27,913</u>	<u>1,434,057</u>	<u>7,034,180</u>	<u>(39,841)</u>

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

	2014					
	Hedged item			Hedging instrument		
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
<b>Fair value hedges</b>						
Loans and advances to customers	32,887	33,108	4,246	37,354	32,888	(4,291)
Available-for-sale financial assets	200,000	205,260	37,423	242,683	200,000	(40,868)
Resources of customers and other debts	(3,508,013)	(3,557,735)	2,067	(3,555,668)	3,511,255	41,824
Debt securities	(167,375)	(173,699)	(1,761)	(175,460)	167,385	8,410
<b>Cash flow hedges</b>						
Loans and advances to customers	3,207,528	3,207,528	-	3,207,528	2,250,000	124,017
Debt securities	1,005,866	1,005,866	-	1,005,866	650,000	(67,747)
	<u>770,893</u>	<u>720,328</u>	<u>41,975</u>	<u>762,303</u>	<u>6,811,528</u>	<u>61,345</u>

Cash flow hedges

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

	2015					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	<u>5,131</u>	<u>9,725</u>	<u>11,069</u>	<u>(1,287)</u>	<u>(4,627)</u>	<u>20,011</u>
<b>2014</b>						
	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
	<u>27,459</u>	<u>9,076</u>	<u>9,644</u>	<u>24,358</u>	<u>(14,266)</u>	<u>56,271</u>

The gains and losses recognized in the income statement for the years ended December 31, 2015 and 2014, arising from fair value hedge operations, were as follows:

	2015			2014		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	(719)	719	-	44	(44)	-
Available-for-sale financial assets	(16,662)	16,662	-	(188,189)	188,189	-
Resources of customers and other debts	2,443	(2,298)	145	(1,833)	3,896	2,063
Debt securities	963	(963)	-	9,549	(11,463)	(1,914)
	<u>(13,975)</u>	<u>14,120</u>	<u>145</u>	<u>(180,429)</u>	<u>180,578</u>	<u>149</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

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

Fair value of financial instruments

At December 31, 2015 and 2014, financial instruments were made up as follows:

	2015			2014		
	Valued at fair value	Not valued at fair value	Total	Valued at fair value	Not valued at fair value	Total
<b>Assets</b>						
Cash and deposits at central banks	-	3,134,032	3,134,032	-	830,474	830,474
Balances due from other banks	-	463,898	463,898	-	241,218	241,218
Financial assets held for trading	1,750,694	-	1,750,694	2,291,734	-	2,291,734
Available-for-sale financial assets	6,403,006	64,807	6,467,813	6,699,547	13,008	6,712,555
Loans and advances to credit institutions	-	1,535,436	1,535,436	-	1,220,917	1,220,917
Loans and advances to customers	195,446	31,585,519	31,780,965	37,354	25,485,897	25,523,251
Hedging derivatives	130,292	-	130,292	195,035	-	195,035
	<b>8,479,438</b>	<b>36,783,692</b>	<b>45,263,130</b>	<b>9,223,670</b>	<b>27,791,514</b>	<b>37,015,184</b>
<b>Liabilities</b>						
Resources of central banks	-	4,952,679	4,952,679	-	4,406,312	4,406,312
Financial liabilities held for trading	1,721,691	-	1,721,691	1,995,019	-	1,995,019
Resources of other credit institutions	-	3,545,229	3,545,229	-	4,030,724	4,030,724
Resources of customers and other debts	3,215,210	23,911,103	27,126,313	3,555,668	18,070,234	21,625,902
Debt securities	16,261	5,027,184	5,043,445	175,460	2,797,651	2,973,111
Hedging derivatives	170,133	-	170,133	133,690	-	133,690
Subordinated liabilities	-	4,302	4,302	-	4,306	4,306
	<b>5,123,295</b>	<b>37,440,497</b>	<b>42,563,792</b>	<b>5,859,837</b>	<b>29,309,227</b>	<b>35,169,064</b>

The financial assets and liabilities for which hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

At December 31, 2015 and 2014, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	2015				
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Net book value
<b>Assets</b>					
Financial assets held for trading	4,065	-	1,746,629	-	1,750,694
Available-for-sale financial assets	6,129,912	125,609	178,283	20,761	(51,559)
Loans and advances to customers	191,785	349	-	3,527	(215)
Hedging derivatives	-	-	130,292	-	130,292
	<b>6,325,762</b>	<b>125,958</b>	<b>2,055,204</b>	<b>24,288</b>	<b>(51,774)</b>
<b>Liabilities</b>					
Financial liabilities held for trading	-	-	1,721,691	-	1,721,691
Resources of customers and other debts	3,189,489	30,144	-	(4,423)	3,215,210
Debt securities	14,930	533	-	798	16,261
Hedging derivatives	-	-	170,133	-	170,133
	<b>3,204,419</b>	<b>30,677</b>	<b>1,891,824</b>	<b>(3,625)</b>	<b>5,123,295</b>
2014					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Net book value
				Impairment	
<b>Assets</b>					
Financial assets held for trading	320,347	1,093	1,970,294	-	2,291,734
Available-for-sale financial assets	6,307,851	152,340	256,913	37,423	(54,980)
Loans and advances to customers	32,887	261	-	4,246	(40)
Hedging derivatives	-	-	195,035	-	195,035
	<b>6,661,085</b>	<b>153,694</b>	<b>2,422,242</b>	<b>41,669</b>	<b>(55,020)</b>
<b>Liabilities</b>					
Financial liabilities held for trading	-	-	1,995,019	-	1,995,019
Resources of customers and other debts	3,508,013	49,722	-	(2,067)	3,555,668
Debt securities	167,375	6,324	-	1,761	175,460
Hedging derivatives	-	-	133,690	-	133,690
	<b>3,675,388</b>	<b>56,046</b>	<b>2,128,709</b>	<b>(306)</b>	<b>5,859,837</b>

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

The methods used to determine fair value for the financial instruments were based on listed prices on active markets or other valuation techniques, such as discounted cash flows. At December 31, 2015 and 2014, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	2015					
	Methodology of determining fair value					
	Listed in active markets	Other valuation techniques	(Level 1)	(Level 2)	(Level 3)	Total

**Assets**

Financial assets held for trading	-	1,632,210	118,484	1,750,694
Available-for-sale financial assets	6,110,637	137,380	154,989	6,403,006
Loans and advances to customers	-	195,446	-	195,446
Hedging derivatives	-	130,292	-	130,292
	<b>6,110,637</b>	<b>2,095,328</b>	<b>273,473</b>	<b>8,479,438</b>

**Liabilities**

Financial liabilities held for trading	-	1,721,691	-	1,721,691
Resources of customers and other debts	-	3,215,210	-	3,215,210
Debt securities	-	16,261	-	16,261
Hedging derivatives	-	170,133	-	170,133
	<b>-</b>	<b>5,123,295</b>	<b>-</b>	<b>5,123,295</b>

**2014**

	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	304,871	1,761,896	224,967	2,291,734
Available-for-sale financial assets	6,130,956	320,079	248,512	6,699,547
Loans and advances to customers	-	37,354	-	37,354
Hedging derivatives	-	195,035	-	195,035
	<b>6,435,827</b>	<b>2,314,364</b>	<b>473,479</b>	<b>9,223,670</b>

**Liabilities**

Financial liabilities held for trading	-	1,995,019	-	1,995,019
Resources of customers and other debts	-	3,555,668	-	3,555,668
Debt securities	-	175,460	-	175,460
Hedging derivatives	-	133,690	-	133,690
	<b>-</b>	<b>5,859,837</b>	<b>-</b>	<b>5,859,837</b>

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In accordance with IFRS 7 and IFRS 13, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published in active markets, comprising mainly government debt, some private debt, investment funds and shares.
- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets valued with indicative bids provided by external counterparties and the majority of the derivative financial instruments used for hedging and trading. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flows models and "Black-Scholes" based models for options and structured products. The discounted cash flows models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or entity with similar rating.

For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with listed credit default swaps – published price quotations in active markets;
- Counterparties without listed credit default swaps:
  - Published quoted prices in active markets for counterparties with similar risk; or
  - Probability of default estimated taking into consideration the internal rating assigned to the client (see section credit risk of this Note) x loss given default (specific for project finance clients and 60% for other clients).

When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Bank classified its derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Bank, those financial instruments were classified as Level 3.

- Level 3 – In this level the Bank classifies the financial instruments that are valued using internal models with some inputs that do not correspond to market observable data. Some unlisted securities for which the Bank uses market data extrapolations were classified in this category.

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In 2015 and 2014, the changes in financial instruments classified as "Level 3" were as follows:

	Financial assets held for trading		Available-for-sale financial assets	Total
	Securities	Derivatives		
Financial instruments classified as Level 3 as of December 31, 2013 (pro forma)	35,952	106,119	264,989	407,060
Acquisitions	719	47,258	12,502	60,479
Sales	(32,802)	(29,492)	(36,002)	(98,296)
Changes in fair value	(199)	97,412	14,760	111,973
Impairment recognized in the year	-	-	(7,737)	(7,737)
Financial instruments classified as Level 3 as of December 31, 2014	3,670	221,297	248,512	473,479
Acquisitions	108	8,769	-	8,877
Sales	-	(79,842)	(11,684)	(91,526)
Liquidation	(648)	-	(39,429)	(40,077)
Reclassifications	-	-	(48,749)	(48,749)
Changes in fair value	(34)	(34,836)	6,339	(28,531)
Impairment recognized in the year	-	-	-	-
Financial instruments classified as Level 3 as of December 31, 2015	3,096	115,388	154,989	273,473

The reclassifications from Level 3 occurred in 2015 in available-for-sale financial assets correspond to participating units held in real estate investment funds with limited liquidity, or unlisted venture capital funds with limited liquidity, valued since the reclassification at their historical cost.

At December 31, 2015 and 2014, the valuation techniques, the inputs used and the relationship between those inputs and the fair value determined for financial instruments classified as Level 3 were as follows:

Financial instruments	Valuation techniques	Inputs used	Relationship between the inputs used and the fair value determined
<i>Financial assets held for trading</i>			
Debt securities	Price provided by the counterparty	. No information	Not applicable.
Participating units in Real Estate Funds	Price disclosed by the respective Management Company	. Yields . Rents per square meter . Occupancy rates	If an increase of the rent per square meter occurs or an increase in the occupancy rate or a decrease in the yield occurs, the fair value determined will increase. If a decrease in the amount of the rent per square meter occurs or a decrease of the occupancy rate or an increase of the yield occurs, the fair value determined will decrease.
Derivative financial instruments	Discounted cash flows/ Valuation models	. Probability of default (PD) taking into consideration internal credit ratings assigned by the Bank . Specific LGD's	If a higher probability of default or a higher LGD is used, the fair value of the financial instrument will decrease. On the other hand, if a lower probability of default or a lower LGD is used, the fair value of the financial instrument will increase.
<i>Available-for-sale financial assets</i>			
Debt securities	Discounted cash flows	. Credit spread calculated internally by the Bank	If a higher credit spread is used, the fair value of the security will decrease. On the other hand, if a lower credit spread is used, the fair value of the security will increase.
Participating units in real estate funds	Price disclosed by the respective Management Company	. Yields . Rents per square meter . Occupancy rates	If an increase of the rent per square meter occurs or an increase in the occupancy rate or a decrease in the yield occurs, the fair value determined will increase. If a decrease in the amount of the rent per square meter occurs or a decrease of the occupancy rate or an increase of the yield occurs, the fair value determined will decrease.
Participating units in Venture Capital Funds	Price disclosed by the respective Management Company	. No information	Not applicable.

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The most representative interest rate curves used by maturity and currency were the following:

	December 31, 2015		December 31, 2014	
	EUR	USD	EUR	USD
Overnight	-0.04%	0.61%	0.02%	0.22%
1 month	-0.02%	0.57%	0.10%	0.23%
3 months	-0.02%	0.61%	0.17%	0.26%
6 months	-0.04%	0.70%	0.17%	0.29%
9 months	-0.05%	0.78%	0.16%	0.35%
1 year	-0.06%	0.86%	0.16%	0.44%
3 years	0.06%	1.42%	0.22%	1.29%
5 years	0.33%	1.76%	0.36%	1.80%
7 years	0.62%	1.99%	0.53%	2.09%
10 years	1.00%	2.22%	0.82%	2.34%

At December 31, 2015 and 2014, the book value and the fair value of the financial instruments valued at amortized cost or historical cost was as follows:

	2015		
	Book value	Fair value	Difference
<b>Assets</b>			
Cash and deposits at central banks	3,134,032	3,134,032	-
Balances due from other banks	463,898	463,898	-
Available-for-sale financial assets	64,807	64,807	-
Loans and advances to credit institutions	1,535,436	1,567,464	32,028
Loans and advances to customers	31,585,519	31,023,382	(562,137)
	<b>36,783,692</b>	<b>36,253,583</b>	<b>(530,109)</b>
<b>Liabilities</b>			
Resources of central banks	4,952,679	4,955,163	(2,484)
Resources of other credit institutions	3,545,229	3,582,827	(37,598)
Resources of customers and other debts	23,911,103	23,983,746	(72,643)
Debt securities	5,027,184	4,950,983	76,201
Subordinated liabilities	4,302	4,283	19
	<b>37,440,497</b>	<b>37,477,002</b>	<b>(36,505)</b>

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	2014		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	830,474	830,474	-
Balances due from other banks	241,218	241,218	-
Available-for-sale financial assets	13,008	13,008	-
Loans and advances to credit institutions	1,220,917	1,273,301	52,384
Loans and advances to customers	25,485,897	23,639,357	(1,846,540)
	<u>27,791,514</u>	<u>25,997,358</u>	<u>(1,794,156)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	4,406,312	4,403,630	2,682
Resources of other credit institutions	4,030,724	4,009,901	20,823
Resources of customers and other debts	18,070,234	18,203,397	(133,163)
Debt securities	2,797,651	2,768,244	29,407
Subordinated liabilities	4,306	4,306	-
	<u>29,309,227</u>	<u>29,389,478</u>	<u>(80,251)</u>

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows. At December 31, 2015 and 2014, the financial instruments recorded at amortized cost or historical cost presented the following detail by valuation methodology:

	2015			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	-	3,134,032	-	3,134,032
Balances due from other banks	-	463,898	-	463,898
Available-for-sale financial assets	-	-	64,807	64,807
Loans and advances to credit institutions	-	1,535,436	-	1,535,436
Loans and advances to customers	-	-	31,585,519	31,585,519
	<u>-</u>	<u>5,133,366</u>	<u>31,650,326</u>	<u>36,783,692</u>
<b><u>Liabilities</u></b>				
Resources of central banks	-	4,952,679	-	4,952,679
Resources of other credit institutions	-	3,545,229	-	3,545,229
Resources of customers and other debts	-	-	23,911,103	23,911,103
Debt securities	-	-	5,027,184	5,027,184
Subordinated liabilities	-	-	4,302	4,302
	<u>-</u>	<u>8,497,908</u>	<u>28,942,589</u>	<u>37,440,497</u>

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	2014			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
<b><i>Assets</i></b>				
Cash and deposits at central banks	-	830,474	-	830,474
Balances due from other banks	-	241,218	-	241,218
Available-for-sale financial assets	-	-	13,008	13,008
Loans and advances to credit institutions	-	1,220,917	-	1,220,917
Loans and advances to customers	-	-	25,485,897	25,485,897
	<b>2,292,609</b>	<b>25,498,905</b>	<b>27,791,514</b>	
<b><i>Liabilities</i></b>				
Resources of central banks	-	4,406,312	-	4,406,312
Resources of other credit institutions	-	4,030,724	-	4,030,724
Resources of customers and other debts	-	-	18,070,234	18,070,234
Debt securities	-	-	2,797,651	2,797,651
Subordinated liabilities	-	-	4,306	4,306
	<b>8,437,036</b>	<b>20,872,191</b>	<b>29,309,227</b>	

The main assumptions used in the assessment of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;
- The fair value of variable rate loans was determined considering the average spread of the production in the last quarter which has been used to discount the future portfolio cash flows. Regarding the fixed rate loans, future cash flows were discounted at the average rates applied by the Bank in the last quarter of the year;
- The fair value of demand deposits from customers was considered to be equal to its book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the year for each type of deposit;
- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the year; and
- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

## **RISK MANAGEMENT**

### **CREDIT RISK**

Credit risk management by the Bank includes identification, measurement, integration and evaluation of different credit risk exposures and analysis of return in relation to risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group Risk Area, which is responsible for managing the special client vigilance system, the credit risk segmentation based on the characteristics of customers and products and for the scoring and rating systems (applicable to mortgage loans, consumer credit and credit cards) used by the Bank.

Counterparty risk consists in the potential credit risk on transactions in financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks with certain customer segments, a perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables that the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating variables relating to the credit quality of each counterparty in the quantitative control.

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At December 31, 2015 and 2014, the maximum exposure to credit risk and the corresponding book value of the financial instruments were as follows:

	2015		2014	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	3,134,032	3,134,032	830,474	830,474
Balances due from other banks	463,898	463,898	241,218	241,218
Financial assets held for trading	1,750,694	1,750,694	2,291,734	2,291,734
Available-for-sale financial assets	6,467,813	6,467,813	6,712,555	6,712,555
Loans and advances to credit institutions	1,535,436	1,535,436	1,220,917	1,220,917
Loans and advances to customers	31,780,965	37,038,663	25,523,251	30,146,120
Hedging derivatives	130,292	130,292	195,035	195,035
Investments in associates	42,957	42,957	166,359	166,359
	<u>45,306,087</u>	<u>50,563,785</u>	<u>37,181,543</u>	<u>41,804,412</u>
Guarantees and sureties and open documentary credits (Note 29)	<u>1,716,444</u>	<u>1,716,444</u>	<u>1,300,545</u>	<u>1,300,545</u>

The maximum exposure in "Loans and advances to customers" at December 31, 2015 includes tEuros 658,347 and tEuros 4,599,351 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 417,809 and tEuros 4,205,060 at December 31, 2014, respectively).

Loans granted

The Bank monthly reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in "Carta-Circular" No. 02/2014/DSP issued by Bank of Portugal, in February 26, 2014, the Bank presents the following information reported to December 31, 2015 and 2014:

Credit exposure and respective impairment by segment, except credit transferred from former Banif:

Segment	Exposure at December 31, 2015						Impairment at December 31, 2015		
	Total Exposure	Performing loans	of which cured credit	of which restructured	Non-performing loans	of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	8,455,216	8,234,418	2,444	275,098	220,798	65,629	(245,225)	(66,689)	(178,536)
Building and CRE	2,677,947	2,264,075	800	272,840	413,872	195,426	(349,302)	(52,560)	(296,742)
Mortgage	14,661,579	14,277,028	5,347	1,152,581	384,551	125,667	(273,911)	(36,165)	(237,746)
Retail	1,793,075	1,660,786	975	210,218	132,289	74,407	(162,487)	(27,859)	(134,628)
Guarantees not included in other segments	1,245,282	1,245,282	-	-	-	-	(1,273)	(792)	(481)
	<u>28,833,099</u>	<u>27,681,589</u>	<u>9,566</u>	<u>1,910,737</u>	<u>1,151,510</u>	<u>461,129</u>	<u>(1,032,198)</u>	<u>(184,065)</u>	<u>(848,133)</u>
Exposure at December 31, 2014									
Segment	Total Exposure	Performing loans	of which cured credit	of which restructured	Non-performing loans	of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	7,564,464	7,200,093	3,429	229,547	364,371	194,706	(282,266)	(75,813)	(206,453)
Building and CRE	3,036,506	2,553,175	14	357,260	483,331	232,453	(351,994)	(54,868)	(297,126)
Mortgage	14,950,326	14,491,944	2,025	993,184	458,382	166,322	(301,645)	(106,856)	(194,789)
Retail	1,890,535	1,666,376	319	221,511	224,159	125,367	(236,011)	(34,014)	(201,997)
Guarantees not included in other segments	988,087	988,087	-	-	-	-	(1,256)	(706)	(550)
	<u>28,429,918</u>	<u>26,899,675</u>	<u>5,787</u>	<u>1,801,502</u>	<u>1,530,243</u>	<u>718,848</u>	<u>(1,173,172)</u>	<u>(272,257)</u>	<u>(900,915)</u>

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At December 31, 2015 and 2014, the reconciliation between the maximum credit exposure referred in the table above and the total exposure presented previously is as follows:

	2015	2014
Maximum exposure do credit risk	30,679,471	30,146,120
Commitments on credit lines revocable	(4,291,040)	(4,205,060)
Guarantees given and other contingent liabilities - guarantees and sureties	1,157,321	1,084,029
Guarantees given and other contingent liabilities - documentary credits	235,635	216,516
Impairment losses	1,021,013	1,161,618
Deferred expenses	(65,659)	(69,414)
Commissions related to deferred cost (net)	99,885	100,355
Value adjustments of hedged assets	(3,527)	(4,246)
Total credit exposure	<u>28,833,099</u>	<u>28,429,918</u>

The detail of total impairment is as follows:

	2015	2014
Impairment of loans and advances to customers (Note 10)	( 1,021,013 )	( 1,161,618 )
Provisions and impairment for guarantees and commitments (Note 22)	( 11,185 )	( 11,554 )
-----	-----	-----
	( 1,032,198 )	( 1,173,172 )
	=====	=====

The aging of the credit exposure and its impairment losses, except loans transferred from former Banif, is as follows:

Segment	Total	Total exposure at December 31, 2015			
		Performing loans		Non-performing loans	
		Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
<b>Credit</b>					
Corporate	8,455,216	8,197,466	36,952	-	220,798
Building and CRE	2,677,947	2,245,991	18,084	-	413,872
Mortgage	14,661,579	14,137,900	139,128	-	384,551
Retail	1,793,075	1,634,060	26,726	-	132,289
Guarantees not included in other segments	<u>1,245,282</u>	<u>1,245,282</u>	-	-	-
	<u>28,833,099</u>	<u>27,460,699</u>	<u>220,890</u>	<u>-</u>	<u>1,151,510</u>
<b>Impairment</b>					
Corporate	(245,225)	(61,663)	(5,026)	-	(178,536)
Building and CRE	(349,302)	(48,938)	(3,622)	-	(296,742)
Mortgage	(273,911)	(19,628)	(16,537)	-	(237,746)
Retail	(162,487)	(17,428)	(10,431)	-	(134,628)
Guarantees not included in other segments	<u>(1,273)</u>	<u>(792)</u>	-	-	<u>(481)</u>
	<u>(1,032,198)</u>	<u>(148,449)</u>	<u>(35,616)</u>	<u>-</u>	<u>(848,133)</u>
	<u>27,800,901</u>	<u>27,312,250</u>	<u>185,274</u>	<u>-</u>	<u>303,377</u>

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Segment	Total	Total exposure at December 31, 2014			
		Performing loans		Non-performing loans	
		Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
<b>Credit</b>					
Corporate	7,564,464	7,154,113		45,980	-
Building and CRE	3,036,506	2,504,283		48,892	-
Mortgage	14,950,326	14,336,868		155,076	-
Retail	1,890,535	1,637,097		29,279	-
Guarantees not included in other segments	988,087	988,087		-	-
	28,429,918	26,620,448		279,227	-
					1,530,243
<b>Impairment</b>					
Corporate	(282,266)	(60,175)		(15,638)	-
Building and CRE	(351,994)	(49,173)		(5,695)	-
Mortgage	(301,645)	(34,706)		(72,150)	-
Retail	(236,011)	(18,257)		(15,757)	-
Guarantees not included in other segments	(1,256)	(706)		-	(550)
	(1,173,172)	(163,017)		(109,240)	-
	27,256,746	26,457,431		169,987	-
					629,328

At December 31, 2015, the credit exposure and its impairment losses by year of production, except loans transferred from former Banif, is as follows:

Year of origination	2015														
	Corporate			Building and CRE			Mortgage			Retail			Guarantees not included in other segments		
	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	2,832	173,544	(3,624)	1,649	123,039	(5,321)	127,884	3,968,877	(69,624)	114,634	125,581	(4,484)	1,961	203,680	(126)
2005	1,147	47,530	(2,528)	888	67,457	(6,364)	26,270	1,263,635	(27,106)	18,124	22,345	(726)	189	5,353	(22)
2006	1,178	75,577	(4,033)	1,078	61,090	(8,972)	27,245	1,493,966	(34,714)	18,473	26,478	(1,258)	213	78,643	(331)
2007	1,801	92,824	(4,397)	1,604	109,222	(23,048)	36,880	2,073,411	(55,430)	27,504	38,703	(2,542)	226	46,884	(13)
2008	2,238	164,056	(5,581)	2,172	144,482	(17,838)	27,030	1,519,491	(44,821)	30,947	43,190	(4,674)	505	47,480	(93)
2009	2,941	193,722	(15,454)	2,483	158,543	(38,223)	17,792	1,054,185	(19,171)	29,001	42,965	(7,311)	508	16,942	(12)
2010	5,634	238,582	(17,314)	3,320	201,040	(36,449)	15,898	1,091,875	(11,827)	54,716	64,760	(16,049)	542	54,751	(79)
2011	7,972	245,029	(18,220)	3,873	183,670	(34,215)	7,720	480,975	(6,117)	68,483	106,285	(22,485)	572	47,779	(433)
2012	8,419	315,052	(32,977)	3,819	352,258	(97,871)	4,995	306,838	(2,763)	81,923	166,309	(33,180)	619	50,117	(9)
2013	10,542	490,671	(60,411)	3,448	215,769	(35,312)	4,010	284,065	(845)	90,847	264,129	(28,598)	893	130,687	(55)
2014	118,482	1,058,999	(39,531)	18,097	395,198	(28,112)	4,576	367,242	(684)	78,564	349,208	(24,163)	2,127	154,531	(29)
2015	106,362	5,359,630	(41,155)	20,760	666,179	(17,577)	8,415	757,025	(809)	115,749	543,122	(17,017)	2,452	408,435	(71)
	269,548	8,456,216	(245,225)	63,191	2,677,947	(349,302)	308,715	14,661,579	(273,911)	728,965	1,793,075	(162,487)	10,807	1,245,282	(1,273)

At December 31, 2015 and 2014, the impairment losses estimated individually and through the statistical model of collective analysis (except loans transferred from former Banif), by segment, were as follows:

	2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
<b>Corporate</b>						
Corporate	1,372,189	7,083,027	8,455,216	(150,202)	(95,023)	(245,225)
Building and CRE	781,079	1,896,868	2,677,947	(301,503)	(47,799)	(349,302)
Mortgage	-	14,661,579	14,661,579	-	(273,911)	(273,911)
Retail	-	1,793,075	1,793,075	-	(162,487)	(162,487)
Guarantees not included in other segments	55,879	1,189,403	1,245,282	(1,097)	(176)	(1,273)
	2,209,147	26,623,952	28,833,099	(452,802)	(579,396)	(1,032,198)

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2014

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	350,672	7,213,792	7,564,464	(113,681)	(168,585)	(282,266)
Building and CRE	924,918	2,111,588	3,036,506	(276,135)	(75,859)	(351,994)
Mortgage	-	14,950,326	14,950,326	-	(301,645)	(301,645)
Retail	-	1,890,535	1,890,535	-	(236,011)	(236,011)
Guarantees not included in other segments	9,744	978,343	988,087	(1,034)	(222)	(1,256)
	<u>1,285,334</u>	<u>27,144,584</u>	<u>28,429,918</u>	<u>(390,850)</u>	<u>(782,322)</u>	<u>(1,173,172)</u>

At December 31, 2015 and 2014, the credit risk analyzed individually and through the statistical model of collective analysis (except loans transferred from former Banif), had the following composition by sector, for the "Corporate" and "Building and CRE" segments:

2015

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1,016,353	1,466,872	2,483,225	(28,184)	(11,463)	(39,647)
Consulting, scientific, technical and similar consultancy activities	21,118	230,679	251,797	(8,356)	(3,032)	(11,388)
Human health and social support activities	8,303	154,146	162,449	(224)	(1,548)	(1,772)
International organizations activities and other extraterritorial institutions	-	32,628	32,628	-	(29)	(29)
Manufacturing industries	71,038	1,455,472	1,526,510	(15,626)	(27,129)	(42,755)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	-	71,913	71,913	-	(711)	(711)
Construction	713,766	1,042,141	1,755,907	(301,578)	(28,697)	(330,275)
Real Estate	123,515	423,486	547,001	(47,530)	(9,552)	(57,082)
Education	1,316	50,334	51,650	(27)	(552)	(579)
Other service activities	15,868	38,051	53,919	(781)	(764)	(1,545)
Transport and storage	4,693	302,169	306,862	(1,794)	(4,763)	(6,557)
Art, entertainment, recreation and sports activities	9,120	25,568	34,688	(2,280)	(1,248)	(3,528)
Agriculture, Livestock, Hunting, Forestry and Fishing	12,766	105,004	117,770	(911)	(1,807)	(2,718)
Wholesale and retail trade	97,244	1,356,816	1,454,060	(37,287)	(39,790)	(77,077)
Administrative and support activities	2,080	166,962	169,042	(512)	(2,182)	(2,694)
Information and communication activities	3,140	132,917	136,057	(1,139)	(1,486)	(2,625)
Electricity, gas and water	7,493	903,629	911,122	(761)	(701)	(1,462)
Hotels, restaurants and similar	45,455	251,449	296,904	(4,715)	(5,623)	(10,338)
Extractive industries	-	16,568	16,568	-	(1,397)	(1,397)
Public administration, defense and social security	-	752,710	752,710	-	(38)	(38)
Other	-	381	381	-	(310)	(310)
	<u>2,153,268</u>	<u>8,979,895</u>	<u>11,133,163</u>	<u>(451,705)</u>	<u>(142,822)</u>	<u>(594,527)</u>

2014

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	60,470	1,770,414	1,830,884	(23,388)	(10,571)	(33,959)
Consulting, scientific, technical and similar consultancy activities	30,093	168,710	198,803	(8,135)	(6,964)	(15,099)
Human health and social support activities	9,684	146,274	155,958	(2,617)	(3,797)	(6,414)
International organizations activities and other extraterritorial institutions	-	24,538	24,538	-	(236)	(236)
Manufacturing industries	58,352	1,487,066	1,545,418	(16,760)	(43,626)	(60,386)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	516	82,716	83,232	(10)	(1,044)	(1,054)
Construction	684,308	1,309,813	1,994,121	(212,921)	(47,675)	(260,596)
Real Estate	227,852	422,896	650,748	(58,192)	(10,587)	(68,779)
Education	1,000	29,355	30,355	(650)	(956)	(1,606)
Other service activities	17,916	54,099	72,015	(1,473)	(1,765)	(3,238)
Transport and storage	6,009	221,922	227,931	(1,398)	(10,175)	(11,573)
Art, entertainment, recreation and sports activities	9,387	19,727	29,114	(939)	(1,475)	(2,414)
Agriculture, Livestock, Hunting, Forestry and Fishing	3,775	78,867	82,642	(1,139)	(2,699)	(3,838)
Wholesale and retail trade	104,259	1,497,295	1,601,554	(38,061)	(78,585)	(116,646)
Administrative and support activities	17,230	186,298	203,528	(12,125)	(6,388)	(18,513)
Information and communication activities	783	173,332	174,115	(267)	(4,056)	(4,323)
Electricity, gas and water	-	709,551	709,551	-	(1,590)	(1,590)
Hotels, restaurants and similar	63,968	300,756	364,724	(11,592)	(10,938)	(22,530)
Extractive industries	613	16,019	16,632	(5)	(1,089)	(1,094)
Public administration, defense and social security	-	604,787	604,787	-	(71)	(71)
Other	153	167	320	(144)	(157)	(301)
	<u>1,296,368</u>	<u>9,304,602</u>	<u>10,600,970</u>	<u>(389,816)</u>	<u>(244,444)</u>	<u>(634,260)</u>

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At December 31, 2015 and 2014, the credit risk analyzed individually and through the statistical model of collective analysis (except loans transferred from former Banif) had the following composition by geography:

		2015				
		Portugal		England		
		Exposure	Impairment	Exposure	Impairment	
Individual		2,209,147	(452,802)	-	-	
Collective		25,754,726	(559,649)	869,226	(19,747)	
		<u>27,963,873</u>	<u>(1,012,451)</u>	<u>869,226</u>	<u>(19,747)</u>	

		2014				
		Portugal		England		
		Exposure	Impairment	Exposure	Impairment	
Individual		1,285,334	(390,850)	-	-	
Collective		26,345,957	(755,931)	798,627	(26,391)	
		<u>27,631,291</u>	<u>(1,146,781)</u>	<u>798,627</u>	<u>(26,391)</u>	

The risk analysis for customers or economic groups where the Bank has an exposure higher than 500,000 Euros are made by risk analysts that follow those customers and are supported by an internally developed rating model approved by the regulators. The risk level inherent to the customer is implied in the allocation of internal rating levels, which can go from 1 to 9, and the probability of default in a one year that the Bank monitors and calibrates in a constant and in a regular way. The rating is determined based on an analysis of the following parameters:

- . Demand/Market;
- . Owners/Management;
- . Access to credit;
- . Profitability;
- . Generation of funds;
- . Solvency.

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Owners/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	
Generation of funds	25%	55%
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information on the business sector and external databases. The final rating, by each weighting parameter, is subsequently introduced into the Bank's IT system.

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In general terms, the Bank's internal rating classification may be described in the following manner:

Rating 1 – 3: Customer with high credit risk;

Rating 4 – 6: Customer with moderate credit risk;

Rating 7 – 9: Customer with low credit risk.

At December 31, 2015 and 2014, the loans portfolio of the Bank (except loans transferred from former Banif) presents the following segmentation by internal rating:

	2015				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	217,791	4,447,680	1,424,162	2,365,583	8,455,216
Building and CRE	385,256	1,593,084	108,311	591,296	2,677,947
Mortgage	2,077,886	1,375,513	9,828,958	1,379,222	14,661,579
Retail	325,308	272,085	830,911	364,771	1,793,075
Guarantees not included in other segments	7,061	783,692	393,606	60,923	1,245,282
	<u>3,013,302</u>	<u>8,472,054</u>	<u>12,585,948</u>	<u>4,761,795</u>	<u>28,833,099</u>

	2014				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	247,552	4,280,905	1,351,484	1,684,523	7,564,464
Building and CRE	482,922	1,853,631	107,463	592,490	3,036,506
Mortgage	2,183,434	1,437,204	10,318,509	1,011,179	14,950,326
Retail	363,638	297,380	897,056	332,461	1,890,535
Guarantees not included in other segments	9,940	656,948	213,721	107,478	988,087
	<u>3,287,486</u>	<u>8,526,068</u>	<u>12,888,233</u>	<u>3,728,131</u>	<u>28,429,918</u>

At December 31, 2015 and 2014, the book value of executed guarantees and other collaterals relating to credit operations granted amounted to tEuros 211,838 and tEuros 263,017, respectively, and present the following detail:

	2015	2014
Non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	253,401	271,204
. Participating units	18,663	18,663
. Equipment	2,254	3,464
Investment properties (Note 13)	-	19,000
Other assets received as settlement of defaulting loans (Note 17)	42,479	65,440
Available-for-sale financial assets	<u>22,121</u>	<u>22,121</u>
	<u>338,918</u>	<u>399,892</u>
Impairment of non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	(89,596)	(92,406)
. Participating units	(4,000)	(4,000)
. Equipment	(1,638)	(2,499)
Impairment of other assets received as settlement of defaulting loans (Note 17)	(9,725)	(15,849)
Impairment of available-for-sale financial assets	<u>(22,121)</u>	<u>(22,121)</u>
	<u>(127,080)</u>	<u>(136,875)</u>
	<u>211,838</u>	<u>263,017</u>

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At December 31, 2015 and 2014, the detail of the fair value and the net book value of property received as settlement of defaulting loans, by type of asset, is as follows:

Asset	2015		
	Items of real estate property	Asset's fair value <sup>(*)</sup>	Book value
<b>Land</b>			
Urban	131	22,661	18,124
Rural	96	9,908	8,171
<b>Buildings</b>			
Commercial	514	56,361	46,725
Residential	1,463	102,136	83,016
Others	35	11,172	7,420
<b>Others</b>	4	394	349
	<b>2,243</b>	<b>202,632</b>	<b>163,805</b>

Asset	2014		
	Items of real estate property	Asset's fair value <sup>(*)</sup>	Book value
<b>Land</b>			
Urban	129	23,623	19,005
Rural	78	10,523	8,288
<b>Buildings</b>			
Commercial	449	52,937	44,856
Residential	1,571	126,560	96,547
Others	32	8,931	6,112
<b>Others</b>	14	5,097	3,990
	<b>2,273</b>	<b>227,671</b>	<b>178,798</b>

(\*) Does not include costs to sell and estimated historic loss and disposal of such assets.

At December 31, 2015 and 2014, the detail of the net book value of property received as settlement of defaulting loans, by aging, is as follows:

Asset	2015				
	Up to 1 year	From 1 year to 2,5 years	From 2,5 years to 5 years	Over 5 years	Total
<b>Land</b>					
Urban	774	1,162	4,050	12,138	18,124
Rural	220	3,342	3,952	657	8,171
<b>Buildings</b>					
Commercial	6,060	15,131	22,652	2,882	46,725
Residential	23,605	23,147	31,871	4,393	83,016
Others	1,927	2,082	3,207	204	7,420
<b>Others</b>	-	206	143	-	349
	<b>32,586</b>	<b>45,070</b>	<b>65,875</b>	<b>20,274</b>	<b>163,805</b>

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Asset	2014				
	Up to 1 year	From 1 year to 2,5 years	From 2,5 years to 5 years	Over 5 years	Total
<b>Land</b>					
Urban	214	2,769	15,166	856	19,005
Rural	90	6,540	722	936	8,288
<b>Buildings</b>					
Commercial	5,649	31,427	4,531	3,249	44,856
Residential	34,000	41,304	17,022	4,221	96,547
Others	-	2,533	2,994	585	6,112
<b>Others</b>	<b>1,368</b>	<b>2,576</b>	<b>46</b>	<b>-</b>	<b>3,990</b>
	<b>41,321</b>	<b>87,149</b>	<b>40,481</b>	<b>9,847</b>	<b>178,798</b>

Restructured credit

At December 31, 2015 and 2014, the restructured credit operations were identified in accordance with the Instruction nº 32/2013 of Bank of Portugal (which replaced the Instruction nº 18/2012) which established the definition of restructured credit due to client's financial difficulties.

According to the referred Instruction, the institutions shall identify and mark in their information systems credit operations of clients with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, postponement of the reimbursement deadline, introduction of grace periods, capitalized interest, reduction in interest rates, forgiveness of interest or principal) or the institution enters into new credit lines for settling (totally or partially) the existing debt service, in which cases the institutions should include the reference "restructured credit by financial difficulties of the client."

A client is considered to be in a difficult financial position whenever he has failed to fulfil any of its financial obligations to the institution or if it is predictable, given the information available, that such situation will occur.

Unmarking restructured credit by financial difficulties of the client can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

The change occurred in the restructured credit operations (except credit transferred from former Banif) during 2014 and 2015 was as follows:

Balance of the restructured portfolio (gross of impairment) at December, 31 2013	2,352,993
Restructured loans in the year	563,837
Accrued interest of the restructured portfolio	(1,192)
Restructured loans settlement (partial or total)	(372,288)
Other	(23,000)
Balance of the restructured portfolio (gross of impairment) at December, 31 2014	<u>2,520,350</u>
Restructured loans in the year	359,094
Accrued interest of the restructured portfolio	(1,513)
Restructured loans settlement (partial or total)	(477,059)
Other	(29,006)
Balance of the restructured portfolio (gross of impairment) at December, 31 2015	<u>2,371,866</u>

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At December 31, 2015 and 2014, the portfolio of restructured credits (except credit transferred from former Banif) by restructuring measure adopted had the following detail:

	2015									
	Performing loans			Non-performing loans			Total			
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	
Attribution of a grace period	34,899	992,152	(40,787)	7,659	166,422	(122,286)	42,558	1,158,574	(163,073)	
Others	28,632	918,585	(88,846)	7,574	294,707	(209,502)	36,206	1,213,292	(298,348)	
	<b>63,531</b>	<b>1,910,737</b>	<b>(129,633)</b>	<b>15,233</b>	<b>461,129</b>	<b>(331,788)</b>	<b>78,764</b>	<b>2,371,866</b>	<b>(461,421)</b>	

	2014									
	Performing loans			Non-performing loans			Total			
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	
Attribution of a grace period	36,117	987,824	61,542	8,751	177,463	153,884	44,868	1,165,287	215,426	
Others	27,987	813,678	89,707	10,875	541,385	254,350	38,862	1,355,063	344,057	
	<b>64,104</b>	<b>1,801,502</b>	<b>151,249</b>	<b>19,626</b>	<b>718,848</b>	<b>408,234</b>	<b>83,730</b>	<b>2,520,350</b>	<b>559,483</b>	

Collaterals

At December 31, 2015 and 2014, the coverage of overdue loans by real guarantees (except loans transferred from former Banif) was as follows:

Degree of coverage	2015							
	Exposure		Collaterals					
	Non overdue amount associated with overdue loans	Overdue loans (Note 10)	Total	Mortgages	Other collaterals	Total	Impairment	
Corporate								
>= 100%	16,340	31,678	48,018	18,545	11,575	30,120	(25,039)	
>= 80% e < 100%	8,628	13,022	21,650	22,303	2,330	24,633	(8,554)	
>= 60% e < 80%	12,382	38,029	50,411	65,220	8,371	73,591	(22,661)	
< 60%	32,962	132,504	165,466	352,564	25,914	378,478	(71,870)	
Without guarantee	176,310	271,337	447,647	-	-	-	(263,115)	
Mortage								
>= 100%	22,885	99,528	122,413	103,326	11	103,337	(41,913)	
>= 80% e < 100%	94,889	81,587	176,476	198,004	-	198,004	(38,196)	
>= 60% e < 80%	106,406	65,707	172,113	244,691	-	244,691	(32,376)	
< 60%	117,263	100,324	217,587	472,797	27	472,824	(47,972)	
Without guarantees	2,098	2,080	4,178	-	-	-	(1,239)	
Other individuals								
>= 100%	3,634	5,588	9,222	2,369	2,683	5,052	(5,182)	
>= 80% and < 100%	1,831	2,329	4,160	2,701	1,778	4,479	(2,447)	
>= 60% and < 80%	1,791	1,703	3,494	1,891	2,901	4,792	(1,777)	
< 60%	5,637	3,064	8,701	11,979	7,379	19,358	(4,374)	
Without guarantees	67,783	106,393	174,176	-	-	-	(124,824)	
	<b>670,839</b>	<b>954,873</b>	<b>1,625,712</b>	<b>1,496,390</b>	<b>62,969</b>	<b>1,559,359</b>	<b>(691,539)</b>	

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Degree of coverage	2014							
	Exposure			Collaterals				
	Non overdue amount associated with overdue loans	Overdue loans (Note 10)	Total	Mortgages	Other collaterals	Total	Impairment	
Corporate								
>= 100%	94,293	215,902	310,195	613,078	30,684	643,762	(116,358)	
>= 80% and < 100%	4,776	13,364	18,140	14,161	2,943	17,104	(10,997)	
>= 60% and < 80%	429	2,184	2,613	1,748	64	1,812	(1,504)	
< 60%	6,399	8,197	14,596	3,465	1,074	4,539	(6,994)	
Without guarantees	533,057	355,123	888,180	-	-	-	(359,593)	
Mortgage								
>= 100%	350,233	275,456	625,689	1,006,377	125	1,006,502	(133,590)	
>= 80% and < 100%	12,878	49,524	62,402	56,678	-	56,678	(20,139)	
>= 60% and < 80%	4,529	31,686	36,215	25,714	-	25,714	(14,897)	
< 60%	545	14,925	15,470	7,077	-	7,077	(9,491)	
Without guarantees	2,156	2,294	4,450	-	-	-	(16,672)	
Other individuals								
>= 100%	7,194	13,268	20,462	24,820	9,486	34,306	(13,156)	
>= 80% and < 100%	1,922	1,303	3,225	705	2,395	3,100	(1,275)	
>= 60% and < 80%	448	688	1,136	337	430	767	(269)	
< 60%	682	294	976	-	323	323	(451)	
Without guarantees	80,759	182,029	262,788	-	-	-	(195,529)	
	<b>1,100,300</b>	<b>1,166,237</b>	<b>2,266,537</b>	<b>1,754,160</b>	<b>47,524</b>	<b>1,801,684</b>	<b>(900,915)</b>	

At December 31, 2015 and 2014, the degree of coverage of performing loans, for which impairment was assigned based on an individual analysis:

Degree of coverage	2015				
	Performing loans	Collaterals			Impairment
		Mortgage	Other collaterals	Total	
>=100%	88,550	39,881	12,530	52,411	(26,372)
>= 80% e < 100%	38,451	43,237	2,791	46,028	(5,007)
>= 60% e < 80%	50,577	64,095	8,232	72,327	(3,385)
< 60%	58,348	134,049	4,095	138,144	(9,513)
Without guarantees	1,394,751	-	-	-	(58,879)
	<b>1,630,677</b>	<b>281,262</b>	<b>27,648</b>	<b>308,910</b>	<b>(103,156)</b>

Degree of coverage	2014				
	Performing loans	Collaterals			Impairment
		Mortgages	Other collaterals	Total	
>=100%	202,105	381,619	2,077	383,696	(23,017)
>= 80% and < 100%	31,924	26,250	2,559	28,809	(10,704)
>= 60% and < 80%	23,942	6,044	10,014	16,058	(9,283)
< 60%	10,288	347	1,862	2,209	(1,321)
Without guarantees	326,136	-	-	-	(69,025)
	<b>594,395</b>	<b>414,260</b>	<b>16,512</b>	<b>430,772</b>	<b>(113,350)</b>

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Encumbered assets

It is considered as an encumbered asset, an explicit or implicitly asset given collateral or subject to an agreement to ensure, collateralize or improve credit quality in any operation in which it cannot be freely withdrawn.

According to the requirements defined in Notice No. 28/2014 of January 15, 2015 of the Bank of Portugal, the Bank discloses information regarding encumbered assets.

At December 31, 2015 and 2014, the detail of the encumbered and unencumbered assets is as follows:

	2015			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets</b>				
Deposits at central banks and other credit institutions	20,804	-	3,113,228	-
Equity instruments	-	-	118,593	133,048
Debt securities	4,709,344	4,709,344	5,526,618	5,529,389
Loans and advances to customers and to credit institutions	12,444,644	-	16,988,542	-
Other assets	-	-	4,007,195	-
	<b>17,153,988</b>	<b>4,709,344</b>	<b>29,754,176</b>	<b>5,662,437</b>
	2014			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets</b>				
Deposits at central banks and other credit institutions	-	-	863,678	-
Equity instruments	-	-	115,896	115,896
Debt securities	5,294,786	5,294,786	3,719,575	3,719,575
Loans and advances to customers and to credit institutions	10,351,176	-	13,978,309	-
Other assets	-	-	4,536,942	-
	<b>15,645,962</b>	<b>5,294,786</b>	<b>23,214,400</b>	<b>3,835,471</b>

At December 31, 2015 and 2014, the liabilities associated with encumbered assets and received collaterals are as follows:

	2015	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bond or ABS
<b>Carrying amount of financial liabilities</b>		
Carrying amount of financial liabilities	9,199,085	11,071,387
Other	665,563	779,449
	<b>9,864,648</b>	<b>11,850,836</b>
	2014	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bond or ABS
<b>Carrying amount of financial liabilities</b>		
Carrying amount of financial liabilities	11,899,212	15,645,962
Other	364,000	-
	<b>12,263,212</b>	<b>15,645,962</b>

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At December 31, 2015 and 2014, the book value of the debt instruments was made up as follows, by external rating, in accordance with the Standard & Poor's rating classification:

	2015	2014
Financial assets held for trading		
Rating S&P		
AA+ / AA / AA-	- 1,257	
A+ / A / A-	- 103,947	
BBB+ / BBB / BBB-	- 133,495	
BB+ / BB / BB-	- 23,741	
B+ / B / B-	- -	
Without external rating	- 56,781	
	<hr/>	<hr/>
	- 319,221	
Available-for-sale financial assets		
Rating S&P		
BBB+ / BBB / BBB-	9,929 -	
BB+ / BB / BB-	6,045,447 5,888,016	
B+ / B / B-	108,577 111,574	
Without external rating	185,267 600,088	
	<hr/>	<hr/>
	6,349,220 6,599,678	
	<hr/>	<hr/>
	6,349,220 6,918,899	

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

### LIQUIDITY RISK

The liquidity risk management policy is decided in the top organization area responsible for Asset and Liability Management (ALM), the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

The Bank financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level given the credit lines available, the dispersion of the maturities and minimization of funding activity related costs.

Under its liquidity management policy, at December 31, 2015 and 2014 the Bank has a Euro Medium Term Notes (EMTN) programme of tEuros 5,000,000, of which tEuros 32,300 are used.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

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The projected cash flows of the financial instruments (not discounted) at December 31, 2015 and 2014, in accordance with their contractual maturity, were as follows:

	2015							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b>Assets</b>								
Cash and deposits at central banks	284,667	360	1,089	2,891	2,854,750	-	-	3,143,757
Balances due from other banks	463,898	-	-	-	-	-	-	463,898
Financial assets held for trading	1,750,694	-	-	-	-	-	-	1,750,694
Available-for-sale financial assets	2	48,792	175,493	1,352,981	2,476,589	2,970,632	191,477	7,215,966
Loans and advances to credit institutions	364,581	40,269	677,660	169,392	15,802	275,884	-	1,543,588
Loans and advances to customers	187,542	6,322,392	4,243,992	5,293,685	5,434,510	14,726,040	-	36,208,161
Hedging derivatives	130,292	-	-	-	-	-	-	130,292
	<b>3,181,676</b>	<b>6,411,813</b>	<b>5,098,234</b>	<b>6,818,949</b>	<b>10,781,651</b>	<b>17,972,556</b>	<b>191,477</b>	<b>50,456,356</b>
<b>Liabilities</b>								
Resources of central banks	1,404,484	1,100,149	-	2,453,964	-	-	-	4,958,597
Financial liabilities held for trading	1,721,691	-	-	-	-	-	-	1,721,691
Resources of other credit institutions	284,592	1,445,647	1,329,884	3,280	3,038	601,900	-	3,668,341
Resources of customers and other debts	8,905,366	5,048,603	6,907,147	6,036,093	882,570	22,315	-	27,802,094
Debt securities	798	31,300	320,609	1,352,224	1,739,228	2,108,026	-	5,552,185
Hedging derivatives	170,133	-	-	-	-	-	-	170,133
Subordinated liabilities	-	-	-	-	-	-	4,313	4,313
	<b>12,487,064</b>	<b>7,625,699</b>	<b>8,557,640</b>	<b>9,845,561</b>	<b>2,624,836</b>	<b>2,732,241</b>	<b>4,313</b>	<b>43,877,354</b>
	2014							
	À vista	Até 3 meses	De 3 meses a 1 ano	Entre 1 e 3 anos	Entre 3 e 5 anos	Mais de 5 anos	Indeterminado	Total
<b>Assets</b>								
Cash and deposits at central banks	208,014	78	238	632	623,094	-	-	832,056
Balances due from other banks	241,218	-	-	-	-	-	-	241,218
Financial assets held for trading	2,291,734	-	-	-	-	-	-	2,291,734
Available-for-sale financial assets	2	87,567	417,616	855,294	2,511,162	3,614,804	178,095	7,664,540
Loans and advances to credit institutions	80,897	54,609	613,661	477,306	2,175	49,954	-	1,278,602
Loans and advances to customers	315,350	2,204,676	3,184,363	5,225,099	4,068,893	14,240,783	-	29,239,164
Hedging derivatives	195,035	-	-	-	-	-	-	195,035
	<b>3,332,250</b>	<b>2,346,930</b>	<b>4,215,878</b>	<b>6,558,331</b>	<b>7,205,324</b>	<b>17,905,541</b>	<b>178,095</b>	<b>41,742,349</b>
<b>Liabilities</b>								
Resources of central banks	3,800,088	-	-	-	609,694	-	-	4,409,782
Financial liabilities held for trading	1,995,019	-	-	-	-	-	-	1,995,019
Resources of other credit institutions	224,704	2,804,571	316,626	303,951	4,636	405,393	-	4,059,881
Resources of customers and other debts	6,219,756	2,733,455	5,150,978	7,533,068	430,177	95,839	-	22,163,273
Debt securities	1,761	87,294	154,066	1,259,767	906,769	685,837	-	3,095,494
Hedging derivatives	133,690	-	-	-	-	-	-	133,690
Subordinated liabilities	-	-	-	-	-	-	4,319	4,319
	<b>12,375,018</b>	<b>5,625,320</b>	<b>5,621,670</b>	<b>9,096,786</b>	<b>1,951,276</b>	<b>1,187,069</b>	<b>4,319</b>	<b>35,861,458</b>

The projected cash flows of the financial instruments were determined based on principles and assumptions used by the Bank to manage and control liquidity resulting from its operations, namely the following ones:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve were calculated considering the forward interest rate curve;
- Financial instruments classified as “non-structural” were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;
- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months; and
- The projected cash flows of demand deposits were considered as being payable on demand.

## **MARKET RISK**

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity security prices, precious metals and commodities.

The standard methodology applied for the Bank trading activity is Value at Risk (VaR). Historical simulation with a 99% confidence level and a time horizon of one day is used as the basis being applied statistical adjustments to enable the more recent occurrences that affect the level of risk assumed to be included quickly and effectively. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measures.

The VaR calculated represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

In addition, other measures are carried out that enable additional risk control to be maintained. In abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios with different financial variables, in order to obtain the corresponding potential impact on results. In resume, the analysis of scenarios tries to identify the potential risk in extreme market conditions and scenarios at the limits of probability, not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being made of changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measures and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results of parallel changes in the interest rate curves. Because of the unusual nature of derivative operations, specific sensitivity measures are performed daily, namely calculation of sensitivity to changes in the underlying prices (delta and gamma), volatility (i) and time (theta).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed to protect the volume of potential losses (VaR, Equivalent positions and sensitivity); and
- Limits aimed to protect the volume of effective losses or the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and repricing structure, which determine the sensitivity of the financial margin and the sensitivity of the asset value of balance sheet instruments.

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**Interest rate risk**

At December 31, 2015 and 2014, financial instruments by exposure to interest rate risk were as follows:

	2015				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
<b>Assets</b>					
Cash and deposits at central banks	-	2,849,364	284,668	-	3,134,032
Balances due from other banks	-	-	463,898	-	463,898
Financial assets held for trading	-	-	3,096	1,747,598	1,750,694
Available-for-sale financial assets	5,609,518	424,326	433,969	-	6,467,813
Loans and advances to credit institutions	1,112,740	371,308	51,388	-	1,553,436
Loans and advances to customers	3,772,881	27,904,212	103,872	-	31,780,965
Hedging derivatives	-	-	-	130,292	130,292
	<b>10,495,139</b>	<b>31,549,210</b>	<b>1,340,891</b>	<b>1,877,890</b>	<b>45,263,130</b>
<b>Liabilities</b>					
Resources of central banks	2,446,000	2,500,000	6,679	-	4,952,679
Financial liabilities held for trading	-	-	-	1,721,691	1,721,691
Resources of other credit institutions	162,807	2,863,654	518,768	-	3,545,229
Resources of customers and other debts	18,297,662	8,626,069	202,582	-	27,126,313
Debt securities	2,733,748	2,291,199	18,498	-	5,043,445
Hedging derivatives	-	-	-	170,133	170,133
Subordinated liabilities	-	4,275	27	-	4,302
	<b>23,640,217</b>	<b>16,285,197</b>	<b>746,554</b>	<b>1,891,824</b>	<b>42,563,792</b>
<b>2014</b>					
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
<b>Assets</b>					
Cash and deposits at central banks	-	622,460	208,014	-	830,474
Balances due from other banks	-	-	241,218	-	241,218
Financial assets held for trading	121,600	197,621	3,019	1,969,494	2,291,734
Available-for-sale financial assets	5,344,934	804,792	562,829	-	6,712,555
Loans and advances to credit institutions	890,877	282,915	47,125	-	1,220,917
Loans and advances to customers	2,821,989	22,676,129	25,133	-	25,523,251
Hedging derivatives	-	-	-	195,035	195,035
	<b>9,179,400</b>	<b>24,583,917</b>	<b>1,087,338</b>	<b>2,164,529</b>	<b>37,015,184</b>
<b>Liabilities</b>					
Resources of central banks	606,000	3,800,051	261	-	4,406,312
Financial liabilities held for trading	-	-	-	1,995,019	1,995,019
Resources of other credit institutions	3,167,409	863,072	243	-	4,030,724
Resources of customers and other debts	15,758,146	5,699,091	168,665	-	21,625,902
Debt securities	1,918,587	1,034,484	20,040	-	2,973,111
Hedging derivatives	-	-	-	133,690	133,690
Subordinated liabilities	-	4,275	31	-	4,306
	<b>21,450,142</b>	<b>11,400,973</b>	<b>189,240</b>	<b>2,128,709</b>	<b>35,169,064</b>

**Financial instruments – non-trading**

The methodology used for the calculation of the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities based on changes of 100 basis points (bp's) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;
- The assets and liabilities are grouped in accordance with their exposure to interest rate risk;
- Future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each sensitive operation (contract);
- Operations are sub-grouped by re-pricing/maturity date for each previously defined group;

- The intended time ranges for measurement of the interest rate gaps are defined;
- For each group, the cash flows are re-grouped based on the ranges created;
- For each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and
- The total inflows and outflows are calculated for each range and the difference between them, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap enables an approximation to the sensitivity of the net assets value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- The volumes remain constant in the balance sheet and are automatically renewed;
- The movements in interest rates are assumed to be parallel, while the possibility of actual changes for different terms of the interest rate curve is not considered; and
- Different elasticity between the various products is not considered.

In terms of variation in net asset's value, an increase in the interest rates originates a decrease in the amount of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

*General assumptions of this interest rate sensitivity analysis*

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance remain unchanged during the period under analysis;
- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;
- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and
- New business features (term, spread, indexing factor and other) – the conditions applied in the budget for each product are used. When these features cease to be within market conditions for certain products, the average conditions in place in the last month or new commercial directives for each product under review are used.

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At December 31, 2015 and 2014, the sensitivity of the Bank's financial instruments to positive and negative changes of 100 basis points (bp's) in the interest rates, over a time frame of one year, corresponds to:

	2015		2014	
	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
<b><u>Assets</u></b>				
Cash and deposits at central banks	1,627	83,080	263	9,556
Available-for-sale financial assets	(326,835)	288,920	(364,218)	208,326
Loans and advances to credit institutions	(6,493)	7,016	(8,362)	3,714
Loans and advances to customers	(182,767)	110,011	(134,640)	53,400
	<u>(514,468)</u>	<u>489,027</u>	<u>(506,957)</u>	<u>274,996</u>
Hedging derivatives	<u>22,224</u>	<u>(40,417)</u>	<u>(54,126)</u>	<u>9,259</u>
<b><u>Liabilities</u></b>				
Resources of central banks	(68,348)	23,265	(22,764)	6,170
Resources of other credit institutions	(8,501)	6,124	(4,825)	542
Resources of customers and other debts	(532,907)	338,888	(401,951)	136,480
Debt securities	(80,645)	48,438	(58,746)	15,003
Other subordinated liabilities	<u>(6)</u>	<u>2</u>	<u>-</u>	<u>-</u>
	<u>(690,407)</u>	<u>416,717</u>	<u>(488,286)</u>	<u>158,195</u>

Financial instruments held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;
- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);
- Exponential deterioration factor: Enables that the amount of changes in market factors to be exponentially weighted over time, by giving less weight to more distant observations in time. The exponential deterioration factor applied is calculated periodically taking in consideration the Market Risk methodology;

In any case, the values of VaR are the highest arising from the calculation made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow accumulation of different units; and
- Time window of market data: A 2 year time window is used or at least 520 items of data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between them, are well reflected in the historical period selected.

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In addition, a complete revaluation of the portfolio requires a valuation for each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At December 31, 2015 and 2014, the VaR associated to the interest rate risk corresponds to:

	2015	2014
VaR Percentil 99%	(4)	(1)
VaR Weighted Percentil 99%	(25)	(1)

### Foreign exchange risk

The profile defined for foreign exchange risk is very conservative and is based on the hedging policy adopted. Implementation of such policy is a responsibility of the Treasury Department so that the risks involved are maintained at a low level, being those achieved mainly through currency swaps. Exchange risk limits are established and monitored by the Market Risk Area.

At December 31, 2015 and 2014, financial instruments by currency were as follows:

	2015			
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	3,128,135	2,486	3,411	3,134,032
Balances due from other banks	408,863	34,345	20,690	463,898
Financial assets held for trading	1,748,022	2,574	98	1,750,694
Available-for-sale financial assets	6,467,813	-	-	6,467,813
Loans and advances to credit institutions	819,396	636,260	79,780	1,535,436
Loans and advances to customers	31,458,868	300,746	21,351	31,780,965
Hedging derivatives	129,584	708	-	130,292
	<b>44,160,681</b>	<b>977,119</b>	<b>125,330</b>	<b>45,263,130</b>
<b><u>Liabilities</u></b>				
Resources of central banks	4,948,209	-	4,470	4,952,679
Financial liabilities held for trading	1,701,878	19,715	98	1,721,691
Resources of other credit institutions	3,157,960	383,597	3,672	3,545,229
Resources of customers and other debts	25,556,896	1,346,985	222,432	27,126,313
Debt securities	5,013,954	28,205	1,286	5,043,445
Hedging derivatives	168,116	2,017	-	170,133
Subordinated liabilities	4,302	-	-	4,302
	<b>40,551,315</b>	<b>1,780,519</b>	<b>231,958</b>	<b>42,563,792</b>

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	2014			
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	822,546	4,277	3,651	830,474
Balances due from other banks	184,396	42,768	14,054	241,218
Financial assets held for trading	2,261,697	28,528	1,509	2,291,734
Available-for-sale financial assets	6,712,555	-	-	6,712,555
Loans and advances to credit institutions	833,871	353,009	34,037	1,220,917
Loans and advances to customers	25,262,509	238,869	21,873	25,523,251
Hedging derivatives	193,802	1,233	-	195,035
	<b>36,271,376</b>	<b>668,684</b>	<b>75,124</b>	<b>37,015,184</b>
<b><u>Liabilities</u></b>				
Resources of central banks	4,406,312	-	-	4,406,312
Financial liabilities held for trading	1,993,129	1,671	219	1,995,019
Resources of other credit institutions	3,651,700	372,316	6,708	4,030,724
Resources of customers and other debts	20,540,195	918,865	166,842	21,625,902
Debt securities	2,973,111	-	-	2,973,111
Hedging derivatives	131,337	2,353	-	133,690
Subordinated liabilities	4,306	-	-	4,306
	<b>33,700,090</b>	<b>1,295,205</b>	<b>173,769</b>	<b>35,169,064</b>

At December 31, 2015 and 2014, the VaR associated to foreign exchange risk corresponds to:

	2015	2014
VaR Percentil 99%	(8)	(6)
VaR Weighted Percentil 99%	(10)	(5)

**Equity risk of assets**Financial instruments held for trading

At December 31, 2015 and 2014, the Bank had no equity risk associated with financial instruments held for trading and therefore the VaR related to this risk is zero.

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**Compensation of financial assets and liabilities**

At December 31, 2015 and 2014, the value of derivatives traded in the OTC market, offset by related financial derivatives by type of counterparty is as follows:

Counter part	2015			
	Financial assets/liabilities in the financial statements	Financial Instrument	Amounts related not offset in the financial statements	Net Value
Financial institution	3,257	-	(3,500)	(243)
Group Companies	(1,403,158)	-	200,000	(1,203,158)
	<u>(1,399,901)</u>	<u>-</u>	<u>196,500</u>	<u>(1,203,401)</u>

Counter part	2014			
	Financial assets/liabilities in the financial statements	Financial Instrument	Amounts related not offset in the financial statements	Net Value
Financial institution	4,271	-	(4,200)	71
Group Companies	(1,749,115)	-	200,000	(1,549,115)
	<u>(1,744,844)</u>	<u>-</u>	<u>195,800</u>	<u>(1,549,044)</u>

At December 31, 2015 and 2014, the amount of sale operations with repurchase agreement by counterparty, is as follows:

Counter part	2015			
	Financial assets/liabilities in the financial statements	Financial Instrument	Amounts related not offset in the financial statements	Net Value
Financial institutions	(2,183,776)	2,183,711	64,508	64,443
	<u>(2,183,776)</u>	<u>2,183,711</u>	<u>64,508</u>	<u>64,443</u>

Counter part	2014			
	Financial assets/liabilities in the financial statements	Financial Instrument	Amounts related not offset in the financial statements	Net Value
Financial institutions	(2,797,788)	2,796,181	43,734	42,127
	<u>(2,797,788)</u>	<u>2,796,181</u>	<u>43,734</u>	<u>42,127</u>

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49. CAPITAL MANAGEMENT

BST endeavours to have significant financial stability through the maintenance of an adequate equity ratio – relationship between Eligible Equity Funds capital and assets weighted by risk (or positions in risk) - above 8%, which is the minimum legal ratio requirement established under Directive No. 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013, both of the European Parliament and of the Council of June 26, 2013, which have been established in the Basel Agreement (BIS III).

The dividend distribution policy is subject to the maintenance of a capital base that enables the Bank to sustain the development of its operations within its risk policies.

BST uses the mixed method for credit risk, namely the advanced method (IRB) for most of the loans segments and the standard method for leasing, factoring and manual operations and portfolio of former Banif.

As from December 2010, BST has used the mixed method for market risk, namely internal models for most of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

In June 2012, BST started to use the standard method for determining the requirements of operational risk, having used the basic indicator method till that date.

From January 1, 2014, BST started to report its capital ratios according to the new regulatory framework established by BIS III, which provides a transitional period, which however is more demanding for the core capital ratio (or Common Equity Tier I, CET1), namely through the establishment of additional deductions and higher ratios in the calculation of risk weighted assets (or positions in risk).

The following table summarizes the composition of regulatory capital and ratios of the Bank at consolidated level at December 2015 (BIS III – Phasing in) and 2014 (BIS II):

	Amounts in millions Euros	
	2015 (*)	2014
<b>A - BASE OWN FUNDS (TIER I)</b>	2,841	2,467
Share Capital	1,242	942
Reserves and Retained earnings (excluding Non-controlling interests)	1,413	1,166
Non-controlling interests	224	476
Deductions to base own funds	(38)	(117)
<b>B - COMPLEMENTARY OWN FUNDS (TIER II)</b>	74	-
Perpetual subordinated liabilities	4	4
Other elements/deductions to complementary own funds	70	(4)
<b>C - DEDUCTIONS TO OWN FUNDS</b>	-	-
<b>D - TOTAL OWN FUNDS (A+B+C)</b>	2,915	2,467
<b>E- ASSETS WEIGHTED BY RISK</b>	18,919	16,102

CAPITAL RATIOS	2015 (*)	2014
<b>TIER I (A/E)</b>	15.0%	15.3%
CORE CAPITAL	13.9%	13.0%
<b>TIER II (B/E)</b>	0.4%	0.0%
<b>CAPITAL ADEQUACY RATIO (D/E)</b>	15.4%	15.3%

(\*) The ratios reported 2015 include the provisional results of the year without expected dividends, based on rules established by the European Central Bank.

The ratio of main capital level 1 (or CET1 ratio) rose from 13.0% in December 2014 to 13.9% in December 2015, reflecting the increase in capital of 300 million and an increase in provisional year-end profit net of expected dividends in accordance with rules established by the European Central Bank. These positive effects were partially offset by the negative impact of the increase in risk-weighted assets, associated with the acquisition of former Banif assets.

On the other hand, the ratio of total equity rose from 15.3% in December 2014 to 15.4% in December 2015, to which contributed the eligibility of certain items in Tier II, and the level 1 ratio (or Tier I ratio) fell from 15.3% December 2014 to 15.0% in December 2015.

#### 50. LEGAL ACTIONS IN PROGRESS

From the end of the first quarter of 2013 a movement with public projection arise in Portugal in the sequence of which the validity of some interest rate swap agreements established between some financial institutions and several Portuguese State-owned enterprises, namely in the railway and road transportation sectors, have been challenged. These agreements were signed essentially until 2008, which was before the beginning of the recent financial crisis and represent to those enterprises high charges.

Among those agreements, some established with the Bank were challenged, whose positive fair value at December 31, 2015 and 2014 arise to approximately tEuros 1,228,000 and tEuros 1,320,000, respectively, which is reflected in the accompanying balance sheet under the caption "Financial assets held for trading" (Note 7). These agreements were carried out without incidents until September 2013.

Following the above referred movement, in its conviction of the total regularity and binding force of the agreements established with the Portuguese State-owned enterprises, the Bank requested a legal statement regarding their validity, considering that it was its duty to contribute, by the appropriate way, to eliminate any doubts about their validity and binding force. This initiative took place during the second quarter of 2013, in English courts, as they were the ones chosen by the parties as expressly stated in the respective agreement terms.

In September 2013, after the submission of the above referred legal actions, the Portuguese State-owned enterprises communicated to the Bank that they would suspend from that date on the payment of the net sums associated with those swap agreements until the on-going actions were decided. At December 31, 2015 and 2014, the balance sheet caption "Other assets - Other" includes approximately tEuros 311,000 and tEuros 163,000, respectively, relating to sums which payment is suspended (Note 17).

In November 2013, the Portuguese State-owned enterprises presented to the English courts their plea to the legal actions raised by the Bank requiring the nullity of the agreements and requesting the refund of the net sums paid in the past, which amounted to approximately tEuros 134,000.

On February 14, 2014, the Bank presented to the English courts its reply to the plea submitted by the Portuguese State-owned enterprises and on April 4, 2014 the defence presented its counter arguments. On May 16, 2014, the preliminary hearing was held. The hearings occurred between October and November 2015, with final oral arguments in December 2015.

On March 4, 2016, the approved judgement of the Commercial Court of London was known and the decision was in favour of the Bank's claims, declaring the validity and binding force of the interest rate swap agreements and sentencing the referred companies to pay the sums overdue. This process is currently in the appeal phase, upon request of the transport companies.

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

Additionally, during the first semester of 2014, five legal actions regarding the validity and binding force of certain interest rate swap agreements were raised against the Bank in Portuguese Courts by some entities comprised in the Regional Government of Madeira Island (entities included in the Portuguese public sector), which have also suspended the payment of the net sums associated with those swap contracts. At December 31, 2015 and 2014, the positive fair value of those swaps amounted to tEuros 87,000 and tEuros 100,000, respectively, and was recorded under the caption "Financial assets held for trading" (Note 7). On the other hand, at December 31, 2015 and 2014, the balance sheet caption "Other assets - Other" includes approximately tEuros 31,000 and tEuros 15,000, respectively, related to the sums which payment is suspended (Note 17). Last, the above referred entities are also asking for the refund of the net sums paid by them in the past, which, as of December 31, 2015 and 2014, amounted to tEuros 20,000. The Bank presented its plea to those legal actions. Up to this date, all court decisions in these legal actions have been in favour of the Bank, including second and third decisions, and one of these legal actions is already concluded in favour of the Bank. In three of these legal actions, the Supreme Court confirmed the sentences of the courts of the first instance and in one of them of the Court of Appeal of Lisbon (since the other legal action went directly from the first Court to the Supreme Court) which declared its incompetence to judge the actions by, accepting the arguments of the Bank considering that the issues raised are the competence of the English Courts. In another legal action, the judgement of the Supreme Court has placed a question to the Court of Justice of the European Union (CJEU) on the applicability of Article 23 of Regulation No 44/2001 in relation to the jurisdiction pact to be sufficient as an international element or if not, if the other facts in the relationship in question would be sufficient. This decision to place the question to CJEU suspended the appeal of the Supreme Court on February 4, 2016.

It is the Board of Directors of the Bank belief, supported by the opinion of its English and Portuguese legal attorneys, by the approved judgment of the Commercial Court of London and the decisions to date of the Portuguese Courts, that the outcome of those legal actions will be favourable to it and consequently, no provisions were recorded in the accompanying financial statements for these situations.

Furthermore, at December 31, 2015 and 2014, another set of claims / legal actions were raised against the Bank by its customers relating to swap agreements. In the majority of those claims / legal actions the customers request for the cancelation of the swap agreements established with the Bank, as well as for the reimbursement of the net amount of interest paid by them in the past. At December 31, 2015 and 2014, the amounts involved in those claims / legal actions were as follows:

	2015	2014
Interest received from customers	38,308	52,665
Interest paid to customers	<u>(6,560)</u>	<u>(8,879)</u>
	31,748	43,786
Interest overdue not paid by customers	9,025	10,551
Impairment recorded	<u>(8,879)</u>	<u>(9,624)</u>
	146	927
Swaps Mark to Market	35	72
Provisions for litigations in progress	(8,522)	(12,390)
Exposure	<u>23,407</u>	<u>32,395</u>

However, it is the Board of Directors of the Bank belief, that the provisions recorded in the accompanying financial statements are sufficient to address any eventual adverse outcome of the above referred claims / legal actions.

Finally, during 2014, two new legal actions were raised against the Bank and two Portuguese State-owned enterprises, Metropolitano de Lisboa, E.P.E. and Metro do Porto, S.A., involving a total amount of approximately tEuros 350,000 which are not included in the table above. These legal actions are focused in the cancellation of some swap agreements established between the Bank and those two Portuguese State-owned enterprises, which were already being judged by the English courts since the second quarter of 2013, as a result of the initiatives held by the Bank as described in the beginning of this Note.

51. RESOLUTION FUND

In accordance with a statement issued by the Bank of Portugal in August 3, 2014, it was decided to apply to Banco Espírito Santo, S.A. a resolution measure, which resulted in the transfer of the majority of its activity to a “transitory bank”, named Novo Banco, incorporated especially for that purpose. Following the EU legislation, the capitalization of Novo Banco was provided through the Resolution Fund, which was established by the Decree-Law No. 31-A / 2012 of February 10. As provided for in that Decree-Law, the Resolution Fund is financed through the payment of contributions due by the participating institutions in the Fund and through the special contribution to the banking sector. In addition, it is also established that if such resources are insufficient to fulfil its obligations other financing sources can be used, such as: (i) special contributions from credit institutions; and (ii) loans granted.

In the specific case of the resolution measure applied to Banco Espírito Santo, S.A., the Resolution Fund provided tEuros 4,900,000 to subscribe the share capital of Novo Banco. Of this amount, tEuros 377,000 corresponded to the Resolution Fund own resources, resulting from the contributions already paid by the participating institutions and from the special contribution to the banking sector. In addition, a syndicated loan of tEuros 700,000 was granted to the Resolution Fund, with the contribution of each credit institution depending on several factors, including their size. The participation of BST in that loan was tEuros 116,200. The remaining amount needed to finance the resolution measure adopted came from a loan granted by the Portuguese State, which will be subsequently repaid and remunerated by the Resolution Fund. When Novo Banco is sold the proceeds of the sale will be primarily assigned to the Resolution Fund.

In September 2015, the Bank of Portugal suspended the sale process of the participation of the Resolution Fund in Novo Banco, started in 2014, and concluded the current procedure without accepting any of the three binding proposals considering that their terms and conditions were not satisfactory. In a statement of December 21, 2015 the Bank of Portugal announced the agreement reached with the European Commission which provided, among other commitments, the extension of the deadline for the sale of the participation of the Resolution Fund in Novo Banco.

On November 15, 2015 the Resolution Fund issued a statement, with the following text: “it is clarified that it is not expected that the Resolution Fund will propose the creation of a special contribution to fund the resolution measure applied to BES. The eventual collection of a special contribution appears, therefore, remote.” Thus, it is expected that any resolution fund deficits are financed through regular contributions under Article 9 of Decree – Law No 24/2013 of February 19, which states that periodic contributions to the Resolution Fund must be paid by the institutions participating in it, and if they are in activity in the last day of the month April of the year to which the periodic contribution relates to.

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

On December 29, 2015 the Bank of Portugal issued an announcement related to the approval of a set of decisions supplementing the resolution measure applied to BES. The Bank of Portugal decided to retransfer to BES the responsibility for non subordinated bonds issued by this entity and that were aimed at institutional investors. The nominal amount of the retransferred bonds for BES is 1,941 million Euros, corresponding to a book value of 1,985 million Euros. The bonds were originally issued by BES and placed with qualified investors. In addition to this measure, the Bank of Portugal has also clarified that the Resolution Fund is responsible to compensate with Novo Banco the possible adverse effects of future decisions, resulting from the resolution process, which may result in liabilities or contingencies.

On March 31, 2016, the Bank of Portugal issued a new statement about the sale process of Novo Banco, informing that it set the procedures for the new sale following the relaunch of the sale process announced on January 15, 2016.

Until the approval date of the accompanying financial statements by the Board of Directors, BST does not have information to estimate with reasonable accuracy the amounts potentially involved in the sale of Novo Banco. Due to the same reason, it is not possible to estimate with reasonable accuracy if, as a result of that sale process, a shortfall of resources in Resolution Fund will occur, and if applicable, how it will be financed. Therefore, at this date, it is not possible to evaluate the potential impact of this situation in the financial statements of BST, since the potential costs involved will depend on the sale price of Novo Banco and the measures to be taken by the Finance Ministry, under the competences that are legally attributed to it.

Additionally, on December 20, 2015 the Bank of Portugal applied a resolution measure to Banif, under which a vehicle asset management was created, Oitante, owned by the Resolution Fund. The most part of Banif's assets that have not been sold were transferred to Oitante. Oitante was incorporated with a share capital of tEuros 50. Under the resolution measure, Oitante issued debt instruments for payment for the rights and obligations corresponding to transferred assets from Banif. The bonds were issued in the amount of tEuros 746,000, corresponding to the preliminary valuation of assets transferred in accordance with paragraph 8 of article 145º-H of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). Additionally, in the resolution measure it was also determined that the Resolution Fund should provide a guarantee for the Oitante debt instruments as well as provide financial support to cover the losses of Banif. The Banif's losses amounted to tEuros 489,000. The debt instruments of Oitante received by Banif in return for the assets transferred to Oitante were transferred to BST. In addition, the debt instruments have also an additional guarantee by the Portuguese State.

The proceeds from the sale of the assets transferred from Banif to Oitante will be used to pay the bonds and to repay the amounts paid by the Resolution Fund to cover the losses of Banif. Until the date of approval of its financial statements, BST has no information on the estimated disposal value of the assets transferred from Banif to Oitante and the costs incurred by it, in order to analyse any impact for BST level due to the Resolution Fund.

52. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors at April 29, 2016.

53. NOTE ADDED FOR TRANSLATION

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

BANCO SANTANDER TOTTA, S.A.DEBT SECURITIES ISSUED AT DECEMBER 31, 2015 (NOTE 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Appendix I originally issued in Portuguese - Note 53)

Securities issued	Currency	Amount of the issue			Value adjustments		Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet	Accrual	of hedging operations					
<b>Bonds issued</b>											
Bonds											
ST Diversificação Invest 4º amortização Clientes	EUR	23 913	8 983	14 930	533	798	16 261	Floating	March 17, 2009	March 28, 2017	Basket of indexes
Valorização Europa GBP	GBP	1 276	-	1 276	-	-	1 276	Floating	June 27, 2014	June 27, 2017	Stock index EURO STOXX 50® Index
Banif OPS 7.5% 2013-2016	EUR	60 312	1 585	58 727	1 884	-	60 611	7,50%	July 30, 2013	July 30, 2016	Fixed interest rate
Banif Tx Fixa 2013/2016	EUR	80 000	212	79 788	89	-	79 877	5,00%	December 23, 2013	December 23, 2016	Fixed interest rate
Banif Séniör Tx Fixa 2015/2018	USD	27 555	-	27 555	243	-	27 798	2,50%	February 26, 2015	February 26, 2018	Fixed interest rate
		<b>193 056</b>	<b>10 780</b>	<b>182 276</b>	<b>2 749</b>	<b>798</b>	<b>185 823</b>				
<b>Covered bonds</b>											
Hipotecárias IX - 2nd tranche	EUR	750 000	750 000	-	-	-	-	Floating	April 15, 2013	April 15, 2016	Euribor 3m+2.25%
Hipotecárias X	EUR	750 000	750 000	-	-	-	-	Floating	July 26, 2013	July 26, 2016	Euribor 3m+2.25%
Hipotecárias XI - 1st tranche	EUR	500 000	500 000	-	-	-	-	Floating	December 19, 2013	December 19, 2016	Euribor 3m+1.85%
Hipotecárias XI - 2nd tranche	EUR	500 000	500 000	-	-	-	-	Floating	December 19, 2013	December 19, 2016	Euribor 6m+1.85%
Hipotecárias XI - 3rd tranche	EUR	750 000	750 000	-	-	-	-	2,58%	January 13, 2014	January 13, 2017	Fixed interest rate
Hipotecárias XII - 1st tranche	EUR	1 000 000	-	1 000 000	10 601	-	1 010 601	1,50%	April 1, 2014	April 3, 2017	Fixed interest rate
Hipotecárias XIII - 1st tranche	EUR	750 000	-	750 000	3 852	-	753 852	1,63%	June 11, 2014	June 11, 2019	Fixed interest rate
Hipotecárias XIV	EUR	750 000	750 000	-	-	-	-	0,75%	March 4, 2015	March 4, 2022	Fixed interest rate
Hipotecárias XV	EUR	750 000	-	750 000	(43)	-	749 957	0,88%	October 27, 2015	October 27, 2020	Fixed interest rate
Banif Float Out2017 - Hipotecárias (cover bond 3)	EUR	100 000	100 000	-	-	-	-	Floating	January 17, 2014	January 30, 2017	Euribor 3m+1.4%
Banif Float 2014/17 - Hipotecárias (cover bond 4)	EUR	135 000	135 000	-	-	-	-	Floating	July 31, 2014	July 31, 2017	Euribor 3m+1.6%
Banif Float 2014/17 - Hipotecárias (cover bond 5)	EUR	50 000	50 000	-	-	-	-	Floating	October 24, 2014	October 24, 2017	Euribor 3m+1.6%
		<b>6 785 000</b>	<b>4 285 000</b>	<b>2 500 000</b>	<b>14 410</b>	<b>-</b>	<b>2 514 410</b>				

BANCO SANTANDER TOTTA, S.A.DEBT SECURITIES ISSUED AT DECEMBER 31, 2015 (NOTE 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Appendix I originally issued in Portuguese - Note 53)

Securities issued	Currency	Amount of the issue				Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet	Accrual						
<b>Bonds issued on securitization operations</b>											
Hipototta 1 - Class A - Notes	EUR	128 165	104 204	23 961	(68)	-	23 893	Floating	July 25, 2003	November 25, 2034	Euribor 3m+0.27% (until early reimbursement in August 2012); Euribor 3m+0.54% (after early reimbursement date)
Hipototta 1 - Class B - Notes	EUR	8 264	8 264	-	-	-	-	Floating	July 25, 2003	November 25, 2034	Euribor 3m+0.65% (until early reimbursement in August 2012); Euribor 3m+0.95% (after early reimbursement date)
Hipototta 1 - Class C - Notes	EUR	3 642	3 642	-	-	-	-	Floating	July 25, 2003	November 25, 2034	Euribor 3m+1.45% (until early reimbursement in August 2012); Euribor 3m+1.65% (after early reimbursement date)
Hipototta 1 - Class D - Notes	EUR	11 000	11 000	-	-	-	-	Floating	July 25, 2003	November 25, 2034	Residual return generated by securitized portfolio
Hipototta 4 - Class A - Notes	EUR	839 380	468 306	371 074	(823)	-	370 251	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Class B - Notes	EUR	30 538	30 538	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Class C - Notes	EUR	96 443	51 576	44 867	-	-	44 867	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Class D - Notes	EUR	14 000	14 000	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	739 102	355 188	383 914	(340)	-	383 574	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Class B - Notes	EUR	26 000	26 000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Class C - Notes	EUR	24 000	24 000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipototta 5 - Class D - Notes	EUR	26 000	26 000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Class E - Notes	EUR	31 000	31 000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Class F - Notes	EUR	8 461	8 461	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
Atlantes Mortgage PLC - Class A	EUR	53 016	8 689	44 327	44	-	44 371	Floating	February 13, 2003	January 17, 2036	Euribor 3m+0.54%;
Atlantes Mortgage PLC - Class B	EUR	22 500	-	22 500	58	-	22 558	Floating	February 13, 2003	January 17, 2036	Euribor 3m+1.30%;
Atlantes Mortgage PLC - Class C	EUR	12 500	-	12 500	65	-	12 565	Floating	February 13, 2003	January 17, 2036	Euribor 3m+2.60%;
Atlantes Mortgage PLC - Class D	EUR	2 500	-	2 500	24	-	2 524	Floating	February 13, 2003	January 17, 2036	Euribor 3m+4.75%;
Atlantes MTG n1 CL E 2036	EUR	15 400	15 400	-	-	-	-	Floating	February 13, 2003	January 17, 2036	Residual return generated by securitized portfolio
Azor Mortgage PLC Class A	EUR	17 398	3 872	13 526	-	-	13 526	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 0.30%
Azor Mortgage PLC Class B	EUR	19 000	-	19 000	3	-	19 003	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 0.76%
Azor Mortgage PLC Class C	EUR	9 000	2 000	7 000	3	-	7 003	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 1.75%
Azor Mortgage PLC Class D	EUR	10 000	10 000	-	-	-	-	Floating	November 25, 2004	September 20, 2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	160 433	-	160 433	13	-	160 446	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 0.33%
Atlantes Mortgage PLC serie 2 - B	EUR	13 817	13 817	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 0.95%
Atlantes Mortgage PLC serie 2 - C	EUR	5 632	5 632	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 1.65%
Atlantes Mortgage PLC serie 2 - D	EUR	16 125	16 125	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	145 249	145 249	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Euribor 3m + 0.30%
Azor Mortgage PLC serie 2 - B	EUR	43 080	43 080	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Euribor 3m + 0.8%
Azor Mortgage PLC serie 2 - C	EUR	6 750	6 750	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	285 173	-	285 173	38	-	285 211	Floating	October 30, 2008	August 20, 2061	Euribor 3m + 0.20%
Atlantes Mortgage PLC serie 3 - B	EUR	36 211	36 211	-	-	-	-	Floating	October 30, 2008	August 20, 2061	Euribor 3m + 0.50%
Atlantes Mortgage PLC serie 3 - C	EUR	57 668	57 668	-	-	-	-	Floating	October 30, 2008	August 20, 2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	306 654	-	306 654	2	-	306 656	Floating	February 16, 2009	December 30, 2064	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 4 - B	EUR	35 750	35 750	-	-	-	-	Floating	February 16, 2009	December 30, 2064	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 4 - C	EUR	74 250	74 250	-	-	-	-	Floating	February 16, 2009	December 30, 2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	304 204	304 204	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 5 - B	EUR	43 806	43 806	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 5 - C	EUR	66 250	66 250	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 6 - A	EUR	50 847	50 847	-	-	-	-	4.5%	June 30, 2010	October 23, 2016	Fixed interest rate
Atlantes Mortgage PLC serie 6 - B	EUR	22 000	22 000	-	-	-	-	Floating	June 30, 2010	October 23, 2016	Residual return generated by securitized portfolio

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(Amounts expressed in thousands of Euros – tEuros)

(Translation of Appendix I originally issued in Portuguese - Note 53)

Securities issued	Currency	Amount of the issue			Value adjustments		Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet	Accrual	of hedging operations					
Atlantes Mortgage PLC serie 7 - A	EUR	230 744	230 744	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 7 - B	EUR	38 636	38 636	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 7 - C	EUR	63 550	63 550	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Residual return generated by securitized portfolio
Atlantes Finance NPL n1 A	EUR	107 141	107 141	-	-	-	-	6,00%	December 21, 2012	December 15, 2018	Fixed interest rate
Atlantes Finance NPL n1 B	EUR	45 000	45 000	-	-	-	-	6,00%	December 21, 2012	December 15, 2018	Fixed interest rate
Atlantes SME 4 Class A	EUR	141 452	-	141 452	27	-	141 479	Floating	September 30, 2014	December 26, 2043	Euribor 3m + 0.98%
Atlantes SME 4 Class B	EUR	55 000	-	55 000	10	-	55 010	Floating	September 30, 2014	December 26, 2043	Euribor 3m + 1.48%
Atlantes SME 4 Class C	EUR	180 000	180 000	-	-	-	-	Floating	September 30, 2014	December 26, 2043	Euribor 3m + 6.00%
Atlantes SME 4 Class D	EUR	186 400	186 400	-	-	-	-	Floating	September 30, 2014	December 26, 2043	Residual return generated by securitized portfolio
Atlantes SME 4 Class S	EUR	23 382	23 382	-	-	-	-	Floating	September 30, 2014	December 26, 2043	Without pay
Atlantes SME 5 Class A	EUR	365 348	-	365 348	697	-	366 045	Floating	July 6, 2015	January 28, 2044	Euribor 3m + 1.20%
Atlantes SME 5 Class B	EUR	35 600	35 600	-	-	-	-	Floating	July 6, 2015	January 28, 2044	Euribor 3m + 1.75%
Atlantes SME 5 Class C	EUR	164 400	164 400	-	-	-	-	Floating	July 6, 2015	January 28, 2044	Euribor 3m + 6.00%
Atlantes SME 5 Class D	EUR	172 800	172 800	-	-	-	-	Floating	July 6, 2015	January 28, 2044	Residual return generated by securitized portfolio
Atlantes SME 5 Class S	EUR	30 333	30 333	-	-	-	-	Floating	July 6, 2015	January 28, 2044	Without pay
		<b>5 660 994</b>	<b>3 401 765</b>	<b>2 259 229</b>	<b>(247)</b>	<b>-</b>	<b>2 258 982</b>				
<b>Deposit certificates</b>											
Deposit certificates		52 392	-	52 392	796	-	53 188				
		<b>52 392</b>	<b>-</b>	<b>52 392</b>	<b>796</b>	<b>-</b>	<b>53 188</b>				
<b>Other</b>											
EMTN's	EUR	32 300	1 250	31 050	2	-	31 052				
		<b>32 300</b>	<b>1 250</b>	<b>31 050</b>	<b>2</b>	<b>-</b>	<b>31 052</b>				
		<b>12 723 742</b>	<b>7 698 795</b>	<b>5 024 947</b>	<b>17 710</b>	<b>798</b>	<b>5 043 455</b>				

BANCO SANTANDER TOTTA, S.A.SUBORDINATED LIABILITIES AT DECEMBER 21, 2015 (NOTE 24)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Appendix II originally issued in Portuguese - Note 53)

Securities issued	Currency	Amount of the issue			Accrual			Total Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from:
		Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet				
Subordinated Perpetual Bonds Totta 2000	EUR	270 447	270 447	-	127	127	-	-	1,71%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	13 818	13 818	-	89	89	-	-	1,79%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds BSP 2001	EUR	4 275	-	4 275	27	-	27	4 302	1,79%	Perpetual	February 23, 2011
		<b>288 540</b>	<b>284 265</b>	<b>4 275</b>	<b>243</b>	<b>216</b>	<b>27</b>	<b>4 302</b>			
		<b><u>288 540</u></b>	<b><u>284 265</u></b>	<b><u>4 275</u></b>	<b><u>243</u></b>	<b><u>216</u></b>	<b><u>27</u></b>	<b><u>4 302</u></b>			



## LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT

### **CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts expressed in thousands of Euros – tEuros)

(Translation of a report originally issued in Portuguese – Note 53)

#### **Introduction**

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Board of Directors' Report and in the accompanying consolidated financial statements of Banco Santander Totta, S.A. and subsidiaries ("Bank" or "BST") for the year ended December 31, 2015, which comprise the consolidated balance sheet at December 31, 2015 that presents a total of tEuros 46,928,968 and total shareholders' equity of tEuros 3,412,808, including a consolidated net income attributable to the shareholders of BST of tEuros 568,377, the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the corresponding notes.

#### **Responsibilities**

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards as adopted by the European Union and that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code ("Código dos Valores Mobiliários"); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position or their comprehensive income.
3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

#### **Scope**

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e Directrizes de Revisão/Auditória") issued by the Portuguese Institute of Chartered Accountants ("Ordem dos Revisores Oficiais de Contas"), which require the examination to be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used, the application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances,

verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also comprised verifying that the consolidated financial information included in the Board of Directors' Report is consistent with the other consolidated documents of account, as well as the verifications established in items 4 and 5 of article 451 of the Commercial Companies Code ("Código das Sociedades Comerciais"). We believe that our examination provides a reasonable basis for expressing our opinion.

### **Opinion**

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco Santander Totta, S.A. and subsidiaries at December 31, 2015, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows for the year then ended, in conformity with the International Financial Reporting Standards as adopted by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

### **Emphases**

6. As explained in more detail in Note 50 of the Notes to the consolidated financial statements, in 2013 the Bank requested in the competent court, the High Court of Justice - Commercial Court of London, the statement of validity and binding force of some interest rate swap agreements established in previous years with Portuguese State-owned enterprises of the transportation sector. In March 2016, the approved judgement of this court was known and the decision was in favour of the Bank's claims, declaring the validity and binding force of the interest rate swap agreements and sentencing the referred companies to pay the sums overdue. This process is currently in the appeal phase, upon request of the Portuguese State-owned enterprises. Additionally, during 2014, some entities comprised in the Regional Government of Madeira Island brought into the Portuguese Courts five legal actions against the Bank, regarding the validity and binding force of certain interest rate swap agreements signed in previous years with the Bank. Up to this date, all court decisions in these legal actions have been in favour of the Bank, including second and third decisions, and one of these legal actions is already concluded in favour of the Bank. At December 31, 2015, the positive fair value of those swaps and the sums which payment is suspended, as well as the net amounts paid in the past by those enterprises that were being subject to a refund request which was denied in the approved judgement of the Commercial Court of London, are presented in the above referred Note. It is the Bank's Board of Directors belief, supported by the opinion of its English and Portuguese legal attorneys, by the approved judgement of the Commercial Court of London and the decisions to date of the Portuguese Courts, that the outcome of those legal actions will be favorable to it and consequently no provisions were recorded in the accompanying consolidated financial statements.

7. The result in the acquisition of a significant part of the business of Banif – Banco Internacional do Funchal, S.A. (Banif) as of December 20, 2015 was determined based on the fair value estimate of the assets acquired and liabilities assumed or in accordance with the International Financial Reporting Standards applicable to some assets and liabilities for which fair value is not the measurement principle according to IFRS 3 – Business Combinations (Note 1.4). Its determination considered the information available up to the approval date of the financial statements of December 31, 2015 by the Bank's Board of Directors, and is provisional for some assets and liabilities. To this respect, the following aspects should be referred: (i) the perimeter of the transaction, namely the rights and obligations that comprise the assets, liabilities, off balance sheet items and assets under management sold to the Bank is not fully confirmed yet by the Bank of Portugal; (ii) the Bank did not recognize deferred tax assets, in the amount of 273 million Euros, that are part of the perimeter included in the last draft balance sheet presented by the Bank of Portugal at March 18, 2016 and which deduction to future profits of the Bank is included in the definitive offer of the Bank accepted in connection with the resolution measure of Banif, namely, for not having the approval of the Minister of Finance as required by article 145º AU of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras"); (iii) for some financial assets and liabilities there is still more information needed related to their estimated future cash flows to determine their fair value as of the acquisition date; and (iv) there are contingencies for which final quantification requires obtaining additional information over past events. According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and consequently, the result determined in the acquisition.

#### **Report on other legal requirements**

8. It is also our opinion that the financial information contained in the Board of Director's Report is consistent with the consolidated financial statements for 2015 and that the report on corporate governance practices includes the items required for the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Lisbon, April 29, 2016

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Deloitte & Associados, SROC S.A.  
Represented by Maria Augusta Cardador Francisco

#### **EXPLANATION ADDED FOR TRANSLATION**

*(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC, S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)*