2017
HALF YEAR REPORT

To help people
and businesses
prosper

Santander Totta

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MAIN INDICATORS

BALANCE SHEET AND RESULTS (million euro)	1H'17	1H'16	1H'17/1H'16
Net Assets	43,645	44,682	-2.3%
Loans and advances to customers (net)	31,650	31,851	-0.6%
Customers' Resources	33,120	32,703	+1.3%
Own Funds + Minority Interests + Subordinated Liabilities	3,330	3,223	+3.3%
Net Interest Income	339.4	370.0	-8.3%
Fees and Other Income	147.2	151.9	-3.1%
Net Income from Banking Activities	541.2	610.0	-11.3%
Net Operating Income	282.5	325.6	-13.2%
Income before taxes and non-controlling interests	286.0	274.3	+4.3%
Consolidated net income attributable to the shareholders' of BST	222.5	192.8	+15.4%

RATIOS	1H'17	1H'16	1H'17/1H'16
ROE	13.6%	12.5%	+1.2 p.p.
ROA	1.0%	0.9%	+0.1 p.p.
Efficiency ratio	47.8%	46.6%	+1.2 p.p.
CET I ratio* (phasing-in)	16.3%	16.6%	-0.3 p.p.
Tier I* ratio	16.3%	16.6%	-0.3 p.p.
Capital* ratio	16.3%	16.6%	-0.3 p.p.
Credit at Risk Ratio	4.5%	6.9%	-2.4 p.p.
Restructured loans / Total loans	8.6%	9.5%	-0.9 p.p.
Restructured loans not included in credit at risk / Total loans	6.3%	6.7%	-0.4 p.p.
Credit at risk coverage ratio	92.4%	91.8%	+0.6 p.p.
Loan-to-deposit ratio	108.7%	109.8%	-1.1 p.p.

RATING	1H'17	1H'16
FitchRatings		
short term	F2	F2
long term	BBB	BBB
Moody´s		
short term	NP	NP
long term	Ba1	Ba1
Standard & Poor´s		
short term	B	B
long term	BB+	BB+
DBRS		
short term	R-1L	R-1L
long term	BBBH	BBBH

Other Data	1H'17	1H'16	1H'17/1H'16
Employees	5,957	6,344	-387
Employees in Portugal	5,919	6,300	-381
Branches	600	734	-134
Total Branches and Corporate Centers in Portugal	585	719	-134

* With results net of payout

BANCO SANTANDER TOTTA, S.A.

General Meeting

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

Board of Directors

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

Audit Committee

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

Auditors

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

Executive Committee

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

Company Secretary

Effective	João Afonso Pereira Gomes da Silva
Alternate	Raquel João Branquinho Nunes Garcia

*Elected on 31/05/17

João Baptista Leite
Technology, Operations, Data Integrations, Data Security, Technological Risk

Pedro Castro e Almeida
Company Network, International Business, Institutional Customers, Building Development, Global & Corporate Banking Asset Management & Insurance as Marketing/Brokering Bank

José Leite Maia
Retail & Business Network, Private, Control & Streamlining of P&N Network, Real Estate Promotors and Brokers, International (emigrants)

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

Manuel Preto
Finance, Tax, Organization and Costs, a Commercial Intelligence (Products, Marketing & CRM), Fixed Assets & General Services

Inês Oom de Sousa
Means of Payment, Multichannelling, Segments, Universities, Sustainability Area

António Vieira Monteiro
Chairman of Executive Committee
Risks, Risk Control, Accounting & Management Control

José Carlos Sítima
General Secretariat, Legal Counselling, Compliance, Prevention of Money Laundering, Inspection, Recoveries and Divestment, Human Resources

International

The World economy, in the first half-year, maintained a rate of sustained expansion continuing the dynamics observed in the second half of 2016.

This evolution was mainly sustained by the improved environment in the developed economies and, in this group, by the positive evolution in the euro zone. The International Monetary Fund, in the July update of the "World Economic Outlook" reported exactly this situation when reviewing at a higher rate the growth prospects for the whole of the single currency economies, but leaving unaltered the prospects for the remaining World and advanced economies, by 3.5% and 2.0%, respectively, in 2017.

In the euro zone the review at a higher rate derived from the acceleration started at end 2016, which continued throughout the current year, with a strong growth in internal demand, not just in private consumption, but also in investment, which marks a structural improvement in the economy, also shown in the case of unemployment, decreasing to 9.1% in June 2017, the lowest level achieved since 2009. Equally outstanding in the evolution of the European economy is the converging of growth rates amongst the several countries, after several years in which economies such as those of Germany and Spain grew faster, whilst others, such as France and Italy, were practically stagnant.

Business cycles are, therefore, more synchronized, due in part to the expansion in monetary policy developed by the European Central Bank which, in 2016, reinforced its quantitative easing programme. As a result of the economy's response to the stimuli[1], which was reflected in growth recovery, in the reduction of deflationary pressures and improvement in the several mechanisms of policy transmission, ECB has already announced in 2017, a reduction in the monthly volume of acquisitions of financial assets to 60 billion euros reverting the 20 billion euros increase decided in March 2016). Nevertheless it maintained the level of interest rates, as well as indicating that it was ready to intervene whenever the conditions so required.

The growth prospects of the North American economy were reviewed at a lower rate, to 2.1%, even so showing some acceleration as compared with 2016. However, the lack of implementation of the stimulus measures by the Trump Administration (such as the massive tax cut and the infrastructure programme) inhibited the most optimistic expectations to materialize, also in a context of a new slowdown in the first quarter of 2017. The US Federal Reserve, however, continued to withdraw the stimuli, with a further hike in the main reference interest rate to 1.25% and announcing, in June, that it would commence, in 2017, a gradual reduction in the acquisition of financial assets within its programme of quantitative easing.

In the exchange rate market, in spite of the increase in the reference interest rates decided by the Federal Reserve, the U.S. dollar depreciated to 1.18 dollars per euro, a 12.8% depreciation since the beginning of the year, to the lowest level since the beginning of 2015.

In the United Kingdom economic growth may start to reflect the "Brexit" effects during the next quarters, according to IMF. The Government only activated its formal exiting request in March 2017, in line with article No. 50 of the Lisbon Treaty. In June, the early elections called by the Government to strengthen its position resulted, on the contrary, in the loss of the absolute majority: this could affect a process that the main intervening parties already consider complex and difficult. As such, the IMF reviewed at a lower rate its growth projection, to 1.7%. In this context, the Bank of England maintained its expansionist policy and its availability to act, if and when necessary.

Perspectives for China were reviewed at a slightly higher rate, as a result of the stimulating measures introduced by the Government. The IMF, however, considers that such measures, which could result in a significant increase in debt, could bring about an increase in medium term adverse risks.

Within this global context the move continued in the repricing of interest rates, especially with the increases in the medium and long term interest rates in Europe and the USA, but more pronounced in Germany, where 10 year rates rose to above 0.5%. At the same tome in the so-called "peripheral" European countries, the increase in interest rates was less pronounced, resulting in a reduction in the risk premium as compared to Germany.

In Portugal, long term interest rates generally decreased, showing a clear lowering in the risk premium as compared to Germany, and which, in the case of 10 year periods, decreased by less than 250bp, the lowest level since the beginning of 2016.

In the European monetary market, short term interest rates kept in line with the recorded minimums, reflecting the message of the ECB that it is available to act, if and when necessary.

[1] Gambetti and Musso (2017), "The macroeconomic impact of the ECB's expanded asset purchase programme (APP)", ECB Working paper 2075/2017

Portuguese Economy

Economic activity maintained a strong rate of growth during the first half year, the GDP having grown by 2.9% in homologous terms in the second quarter, the strongest since the fourth quarter of the year 2000, thus continuing the recovery started in the second quarter of 2016.

Improvement was mainly based in the recoveries of exports and investment, whilst consumer spending maintained a solid contribution towards economic growth, based upon the decrease in the unemployment rate to 9.1% in June. This reduction in the unemployment rate was the combined result of an increase in employment and in the working population, all of which have contributed towards the improvement in household confidence and consequently the expectations of consumer spending.

Following a less favourable evolution between mid-2015 and mid-2016, the positive evolution of exports, the higher levels of utilization of installed capacity and the external environment, contributed to the generation of more optimistic expectations, which can support new investment initiatives, especially in plant and equipment and transport equipments. The investment survey carried out by the National Institute of Statistics with reference to the first half year, evinced that entrepreneurs intended greater investment, particularly to expand capacity. The rate of investments, however, continued within historically low levels. Investment in 2017 may represent 17% of GDP compared to a pre-crisis level of 22%.

Exports grew by two digits during the first half year, both in terms of goods and services, the latter based on the strong dynamics of tourist related activities, with the increase in non-resident tourists, in length of stay and with the industry's entrepreneurs obtaining extra value, with an increase in average takings per available accommodation.

There was a generalized increase in exports of goods, particularly energy goods (deriving from the closure of the Sines refinery in the first half of 2016 for maintenance purposes) and motor vehicles, with the start of a new automobile model in Auto Europa.

The positive balance in current transactions is based upon the strengthening of the positive balance of services, particularly from tourism and transport. The balance of goods may continue with a gradually lower deficit, energy dependency continuing the most penalizing factor. Net exports to the United Kingdom, France, Angola and the USA continued as the most dynamic contributors to the strengthening of exports.

Budget deficit in the first quarter was 2.1% of GDP, a 1.2 p.p. improvement as compared to the homologous period. Improvement in revenues from indirect taxes and social contributions were the main factors, whilst expenditure was practically unaltered. The primary balance recorded a surplus of 865 million euros (approximately 1.9% of GDP). This recent dynamism is in line with budgetary goals of 1.5% of GDP for the annual deficit.

Public debt continued around 130.5% of GDP in the first quarter of 2017, it being expected to decrease to 127% at the end of the current year. Until the beginning of August the Portuguese Treasury reinforced its early payments to the IMF, reimbursing 5.3 thousand million euros. Total reimbursements, since 2015, have already exceeded 12 thousand million euros, that is, approximately 54% of the original loan.

The deleveraging process of the private sector continued during the first half year, although with differing dynamics. Personal credit had a very moderate rate of decrease, with a slight growth in consumer credit as compared to end-2016, which is also associated to the dynamism in consumer spending, particularly in durable goods. Nevertheless the weight of credit as a percentage of disposable income has not suffered any change. Volumes of new production of mortgage credit have grown by 45% compared to the homologous period, but were still largely below the maximum levels obtained in 2007-08, and are not sufficient to compensate the natural erosion of the portfolios, thus the reason for the continued reduction shown in mortgage credits.

Deleveraging in credit to companies proceeded at a stronger rate, also as a result of the measures taken in the management of non-performing loans developed by several institutions, in their recapitalization processes, including sales and write-offs of their credit portfolios.

As a result of these efforts, and in line with Bank of Portugal data, the ratio of non-performing loans decreased, in the first quarter, to 16.7% (compared to 17.9% in the homologous period).

(Prepared with information available as at 15 August 2017)

Main risks and uncertainties in the second half of 2017

Banco Santander Totta's business is conditioned by a series of risks and uncertainties, some related to the environment in which it operates others inherent to its own business.

The **economic environment** is an essential determining factor for the Bank's operations and in this context is subject to several components of uncertainty. Since Portugal is an open economy, with relevant international trade flows with the European Union, business depends upon domestic economic growth as well as from the evolution of the European economy.

In this context, "Brexit" (the exiting process of the United Kingdom from the European Union) is a focus of uncertainty, considering the contagion effects it could have in all the area of the EU, both economic and financial. Equally, the structural reforms which are being processed in several European countries could comprise a risk factor, should the expected improvements in terms of economic and employment growth not materialize.

The **international environment** is also enclosed within geopolitical uncertainties, with redesigned relations of strength between the several powers, both worldwide and regional. Latent pressure focus could affect confidence at a global level and thus influence economic growth.

Domestically also, the materialization of investment and spending expectations by businesspeople is subject to uncertainty, with repercussions on business volumes (credit and deposits), as well as on trade and price policies, in a context of heavy competition amongst institutions.

A lower economic growth would have implications both in the deleveraging of the private sector and in budgetary consolidation, from the point of view of public accounts.

A slower advance in the dynamics of the reduction of private and public indebtedness, particularly if associated with lower economic growth, could compromise the risk perception by investors and rating agencies, with implications in the Republic's ratings. The same could occur in case the sale of Novo Banco is not concluded which, further to the perception of risk and rating, could enlarge the contingent risks on the banking industry, since this is ultimately responsible for the liabilities assumed by the national Resolution Fund, the bank's shareholder.

These factors could have repercussions on liquidity and on Santander Totta's capability of access, as well as that of the remaining banking institutions, to the wholesale financial markets. On one hand, the market value of eligible assets as collateral in the ECB refinancing operations could diminish. On the other hand, a worse risk perception could reduce the available financing lines at the level of counterparties in the wholesale financial markets and/or reduce the risk appetite for the acquisition of bonds issued by the domestic financial institutions, including Santander Totta.

The inherent risks of the business are, amongst others, those pertaining to credit, interest rate, market, operational and regulatory.

Concerning **regulatory risk**, and following on the financial crisis, the liquidity and capital requirements of the banking industry increased, including the setting up of the Banking Union, with single supervision and resolution instruments in the Monetary Union. Supervision became more intrusive, with more frequent exercises in *stress test* and transparency, within a framework of higher minimum requisites of regulatory capital. Added to this the uncertainty associated to the implementation of MREL (*minimum requirement on eligible liabilities*), with an increased ratio of total capital, composed by *bail-in-able* liabilities, which demand higher market financing and higher financing costs, as well as that of IFRS9, which associates the establishment and management of credit provisions to the business cycle.

Credit risk is associated to the admission and follow-up of credit, on the one hand, and to the business cycle, on the other, as to customer performance capability and the value of assets given as collateral. A less favourable economic environment could contribute towards customers' increased difficulties in complying with their liabilities, together with the risk of devaluation of the assets used as collateral to the operations, particularly in the case of mortgage credits, as well as in the construction and real estate promotion industries.

Market risk may be associated to the current environment of reduced levels of reference interest rates, non-conventional monetary policies and very low levels of volatility in the financial markets. The reversion of expansionist policies, namely of the so-called "quantitative easing", and the increase in the reference interest rates could result in repricing movements of financial assets, particularly those representative of public or private debt, influencing their market values, with repercussions on asset portfolios and on the value of the assets of pension funds. Possible effects of contagion to other markets, such as shareholder or commodities, or even to emerging markets, could contribute towards deterioration in businesses' aversion to risk, with adverse movements in asset prices and consequent increase in volatility.

Consolidated Business Activity

Introduction

At the end of the first quarter of 2017, Banco Santander Totta recorded consolidated net income amounting to 222.5 million euros, a 15.4% increase as compared with the homologous period in 2016.

The credit portfolio, which totalled 33.0 billion euros, decreased by 2.9% relative to June 2016, conditioned by credit sales and write-offs that occurred throughout 2016 and in the first half of 2017. Should these effects not be considered, credit would only have been reduced by 0.1% relative to June 2016. The contracting of new home loans and credit to companies has been very active, contributing towards the improvement in the Bank's market shares.

Credit at risk ratio stood at 4.5%, improving by 2.4 p.p., as compared to 6.9% at the end of the first half of the previous year, with a 92.4% coverage (91.8% one year earlier).

Customers' resources amounted to 33.1 billion euros, an annual increase of 1.3%, with mutual funds, insurance and other resources recording 19.8% and 4.5% increases, respectively.

Loan-to-Deposits ratio, measured by the weight of net credit on deposits, decreased to 108.7%, at the end of the first half of 2017, compared to 109.8% recorded one year earlier.

The Common Equity Tier 1 (CET 1) ratio, established in line with the CRD IV/CRR rules, reached 16.3% on a phasing in basis, and 16.1% on a fully implemented basis, ahead of the minimum requirements demanded by the European Central Bank.

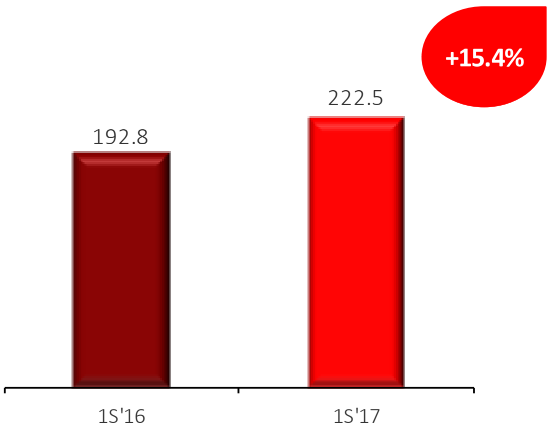
Net financing obtained with the Eurosystem stood at 1.3 billion euros, decreasing by 22.2% in the last year and thus showing a comfortable level of available liquidity, considering the values of the portfolio of eligible assets as guarantee in financing operations with the Eurosystem to be 12.8 billion euros, at end June 2017.

LCR (Liquidity Coverage Ratio) ratio, computed in accordance with CRD IV standards stood at 221%, complying with the regulatory demands on a fully implemented basis which will be in force in 2018.

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

CONSOLIDATED NET INCOME

million euro



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	1H'17	1H'16	1H'17/1H'16
Net interest income	**339.4**	**370.0**	**-8.3%**
Income from equity instruments	2.9	0.3	+767.5%
Net fees	164.3	157.3	+4.4%
Other income	(17.1)	(5.4)	+214.7%
Commercial revenue	**489.5**	**522.2**	**-6.3%**
Gain/losses on financial transactions	51.7	87.8	-41.1%
Net income from banking activities	**541.2**	**610.0**	**-11.3%**
Operating costs	(258.7)	(284.4)	-9.0%
Staff Costs	(156.7)	(166.1)	-5.7%
General Administrative Costs	(83.4)	(100.6)	-17.2%
Depreciation in the year	(18.7)	(17.7)	+5.8%
Net operating Income	**282.5**	**325.6**	**-13.2%**
Impairment and other provisions	0.9	(53.4)	-101.6%
Result from Associates	2.6	2.0	+31.0%
Income before taxes and non-controlling interests	**286.0**	**274.3**	**+4.3%**
Taxes	(63.5)	(81.5)	-22.1%
Non-controlling interests	(0.0)	0.0	-200.0%
Consolidated net income attributable to the shareholders' of BST	**222.5**	**192.8**	**+15.4%**

At end-June 2017, net interest income totalled 339.4 million euros, an 8.3% decrease when compared to the 370.0 million euros obtained in the homologous period, with a positive effect induced by the reduction in the cost of term deposits, mitigated however by lower revenues from the credit and security portfolios, with a lower weight of public debt in the bank’s accounts.

Net fees rose to 164.3 million euros, as compared to the 157.3 million euros recorded in the homologous period, representing a 4.4% growth, boosted by the evolution verified in commissions for the management and maintenance of accounts, means of payment, investment funds and insurance, resulting not just from greater customer loyalty and the increased rate of their transactions, as well as the favourable evolution of the off balance sheet resources.

Other income, amounting to -17.1 million euros mainly encompassed the regulatory contribution of the Bank to the Resolution Fund.

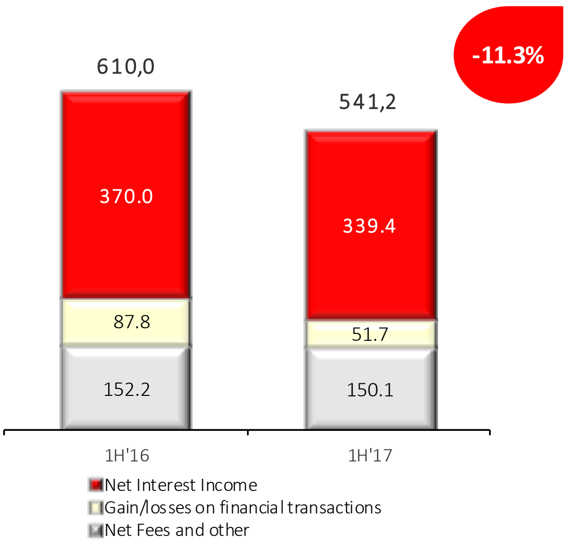
Commercial revenue amounted to 489.5 million euros, showing a 6.3% decrease relative to the amount recorded at the end of the first half of 2016.

Results in financial transactions achieved 51.7 million euros, a 41.1% decrease relative to the 87.8 million euros recorded in the 2016 homologous half year, as a consequence of the decrease in revenues obtained in the disposal of the portfolio of public debt securities.

Net income from banking activities amounted to 541.2 million euros, an 11.3% reduction relative to the homologous period.

NET INCOME FROM BANKING ACTIVITIES

million euro



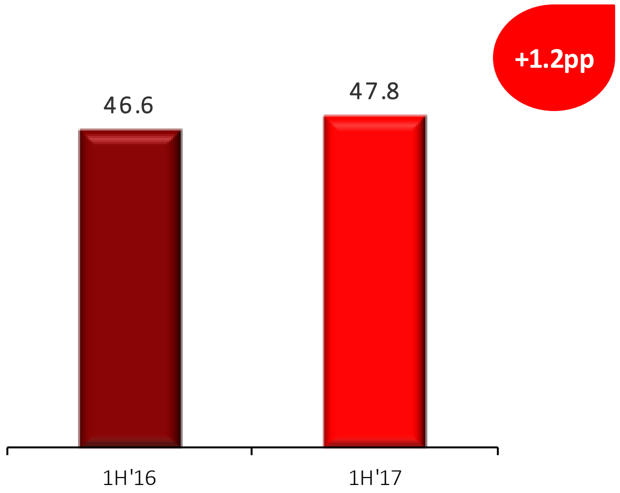
Operating costs amounted to 258.7 million euros, a 9.0% reduction as compared to the 284.4 million euros shown in the homologous period, based on the savings obtained in personnel expenses (-5.7%) and in general expenses (-17.2%), reflecting the optimizing of the organizational structure, with the consequent resizing of the retail branch network and the decrease in employee numbers, adapted to the current business reality. Annual depreciation showed a 5.8% increase, particularly associated to computer based investments.

OPERATING COSTS (million euro)	1H'17	1H'16	1H'17/1H'16
Staff costs	(156.7)	(166.1)	-5.7%
Other administrative costs	(83.4)	(100.6)	-17.2%
Depreciation in the year	(18.7)	(17.7)	+5.8%
Operating costs	**(258.7)**	**(284.4)**	**-9.0%**
Efficiency ratio	**47.8%**	**46.6%**	**+1.2 p.p.**

Evolution of revenues and expenses led to a 47.8% efficiency ratio, compared to 46.6% recorded in the homologous period, benefiting from the intense cost discipline, although diminished by the decrease in operating income.

EFFICIENCY RATIO

%



Net operating income amounted to 282.5 million euros, a 13.2% reduction as compared with the homologous period when it amounted to 325.6 million euros, benefiting from the behaviour in operating expenses, although mitigated by the decrease in operating income.

Impairment and other provisions amounted to a net reversion of 0.9 million euros, as compared with the net allocation of 53.4 million euros in the homologous period, with lower provisions related to credit and assets given in payment, reflecting the improvement in the country's economic conditions and the credit risk indicators.

Income before taxes and non-controlling interests amounted to 286.0 million euros, 4.3% greater with reference to the same period in 2016.

Consolidated net income attributable to the shareholders' of BST amounted to 222.5 million euros, a 15.4% increase as compared with the 192.8 million euros obtained at end-June 2016, as a consequence of the decrease in operating costs and of the better quality of the Bank's credit portfolio, all of which offset the decrease in net income from banking activities.

Accounts and Business Activity

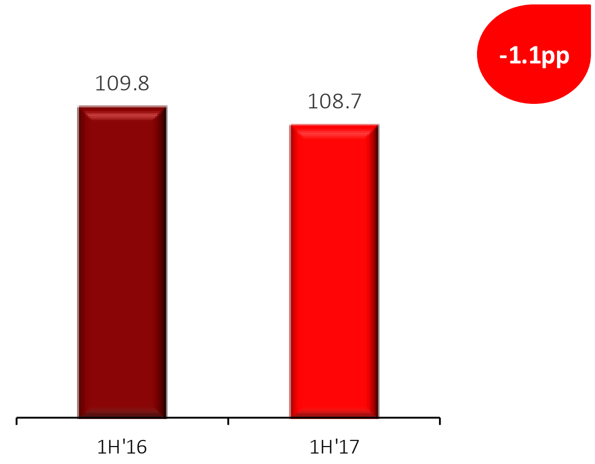
Business volume amounted to 66.1 thousand million euros at end-June 2017 (-0.9% compared to the same date in 2016). Loans and advances to customers decreased by 2.9%, influenced by credit sales and write-offs, being partially set off by customers' resources which increased by 1.3%.

BUSINESS VOLUME (million euro)	1H'17	1H'16	1H'17/1H'16
Business Volume	**66,132**	**66,714**	**-0.9%**
Loans and advances to customers	33,012	34,011	-2.9%
Customers' Resources	33,120	32,703	+1.3%

The Loan-to-Deposit ratio stood at 108.7%, at the end of the first half of 2017, showing a 1.1 p.p. decrease relative to the 109.8% shown one year earlier. This evolution derived from the reduction in the portfolio of customer credit and from the stability shown in customers' deposits, reflecting the strong capability in the retention of these applications, within an environment of very low rates of remuneration.

LOAN-TO-DEPOSIT RATIO

%



Loans and advances to customers totalled 33.0 billion euros at end-June 2017, a 2.9% decrease relative to end-June 2016, influenced by credit sales and write-offs amounting to approximately one billion euros since the beginning of 2016 to the end of the first half of 2017. Should the value of the credit portfolio be adjusted with these effects it would only have decreased by 0.1% relative to the homologous period of the previous year.

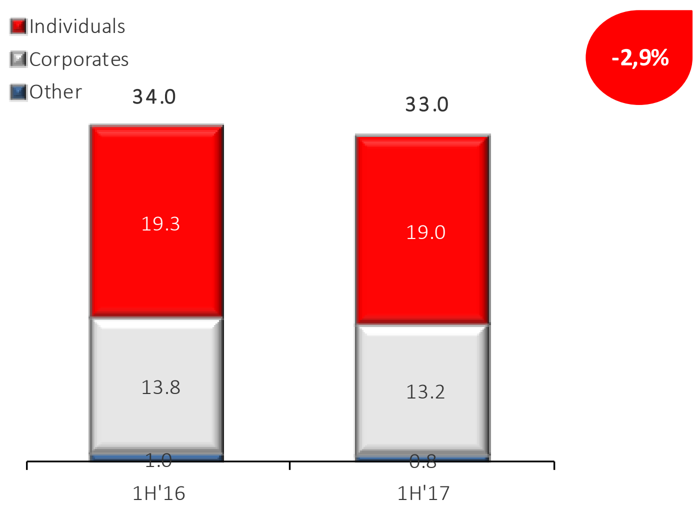
LOANS (million euro)	1H'17	1H'16	1H'17/1H'16
Loans and advances to customers (gross)	**33,012**	**34,011**	**-2.9%**
of which			
Loans to individuals	19,000	19,281	-1.5%
of which			
Mortgage	17,039	17,133	-0.5%
Consumer	1,521	1,525	-0.2%
Loans to corporates	13,188	13,756	-4.1%

Growth in granting of new credit, either in mortgages or to companies, resulted in an increase in the Bank's market shares, although mitigated by the management of non-productive assets and consequent disposal of non-performing loans. The stock of mortgage loans decreased by 0.5% at the end of the first half of 2017, consumer credit decreased by 0.2%, whilst credit granted to companies showed a negative variation of 4.1%, relative to the homologous period.

The structure of customer credit kept to the same standards of diversification between the end of the first half of 2016 and that of 2017, with mortgage loans representing 52% and loans to corporates 40% of the total credit granted as at 30 June 2017.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



At end-June 2017, the quality of the credit portfolio assessed by the proportion of credit at risk as a function of total credit stood at 4.5%, showing a 2.4p.p. improvement as compared to the 6.9% shown on the same date in 2016, with the corresponding coverage ratio of credit at risk by impairments risen to 92.4% (91.8% in the homologous period). Cost of credit, measured by the relation between credit provisions and the average credit portfolio confirmed the diminishing trajectory by reaching 0.09%.

CREDIT RISK RATIOS	1H'17	1H'16	1H'17/1H'16
Non performing loans ratio (+90 days)	3.3%	4.2%	-0.9 p.p.
Non performing loans and doubtful loans ratio	3.7%	4.4%	-0.7 p.p.
Credit at risk ratio	4.5%	6.9%	-2.4 p.p.
Restructured loans / Total loans	8.6%	9.5%	-0.9 p.p.
Restructured loans not included in credit at risk / Total loans	6.3%	6.7%	-0.4 p.p.
Cost of credit	0.1%	0.1%	+0.0 p.p.
Non Performing loans coverage ratio (+90 days)	125.3%	150.7%	-25.4 p.p.
NPL and doubtful loans coverage ratio	110.4%	145.2%	-34.8 p.p.
Credit at risk coverage ratio	92.4%	91.8%	+0.6 p.p.

At the end of the first half of 2017, customers' resources recorded a 1.3% increase, rising to 33.1 billion euros, which compares with the 32.7 billion euros recorded on the same date in 2016. Deposits kept at a steady level and off-balance sheet resources continued evincing a very favourable evolution, increasing by 9.5%.

RESOURCES	1H'17	1H'16	1H'17/1H'16
Customers' resources	**33,120**	**32,703**	**+1.3%**
On-balance sheet resources	28,461	28,447	+0.0%
Deposits	28,461	28,447	+0.0%
Off-balance sheet resources	4,659	4,256	+9.5%
Investment funds	1,664	1,389	+19.8%
Insurance and other resources	2,996	2,867	+4.5%

Solvency Ratios

At end-June 2017, the Common Equity Tier 1 (CET 1) ratio, established in line with the CRD IV/CRR rules, reached 16.3% and 16.1% should the totally implemented rules be considered, ahead of the minimum requisites required by the Central European Bank in accordance with SREP.

CAPITAL (million euro)	1H'17	1H'16	1H'17/1H'16
Common Equity Tier I	**2,973**	**3,113**	**-4.5%**
Tier I	2,962	3,113	-4.8%
Capital (total)	2,967	3,116	-4.8%
Risk Weighted Assets (RWA)	**18,214**	**18,772**	**-3.0%**
Rácio CET I	16.3%	16.6%	-0.3 p.p.
Rácio Tier I	16.3%	16.6%	-0.3 p.p.
Rácio de capital (total)	16.3%	16.6%	-0.3 p.p.

Outlook for the second half of 2017

As previously referred, it is expected that the operating environment in 2017 be conditioned by risk factors associated not just to the evolution of the Portuguese economic environment but also to the regulatory and supervision framework.

Banks will continue developing their business within an environment of low economic growth, low interest rates and new regulatory demands, namely those relative to capital requirements, liquidity and deleveraging ratios, and yet new regulations relative to resolution mechanisms, with consequent structural impact in the profitability of financial institutions.

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

It is expected that the second half of 2017 will witness the maintaining of the main objectives of increasing market shares and customer loyalty, increase in return on equity and business volumes, together with the discretionary management of the credit portfolio.

Santander Totta will continue its strategy in the support of the Portuguese economy and domestic companies, together with a policy of strict control of risks inherent to credit granting and it's follow-up.

With respect to the current implementation of commercial transformation, the Bank shall follow a policy of simplifying procedures; the strengthening of the multichannel distribution model in order to render an improved service accessible to customers; and expediting risk management with models better adjusted to each customer segment, maintaining a discrete and strict management of the assumed risks.

Following the approval by the European Commission of the purchase of Banco Popular by Banco Santander, Santander Totta will, still in the second half year, request the necessary authorizations to acquire the business of Banco Popular Portugal and proceed with its merger with the Bank. As such, the Bank will then operate under the sole label "Santander Totta", and will reinforce its commercial presence, particularly in the SME segment. Full operational and technological integration may be completed already in the first half of 2018.

Commercial Banking

Private Customers

The Bank pursued its strategy in the transformation of the commercial model, simplifying procedures and development of the digital platform, in order to improve quality of service and efficiency; this has already been reflected in the increase in the number of loyal and digital customers. The number of loyal (retail) customers and that of digital customers have increased by 23% and 34% respectively, relative to the homologous period, standing above the objectives set.

Mortgage loans are showing very significant growth, having risen by 56% in the comparison between new contracted loans in the first half of the year and those achieved in the same period in 2016. In its turn production of personal credit increased by 8.4%, benefiting from the "CrediSimples" campaign, an innovative product, exclusively available in the Bank's App and with fully digital contracting.

Resources, in average terms, rose by 1% in the first half year, relative to those recorded at end-2016; 14% growth in financial insurance and investment funds deserves being highlighted.

At end-June 2017, the number of Mundo 1|2|3 customers exceeded 176,000, a 24% growth in the half year. Mundo 1|2|3 is a multi-product solution addressed to the Bank's retail customers which, in addition to the advantages of the 1|2|3 account, may provide an additional number of benefits, via cash-back in the Mundo 1|2|3 card account, namely the reimbursement of 1% on the amount paid in IMI (Municipal Real Estate Tax). The creation of a new protection insurance, the Auto insurance, and the inclusion in Mundo 1|2|3 of Time Select, a personal system service exclusive to Select customers, allowed securing the Bank in its customers daily activities; 22% of the Bank's active customers already have the Mundo 1|2|3 account and of these, 56% have the Mundo 1|2|3 card and protection insurance. This solution has been adding benefits to customers since its launching, 2 years ago.

Companies

The Companies segment continued to be a primary focus of attention in Santander Totta's business activities. Heavy competition continued in the first half year, particularly in the case of price levels, a trend already shown in 2016.

The Bank continued with a strategy based on the balanced management between the volumes of the credit portfolio and that of resources, aiming to promote the profitable growth of the business. The share in the production of credit granted to companies until end-June, reached 17%.

The focus on the growth of companies as customers is also materialized through proximity actions with the customers, such as the non-financial offer of the Santander Advance Empresas (preparatory and training courses, amongst others) and local initiatives of holding conferences in several of the Country's regions (Box Santander Advance Empresas) which has already reached 6 districts, involving more than 1,300 companies, materializing Santander's corporate culture as a "Simple, Personal and Fair" Bank.

In its turn, and concerning innovation, Santander supports the EIA - European Innovation Academy, the largest programme of digital acceleration in Europe and which, amongst other modules, includes carrying out a seminar guided towards companies with high innovatory potential, with the objective of providing participants with discrete tools of classical approach to products.

The Santander Group was awarded by Euromoney magazine as the "World's Best Bank for SMEs", highlighting Santander's global strategy, with reference to Santander's Advance Empresas programme, which, in addition to financing, covers training solutions, internationalization and connectivity, allows companies to overcome challenges and find solutions that permit adding value.

Regarding protocoled credit, particularly in the "PME Capitalizar" line, Banco Santander Totta is placed second with a 16.9% market share

In international business the Bank pursued its strategy of reinforcing its presence with companies by supporting external trade and internationalization processes. In January, Santander Totta was awarded the *Best Trade Finance Award 2017* prize in Portugal, attributed by the well-known Global Finance magazine, being placed as the best Bank to support Portuguese companies in their international business.

The "TOP Exporta'17" conference was held in May, this event materializes Santander Totta's public recognition of the international activity of approximately 2,000 companies in their respective industries – agriculture and fisheries, environment, trade, construction, industrial projects, services, transport and logistics, and tourism. This is another of the initiatives which are framed in the Bank's objective to become a reference in the support provided to companies, strengthening its proximity with this segment and its firm purpose to support the Portuguese economy.

Promoters and Brokers

During the first half of 2017 the area of Promoters and Brokers followed a strategy of proximity with our partners and on the recognition of their merit and performance.

As to External Promoters the strategy followed was based on the launching of several competitions and campaigns with the objective to reward the best promoters in the several features of the business, with the capturing of mortgage loan customers, of personal credit and the granting of credit to the Business segment, creating conditions for these partners to continue focused and identified with the Bank's main priorities. It was decided and implemented in the first half year to review the terms of commissioning in force, adapting these to the recent market conditions and to the Bank's priorities.

In the Promoter Outlets Project, the strategy was maintained to strengthen this complementary network to the branch network. With the opening of 24 outlets during the half year, a total of 360 active outlets were attained.

With respect to real estate Brokers, the first half of 2017 confirmed the growth trend of this channel, with mortgage loan production greater than estimated, which allowed surpassing the objectives set. The Bank maintained its usual presence in the domestic conferences of the main partners, strengthening the excellent partnership relations with the large franchising networks of the real estate industry.

Omni-channelling

Implementation was pursued, during the first half of 2017, of the Multichannel Transformation Plan, in line with the strategy established by the Group for the direct channels, with the aim to modernize, simplify and remain closer to customers, and increasing the offer of the Bank's digital services.

Digital Channels

Highlighted among the several initiatives carried out in the first half of 2017 for private customers is the launching of personal credit via the App, which allows customers, through a risk analysis carried out in real time, to contract a specific product (CrediSIMPLES) via the Santander Totta App. The launching of this project places Banco Santander Totta at the front of digital transformation and allows testing of new means of interacting with customers and corresponds to their expectations, more than ever guided towards digital channels.

Equally outstanding is the launching of the Digital Pen, a functionality that allows online contracting of most of the Bank's products via Netbanco. In an initial stage this functionality is operated by the users of Santander Próximo (remote branch), with the aim to expand it, during the second half year, to the remaining private customers.

The referred functionalities were previously developed in line with *Agile*, an innovatory methodology in project execution, which intersects greater management flexibility with the setting up of multi-disciplinary units. Management flexibility allows decomposing complex projects into simpler projects, providing customers with new functionalities with greater swiftness, and the setting up of multi-disciplinary teams allows improved proximity between business and technology areas, leading to more flexible solutions suited to customers' requirements.

With respect to Corporate NetBanco implementation was pursued of the improvement plan in design and browsing, incorporating new functionalities, with the aim to provide simpler interaction, improve user experience and support the capture and customer loyalty of Company customers.
The following improvements are thus highlighted:

- New functionalities in consulting book entries and statements of individual credit cards of companies' employees;
- Tutorial videos on card management in NetBanco Companies;
- Contracting *SafeCare Corporate* insurance;
- Functional improvements in transfers and entering beneficiaries and payment lots in national and international transfers and letter cheques;
- New functionalities in operations awaiting signature with the possibility of repeating operations without repeating data entries and improvement in the functionality of balances and book entries;
- Request for opening International Documentary Credits with a dematerialized signature.

Public Website

The redesign of the private customers' public site in the plan for uniformity and simplifying of image contents, emphasizing user friendship and tonicity of the conversion components (call-to-action) was a fundamental instrument in the simplifying strategy and improvement of customer experience throughout the first half year.

Tools for metrics and analysis of content optimization (SEO) were developed and reinforced. Highlighted is implementation of the new Sustainability area, of the new pages on Mutual Funds, Cards, a new Pension Simulator and the launching of the eBroker platform. Also improved were the simulator of Personal Credit, of Mundo 123 Home Loans and the Insurance Profiler.

The strategy followed has permitted the increased visibility and use of the site with 1 million individual visitors and more than 5 million views per month, throughout the first half year.

Contact Centre

Business carried out in the first half of 2017 emphasized the change in the mix of contracts, with greater weight in the support of digital channels. This increase in business also derives from the increase in the number of the Bank's customers.

On average, more than 150 thousand monthly contacts were carried out with customers, distributed between 135 thousand calls, 13 thousand e-mails and approximately 2 thousand chat sessions. Also followed up and managed were approximately 1,500 monthly iterations in the pages and profiles of the Bank's social networks.

Companies' activities in the Contact Centre recorded very positive evolution and growth, already representing approximately 18% of total activity, with a significant increase in functionalities and autonomy; consolidation of the Companies' Attendance Centre was completed.

The Contact Centre continues being the main support to digital activity, not only as a base for clearing doubts and for customer support or in the decisive role it has in the adhesion processes to the *App* and Netbanco, but also in the promotion and deflection of customers' business to digital channels.

Several functionalities were implemented in the first six months of the year, amongst which stands out the new Broker Online services, a team of market specialists to support Bank customers and employees in financial market topics, and Superline Santander Próximo (support and complementary unit for Santander Próximo customers).

SelfBanking

During the first half of 2017, SelfBanking activity was focused on putting into practice the strategy and business plans foreseen for increase in business, on focusing service rendered to customers and on implementing the plan for integrating the business of the ex-Banif network.

In parallel to the evolution foreseen in the business of installing ATMs, the beginning of the implementation of the ex-Banif integration plan resulted in a greater growth in the number of ATMs of the Multibanco Network, bringing market shares to 16% in ATM numbers and 17% in number of entries.

The use of the equipment network, as the channel for communication of value offers to customers, was reinforced, becoming an effective generator of commercial leads for the branch network.

The plan for renewal and technological innovation and the consolidation of the project for ATMs with recirculation capability continue to be support buttresses for increase in quality and service rendered, and is as such recognized by customers, as shown by satisfaction indices reaching 94%.

International business – residents abroad

The international business of Banco Santander Totta for private customers residing abroad privileged the increase in loyalty, the capturing of new customers and the offer of digital channels, particularly focusing NetBanco and Mobile which are the Bank' strategic priorities also in those geographies where the Bank is not represented. For easier access to Santander Totta's digital applications, the implementation was completed of technological infrastructure with digital kiosks in representation offices.

The integration of the ex-Banif external units, namely through the merger of representative offices in three countries and the adaptation of licences with local authorities is in its final stages.

In the connection to customers residing abroad, the Bank maintained its offer and availability in the systematic support to the Portuguese external communities.

The Bank attended the 13th Annual Conference of the Luso-British Chamber of Commerce and in the Paris Real Estate Salon, establishing a great number of contacts with the community, local associations and customers.

As in previous years the summer campaign was launched, aiming to provide preferential attendance to customers who visit us, offering commercial information that allows welcoming the Portuguese who reside abroad. Also strengthened was communication to be held in domestic airports and transport operators and privileged welcoming provided in the main branches, promoting the offer of services and savings solutions that allow reinforcing the security and trust in Banco Santander Totta.

In addition to the support provided to the Bicycle Tour of Portugal, the Bank will also attend the S. Mateus Fair in Viseu, a privileged visitors' location for many migrant customers during their summer holidays.

In some geographies, namely in Switzerland and the United Kingdom, agreements were renewed with local banks to increase the transfers of migrants residing in those countries

In the current economic environment, when many foreigners are choosing Portugal as country of residence, the Bank intends becoming a reference, promoting the development of projects which aim to capture these potential customers, namely through a communicational brochure introducing Santander Totta.

As the main factors in the evolution of the business highlight is given to the growth in operating income, the significant growth in off-balance sheet resources, the 36% increase in transfers received which allowed the increment of Santander Totta's market share, as a corollary to the commercial relevance of this service for the binding of customers residing abroad.

Regarding digital customers, the segment is showing an exceptional performance and growing at the rate of 9% to a 26% rate of penetration.

The London branch has continued evincing good evolution in the control of the credit portfolio, maintaining an important support to branches in Portugal, and providing services to the Portuguese community that lives and works in the United Kingdom.

Global Corporate Banking

During the first half of 2017, the area of Structured Finance developed its activity in following up companies with the objective to explore new investment opportunities. Standing out, in this period, is the financing and/or financial consultancy of wind power related projects, distribution of natural gas and the real estate industry, namely shopping centres and real estate promotion for prime residences and tourist apartments.

In the bond markets, Santander Totta's share should be highlighted, as bookrunner, in the 7 and 10 years issues for EDP and Brisa Concessões Rodoviárias, respectively.

The Fixed Income & FX (FIC) area continues to follow up and develop customers' risk mitigation solutions. In interest rate management significant growth was experienced in contracting fixed rate loans which reflects, on the one hand, the growing concerns of companies as to the future performance of interest rates and, on the other, Banco Santander Totta's capability of response regarding customers' requirements in line with the uncertain behaviour of the markets.

With respect to the exchange rate area, the trend was maintained in the increase of customers who elect the Bank as partner in their exchange rate transactions. Greater number of transactions and customers and greater recurrence in transactions of active customers show the strong penetration of the exchange rate area of Banco Santander Totta in the support to the commercial networks.

The continuing historically low interest rates have conditioned the diversity of structures that the Structured Products area can offer its customers. As such, in the half year, highlight should be given to 7 structured financial insurances, amounting to a total of 249.3 million euros and to 6 structured products (4 euro issues and 2 U.S. Dollar issues) amounting to a total of 140.8 million euros. The placed issues were indexed to differing assets transacted in shareholder markets in several geographies.

Marketed insurance and mutual funds

Several diverse products in financial insurance were launched throughout the first half year, amounting to a volume of placings in excess of 400 million euros. The Insurance area continues, as such, to deepen commercial relations with customers, diversifying the offer of products to provide better protection to customers, and simultaneously improving the functionalities of multichannel communication. Digitally, online contracting of insurance in NetB@nco recorded increased growth, representing 33% of the total.

In parallel, a service attitude continued being developed, with an intensive plan of post-sales initiatives which aim towards the continued improvement in the quality of service and customer experience.

At the end of the first half of 2017, commissions from financial and risk insurance amounted to approximately 48.2 million euros, commissions from insurance bound to credit totalled 26.2 million euros and commissions from autonomous insurance (not bound to credit) reached 11.3 million euros.

With respect to mutual funds marketed by the Bank, financial markets experienced, throughout the first half of 2017, a very positive experience, contrary to the behaviour of Government bonds which recorded a downward trend in their prices, with some exceptions, namely the United States of America and Portugal. In terms of corporate bonds, the evolution in the half year was equally positive. In this market environment, an active management of the risks in real estate investment (FIMs) was carried out, with the aim to maximize the valuation of its assets versus the respective risk profile, and having obtained, in the majority of funds, very interesting profitability, and also significantly increased the amounts under management and the diversification of funds targeted as preferred by investors.

As such, Santander Asset Management (SAM) ended the half year with 1,740 million euros of FIMs under management, with a market share in excess of 14%. In the same period, real estate investment funds totalled 434.5 million euros of assets under management.

Introduction

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

The creation and implementation of the *RiskPro* programme, based upon a risk culture corporately disseminated and which is nowadays present in all the Bank's business activities, reinforces these principles throughout the whole structure decisively influencing the way in which all processes are carried out. This programme was implemented to involve all employees in risk management, since the *Risk Pro* culture covers a set of behaviours and deportments that each one must develop daily for a proactive management of the various risks.

Credit Risk

Main vectors of activity

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

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of both customers and products;
- Maintenance of the strictness in the admission criteria and consequently the quality of the risks accepted in each of the segments aiming to preserve the good quality of the credit portfolios;
- Concerning individualized credit risks customer proximity was maintained in order to anticipate their credit requirements, review their credit lines and prevent possible issues in their repayment capability;
- This action allowed maintaining ratios of non-performing loans and of credit at risk significantly below the average for the industry and simultaneously continue with the growth of the credit portfolio. Support levels to the business were intensified in order to capture new operations and new customers and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;
- This period also witnessed the integration of the ex-Banif credit portfolio, a process marked by the assessment of all the customers using the Bank's risk methodology and by the strong support of the Credit Risks area towards the success of technological migration and also by the relevant action in the identification, segmentation and taking of credit decisions on the new portfolio;
- As to the following up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are, or may eventually become, affected by the macroeconomic environment, with the objective of mitigating the non-performing loan ratios and slowness. The policy was maintained to undertake permanent reviews of the portfolio and impairments with adequate analysis criteria and that the estimated impairments are equally adequate;
- Also maintained in this period were the measures of follow up and customer review measures, thus achieving the full absorption of the portfolio;
- The Bank continues reviewing, developing and applying measures in the management of the admission processes of new credits, aiming to improve the quality of customer service whenever these manifest new credit opportunities;
- After having carried out, in 2016, diverse tasks in the identification and assessment of credit risks on credit exposures, with particular focus on the main exposures, the integration was successfully completed of the new portfolio in the process of admission and follow up of transactions of customers originating from that network, in the models of Banco Santander Totta;
- With 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 Customers and Business segments;
- Still considering standardized 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 area, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In a still adverse macroeconomic scenario, where the ratios of non-performing loans continue 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 corporate risk management, permanent attention was kept on the knowledge and follow up of the credit portfolio to obtain strict control of its risk, thus providing adequate and timely management information and respective adoption of measures aiming towards 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 reckoning the requirement of own resources as well as their increasing integration in management;
- Studies for the development of the models for the application of the IFRS9 standards were continued.

Risk model

Introduction

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

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

Portfolio customers are those that, 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 customers, self-employed entrepreneurs, and the companies comprised in retail banking groups that are not included in the portfolio. Assessment of these risks is based on internal evaluation models and automatic decision, additionally complemented, when the model is not sufficiently precise, with teams of specialized risk analysts

Risk measurement metrics and tools

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

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

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

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

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

Credit risk parameters

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

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or that of the unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), and this cost duly included in the price of the operations. The estimate of the unexpected loss, which is the basis for establishing the regulatory capital in line with standards comprised in the Basle (BIS II) capital agreement, is related to a very high and thus improbable loss level which, considering its nature is taken as non-recurring and must thus be covered by the equity.

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

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

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

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

Credit risk cycle

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

This process is initiated in the business areas, which 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 Banco Santander Totta. This assessment consists in analysing the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its credit transactions, solvency and profitability. Additionally, an assessment and revision of the attributed rating is also carried out whenever an alert or event appears that may affect the customer and/or the operation.

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

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

Recoveries

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

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

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

Counterparty Risk

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

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

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

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

During the first half of 2017, the present value of transactions on interest rate indices (Euribor) recorded a slight reduction, reflecting the evolution of the medium and long term market rates. Regarding exposure to financial groups, operations were maintained to cover the interest rate structural risk, thus lowering the exposure to almost insignificant levels, under cover of collateral rendering agreements (*ISDA Master Agreements/Credit Support Annex*).

Balance Sheet Risk

Control of balance sheet risk

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

Methodologies

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

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

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

The LCR ratio (*Liquidity Coverage Ratio*), reckoned in line with the CRD IV standards stood at 221% at end-June 2017.

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

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

Management of balance sheet structural risk

Interest rate risk

Interest rate risk is defined as the probability to suffer losses as a result of the fluctuations in the interest rate curves, in net interest income and the Bank's equity structure, which could lead to losses in profitability and in its economic value.

As referred above, the interest rate risk in the balance sheet is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variation 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.

The model in use allows the measuring and control of all the risks associated to the balance sheet's market risk, namely the time lag risk (risk deriving from time lags that may exist between the Bank's assets and liabilities), the income curve risk (risk resulting from changes in interest rates), the basic risk (risk derived from the changes in the correlation between indices or differing points in the curves) and the optionality risk (that derives from the optionality given or used by customers through the assets and liabilities in the Bank's balance sheet).

Exchange rate risk

Exchange rate risk derives from variations in exchange rates that may affect structural positions in foreign currency comprised in the accounts. The objective of its management is to minimize the impact of this structural risk in the Bank's results and equity value.

Exchange rate risk in commercial activity is measured and controlled by the global exchange position, the Group's strategy being that of its full coverage.

Liquidity risk

Liquidity risk consists of the risk in not timely complying with payments due or complying with these at an excessive cost, either due to more grievous financing conditions or by forced asset sales at values below market prices (risk of market liquidity).

The liquidity policy followed by the Group is based upon a low liquidity risk due to the continuous diversification of sources of finance, to the maintenance of a balanced maturity profile and by foreseeing the volume and nature of the financial tools to be used, in order to allow the achievement and successful development of the established business plan.

By keeping to a conservative profile, the Bank is far 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.

Market risk

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

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

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

Methodologies

Negotiating activity

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

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

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

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

Grading and contrast measurements *(Backtesting)*

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

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

Limits

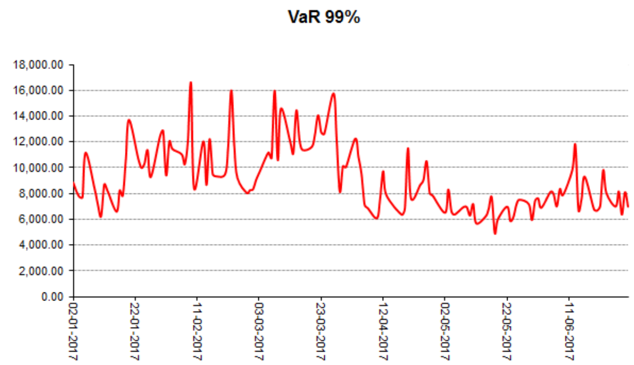
Quantitative limits for negotiation portfolios, which are classified in two groups, are established in line with the following objectives:

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

Quantitative analysis of VaR throughout the year

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

:



VaR kept at reduced levels, with variations between 5 thousand and 17 thousand euros.

Operational risk

Definition and objectives

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

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

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

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

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

Management model

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

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

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

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

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

The different stages of the management model allow:

- To identify the operational risk 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 operational risk 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 Basle II standards, define objectives and analyse the risk profile in line the respective limits;
- To continuously follow up exposures to operational risk with the objective to detect risk levels that have not been assumed;
- To establish mitigation measures which extinguish or minimize operational risk
- To prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies.

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

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

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

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

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

the objective to identify potential low probability events which could imply heavy losses to the institution. The possible impact is assessed and additional mitigation controls and/or measures identified which could reduce a possible heavy impact on the institution.

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

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

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

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

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

Compliance and Reputational risk

Compliance risk is defined as the probability of the occurrence of negative impacts for the institution, which may influence results or 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.

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

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

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

Governance Practise and Internal Control Model

The Corporation is organically structured in the model of a corporate governance foreseen under article No. 278, § 1, item b) of Company Law. Governing bodies are the General Meeting, the Board of Directors and the Audit Committee. An Official Auditor is also in office. This structure follows the general reformulation of the company articles of association approved at the General Meeting held on 31 May 2016 and after completion of the authorization processes or lack of opposition from the competent supervision bodies.

Mandates of governing bodies have a normal duration of three years.

Shareholder structure

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

Movement in Own Shares

In line with the decision taken at the Annual General Meeting held on 31 May 2017, Banco Santander Totta S.A. directly or by a dependent company may acquire own shares as well as dispose of those purchased up to the limits and in line with the remaining legal conditions.

On 31 December 2016, Banco Santander Totta SA., held 305,330 own shares corresponding to 0.024% of its share capital. During 2017, the Bank did not acquire or dispose any own shares, closing the half year with the same number of own shares.

TRANSACTION WITH OWN SHARES - FIRST HALF 2017

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
31/12/2016	305,330	5.69	1,737,807	0.024%
Purchases	0	-	0	-
Disposals	0	-	0	-
30/06/2017	305,330	5.69	1,737,807	0.024%

Glossary

Net interest income
"Interest and similar income" less "interest and similar charges"

Net fees and other income
"Income from services and commissions" less "charges with services and commissions" plus " other operating results"

Commercial revenue
Net interest income added to "income from equity instruments" and net fees and other income

Gain/losses on financial transactions
"Results of assets and liabilities at fair value through profit or loss" added to "result of available-for-sale financial assets", to "result of foreign exchange revaluation" and to "result from the sale of other assets"

Net income from banking activities
Commercial revenue added to Gain/losses on financial transactions

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

Net operating income
Net income from banking activities less operating costs

Impairment and other provisions
"Provisions, net of reversals" plus "loan impairment net of reversals and recoveries" plus "Impairment of other financial assets net of reversals and recoveries" plus "impairment of other assets net of reversals and recoveries"

Income before taxes and non-controlling interests
Net operating income less impairment and other provisions" plus "results from associates"

Taxes
"Current" plus "deferred"

Income after taxes and before non-controlling interests
Income before taxes and non-controlling interests minus taxes

Consolidated net income attributable to the shareholders' of BST
Income after taxes and before non-controlling interests minus "non-controling interests"

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

Loan-to-Deposit ratio
Measured in line with definitions deriving from the "Memorandum of Understanding"

Loans to individuals (mortgage and consumer) and corporates
Defined in line with segmentation of management information system (MIS)

Non performing loans / Total loans
Ratio between "overdue loans and interest" and "loans and advances to customers" (gross)

Non performing loans (+90 days) / Total loans
Ratio between "overdue loans and interest (more than 90 days)" and "loans and advances to customers" (gross)

Non Performing loans and doubtful loans ratio
Ratio between non performing loans and doubtful loans and "loans and advances to customers" (gross)

Credit at risk ratio[1]
Ratio between loans at risk (gross) and loans and advances to customers (gross)

Restructured loans / Total loans[2]
Ratio between restructured customer loans and total loans to customers

Restructured loans not included in credit at risk / Total loans[2]
Ratio between restructured loans not included in credit at risk and total loans to customers

Cost of credit
Ratio between "loan impairment net of reversals and recoveries" and the average of "loans and advances to customers"

Non performing loans coverage ratio
Ratio between impairment of loans and advances to customers (balance sheet value) and non performing loans

Non performing loans coverage ratio (+90 days)
Ratio between impairment of loans and advances to customers (balance sheet value) and non performing loans (+90 days)

Credit at risk coverage ratio
Ratio between impairment of loans and advances to customers (balance sheet value) and credit at risk

Deposits
Resources of customers and other debts

Off balance sheet resources
Sum of marketed investment funds, insurance and other resources, information on which is obtained from Santander Asset Management and/or the management information system

Liquidity Coverage Ratio (LCR)
In accordance with Article 412(1) of Regulation (EU) No 575/2013, shall be equal to the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period.

[1] According to instruction nº. 23/2012 of Banco of Portugal
[2] According to instruction nº. 32/2013 of Banco of Portugal

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 half year ended on 30 June 2017, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of that Company and of the companies included in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced".

The Board of Directors

António Basagoiti Garcia-Tuñon

Chairman

António José Sacadura Vieira Monteiro

Vice-Chairman

Enrique Garcia Candelas

Vice-Chairman

António Manuel de Carvalho Ferreira Vitorino

Member

Inês Oom Ferreira de Sousa

Member

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Member

João Baptista Leite

Member

José Carlos Brito Sítima

Member

Jose Urgel Moura Leite Maia

Member

Luís Filipe Ferreira Bento dos Santos

Member

Luis Manuel Moreira de Campos e Cunha

Member

Manuel António Amaral Franco Preto

Member

Manuel Maria de Olazabal Y Albuquerque*

Member

Pedro Aires Coruche Castro e Almeida

Member

Remedios Ruiz Macia

Member

*Elected on 31/05/17

The 2017 half-year accounts were not the object of a limited review or of an opinion from the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

(Amounts expressed in thousands of Euros)

ASSETS	Notes	30-06-2017 Amounts before impairment and depreciation	30-06-2017 Impairment and depreciation	30-06-2017 Net assets	31-12-2016 Net assets
Cash and deposits at central banks	5	1,979,803	-	1,979,803	877,917
Balances due from other banks	6	360,859	-	360,859	658,892
Financial assets held for trading	7	1,614,174	-	1,614,174	1,758,934
Available-for-sale financial assets	8	4,457,933	60,791	4,397,142	5,422,956
Loans and advances to credit institutions	9	1,614,251	-	1,614,251	563,924
Loans and advances to customers	10	33,012,358	1,362,564	31,649,794	31,452,336
Held to maturity investments	11	237,851	-	237,851	243,954
Hedging derivatives	12	18,970	-	18,970	32,700
Non-current assets held for sale	13	150,238	54,666	95,572	90,426
Investment properties	14	368,479	-	368,479	378,374
Other tangible assets	15	742,917	448,369	294,548	307,065
Intangible assets	15	429,722	397,166	32,556	33,854
Investments in associated companies	16	54,903	1,500	53,403	54,599
Current tax assets	17	23,290	-	23,290	12,720
Deferred tax assets	17	311,351	-	311,351	366,992
Other assets	18	696,873	104,305	592,568	721,780
Total assets		46,073,972	2,429,361	43,644,611	42,977,423

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30-06-2017	31-12-2016
Liabilities			
Resources of central banks	19	3,080,638	2,450,694
Financial liabilities held for trading	7	1,638,381	1,766,765
Resources of other credit institutions	20	2,435,951	2,023,379
Resources of customers and other debts	21	28,460,634	28,513,478
Debt securities	22	3,661,298	3,925,402
Hedging derivatives	12	66,918	81,655
Provisions	23	182,324	220,850
Current tax liabilities	17	43,520	9,850
Deferred tax liabilities	17	102,476	76,967
Equity representative instruments	24	69,018	69,220
Subordinated liabilities	25	12,315	12,033
Other liabilities	26	573,509	561,474
Total liabilities		40,326,982	39,711,767
Shareholder's equity			
Share capital	27	1,256,723	1,256,723
Share premium account	27	193,390	193,390
Other equity instruments	27	135,000	135,000
Revaluation reserves	27	(430,925)	(609,150)
Other reserves and retained earnings	27	1,983,876	1,952,612
(Own shares)		(43,621)	(43,621)
Consolidated net income attributable to the shareholders' of BST	28	222,510	380,032
Shareholders' equity attributable to the shareholders' of BST		3,316,953	3,264,986
Non-controlling interests	29	676	670
Total shareholders' equity		3,317,629	3,265,656
Total liabilities and shareholders' equity		43,644,611	42,977,423

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2017.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(Amounts expressed in thousands of Euros)

	Notes	30-06-2017	30-06-2016
Interest and similar income	31	536,154	574,573
Interest and similar charges	32	(196,750)	(204,591)
Net interest income		339,404	369,982
Income from equity instruments	33	2,863	330
Income from services and commissions	34	197,867	190,328
Charges with services and commissions	35	(33,567)	(33,008)
Result of assets and liabilities at fair value through profit or loss	36	(2,418)	(33,519)
Result of available-for-sale financial assets	37	35,690	90,519
Result of foreign exchange revaluation	38	4,425	4,402
Result from the sale of other assets	39	14,048	26,389
Other operating results	40	(17,087)	(5,429)
Net income from banking activities		541,225	609,994
Staff costs	41	(156,663)	(166,082)
General administrative costs	42	(83,367)	(100,627)
Depreciation in the year	15	(18,698)	(17,673)
Provisions, net of reversals	23	(8,086)	(949)
Loan impairment net of reversals and recoveries	23	(14,889)	(41,266)
Impairment of other financial assets net of reversals and recoveries	23	164	(2,189)
Impairment of other assets net of reversals and recoveries	23	23,686	(8,948)
Result from associates	43	2,633	2,010
Income before taxes and non-controlling interests		286,005	274,270
Taxes			
Current	17	(49,788)	(37,626)
Deferred	17	(13,707)	(43,840)
Income after taxes and before non-controlling interests		222,510	192,804
Non-controlling interests	29	-	-
Consolidated net income attributable to the shareholders´ of BST	28	222,510	192,804
Average number of ordinary shares outstanding	28	1,241,824,639	1,098,432,941
Earnings per share (in Euros)	28	0.18	0.18

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2017.

BANCO SANTANDER TOTTA, S.A.

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(Amounts expressed in thousands of Euros)

	June 30, 2017		June 30, 2016	
	Attributable to the shareholders' of BST	Attributable to non-controlling interests	Attributable to the shareholders' of BST	Attributable to non-controlling interests
Consolidated net income for the year	222,510	-	192,804	-
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations				
. Fair value	12,518	-	(23,478)	-
. Tax effect	-	-	-	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences on foreign subsidiaries	-	-	(598)	(6,405)
. Transfers of exchange differences on foreign subsidiaries to net income for the period	-	-	(1,717)	-
. Revaluation reserves of associated companies valued by the equity method				
. Fair value	530	-	-	-
. Tax effect	(135)	-	-	-
. Changes in fair value of financial assets available for sale				
. Fair value	266,703	-	(67,482)	-
. Tax effect	(77,335)	-	17,128	-
. Transfers of available-for-sale financial assets at fair value to net income for the period				
. Fair value	(35,690)	-	(90,041)	-
. Tax effect	10,350	-	26,112	-
. Change in fair value of held-to-maturity investments				
. Fair value	417	-	-	-
. Tax effect	(121)	-	-	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	1,161	-	(10,097)	-
. Tax effect	(336)	-	2,928	-
Consolidated comprehensive income for the first half-year	400,572	-	45,559	(6,405)

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2017.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(Amounts expressed in thousands of Euros)

				Revaluation reserves										
	Share capital	Share premium account	Other equity instruments	Legal revaluation	Fair-value	Foreign exchange revaluation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the year	Non-controlling interests	Shareholders' equity
Balances as at December 31, 2015	**956,723**	**193,390**	**135,000**	**23,245**	**(462,423)**	**2,566**	**114,566**	**259,554**	**915,432**	**428,624**	**(43,561)**	**568,377**	**321,315**	**3,412,808**
Capital increase	300,000	-	-	-	-	-	-	-	-	-	-	-	-	300,000
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	194	51,544	41,066	297,286	-	(390,090)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(178,287)	-	(178,287)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	(40,416)	-	-	-	10,026	(30,390)
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(324,266)	(324,266)
Long-term incentives	-	-	-	-	-	-	-	-	44	-	-	-	-	44
Consolidated comprehensive income for the first half-year 2016	-	-	-	-	(191,098)	(2,315)	46,168	-	-	-	-	192,804	(6,405)	39,154
Balances as at June 30, 2016	**1,256,723**	**193,390**	**135,000**	**23,245**	**(653,521)**	**251**	**160,928**	**311,098**	**916,126**	**725,910**	**(43,561)**	**192,804**	**670**	**3,219,063**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	-	-	(429)	429	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(60)	-	-	(60)
Long-term incentives	-	-	-	-	-	-	-	-	(226)	-	-	-	-	(226)
Consolidated comprehensive income for the second half-year 2016	-	-	-	-	(202,207)	(251)	62,405	-	(296)	-	-	187,228	-	46,879
Balances as at December 31, 2016	**1,256,723**	**193,390**	**135,000**	**23,245**	**(855,728)**	**-**	**223,333**	**311,098**	**915,175**	**726,339**	**(43,621)**	**380,032**	**670**	**3,265,656**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	163	33,650	159,967	(116,598)	-	(77,182)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	-	(45,817)	-	-	(302,850)	-	(348,667)
Long-term incentives	-	-	-	-	-	-	-	-	196	-	-	-	-	196
Others	-	-	-	-	-	-	-	-	(134)	-	-	-	-	(134)
Consolidated comprehensive income for the first half-year 2017	-	-	-	-	245,639	-	(67,577)	-	-	-	-	222,510	-	400,572
Balances as at June 30, 2017	**1,256,723**	**193,390**	**135,000**	**23,245**	**(610,089)**	**-**	**155,919**	**344,748**	**1,029,387**	**609,741**	**(43,621)**	**222,510**	**670**	**3,317,623**

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2017.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(Amounts expressed in thousands of Euros)

	30-06-2017	30-06-2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	703,005	713,009
Payment of interest and commissions	(224,567)	(250,586)
Payments to staff and suppliers	(271,010)	(292,440)
Contributions to the pension funds	-	-
Foreign exchange and other operating results	(12,680)	7,721
Recovery of uncollectable loans	2,651	1,317
Operating results before changes in operating assets and liabilities	197,399	179,021
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(1,049,822)	(318,167)
Financial assets held for trading	144,703	71,097
Loans and advances to customers	(236,125)	(54,164)
Assets and liabilities at fair value through profit or loss	9,352	(3,220)
Non-current assets held for sale	(103,847)	(4,594)
Investment properties	16,340	9,037
Other assets	251,164	(108,830)
	(968,235)	(408,841)
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	1,042,456	(2,919,086)
Resources of customers and other debts	(40,302)	1,356,100
Financial liabilities held for trading	(128,384)	(33,892)
Other liabilities	18,810	69,396
	892,580	(1,527,482)
Net cash flow from operating activities before income tax	121,744	(1,757,302)
Income tax paid	(26,740)	(37,978)
Net cash flow from operating activities	95,004	(1,795,280)
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	2,863	330
Purchase of available-for-sale financial assets	(965)	(2,477,722)
Sale of available-for-sale financial assets	1,226,468	2,615,091
Sale of held to maturity investments	5,885	-
Income from available-for-sale financial assets	119,442	144,077
Purchase of tangible and intangible assets	(15,061)	(28,703)
Sale of tangible assets	1,223	1,149
Net cash flow from investment activities	1,339,855	254,222
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance/(redemption) of debt securities	(250,137)	(406,439)
Interest paid on bonds issued and other	-	(320,642)
Redemption of preference shares	(32,068)	(80,737)
Dividends paid	(348,486)	(178,286)
Capital Increase	-	300,000
Interest paid on subordinated liabilities	(315)	(36)
Net cash flow from financing activities	(631,006)	(686,140)
Net Increase / (Decrease) in cash and cash equivalents	803,853	(2,227,198)
Cash and cash equivalents at the beginning of the year	1,536,809	3,597,930
Cash and cash equivalents at the end of the year	2,340,662	1,370,732

The accompanying notes form an integral part of the consolidated

balance sheet for the six-month period ended June 30, 2017.

INTRODUCTION

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

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group for the first half-year of 2017 and 2016 are detailed in Note 47.

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

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

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

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

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

The Bank has a domestic network of 551 branches (608 branches at December 31, 2016) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. The Bank also has subsidiaries and representation offices abroad as well as shareholdings in subsidiaries and associated companies.

1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

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

The accounting policies used by the Bank in the preparation of its consolidated financial statements at June 30, 2017 are consistent with those used in the preparation of the consolidated financial statements with reference to December 31, 2016.

In the first half-year of 2017, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union that became effective as of 1 January 2017:

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

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

The adoption of the standards and interpretations referred to above mainly impacted the disclosure and presentation of the financial statements.

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

a) Mandatory application for annual periods starting on or after January 1, 2018:

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

- IFRS 9 (new), 'Financial instruments'. IFRS 9 substitutes the requirements of IAS 39 relating to: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of amounts receivable (through the expected loss model); (iii) the requirements for the recognition and classification of hedge accounting, as well as for the calculation and accounting of impairment losses.

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

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

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

- IFRIC 22 'Foreign currency transactions and advance consideration'. This is an interpretation of IAS 21 'The effects of changes in foreign exchange rates' and refers to the determination of the “transaction date” when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the foreign exchange rate to be used to convert the transactions into foreign currency.

These standards have not been yet endorsed by the European Union and have therefore not been adopted by the Bank in the financial year ended June 30, 2017. Except for the effects of the application of IFRS 16, which up to this date are not possible to estimate, no material impacts are expected as a result of the adoption of the above mentioned standards.

<u>International Financial Reporting Standard 9 – Financial Instruments</u>

New requirements

On July 24, 2014, in response to the challenge posed by the G20 following the global financial crisis, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 - Financial Instruments. This new standard applies to annual periods beginning on or after January 1, 2018 which, with its endorsement by the European Union, will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the financial asset management entity and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with the entities' risk management practices. The changes in these 3 levels are detailed below:

a) *Classification and measurement of financial assets*

The criteria for the classification of financial assets will depend both on the business management model and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortized cost, at fair value with changes recognized in equity (revaluation reserves) or in the income statement for the financial year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognized in the income statement for the financial year.

Based on the preliminary analysis made on the present date, and taking into account the main activity of the Bank, which is focused on the granting of loans, and the reduced exposure to complex financial assets, it is expected that:

- Financial assets equivalent to debt instruments, classified as loans and balances receivable or held to maturity under IAS 39, continue to be measured at amortized cost;
- Financial assets equivalent to debt instruments, classified as available-for-sale, continue to be measured at fair value with changes recognized in equity (other comprehensive income), some of which may be measured at fair value through profit or loss at the option of the Bank under certain conditions; and

- Financial assets equivalent to equity instruments will be measured at fair value through profit or loss for the financial year, unless the Bank irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognized in equity (other comprehensive income). This irrevocable classification will imply that, on the disinvestment/realization of such financial asset, the amounts recognized in equity are not recycled to the income statement for the financial year.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognized in equity (other comprehensive income).

b) *Expected Credit Impairment Loss Model*

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortized cost, to financial assets equivalent to debt instruments valued at fair value with changes recognized in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank’s current impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

- Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from non-performing events during the 12 months subsequent to the reporting date will be recognized in the income statement for the financial year;

- Stage 2: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in stage 2. For these financial assets, expected credit impairment losses are recognized over the assets’ lifetime. However, interest will continue to be calculated on the gross amount of the asset; and

- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

The significant increase in credit risk shall be determined by analysing the quantitative and/or qualitative internal indicators used by the Bank in the course of the normal management of credit risk, thereby imposing a stronger link between the accounting requirements and the credit risk management policies established by the Bank. It should, however, be noted that IFRS 9 contains the rebuttable presumption that a default occurs when the asset is in arrears over 90 days (stage 3), as well as the rebuttable assumption that there is a significant increase in credit risk in respect of arrears exceeding 30 days (stage 2).

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including future trends and scenarios, namely macroeconomic data. In this context, estimates of expected credit impairment losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends, such as GDP, the unemployment rate, amongst others.

IFRS 9 neither determines the definition of default, nor objective criteria for the determination of a significant increase in credit risk, which introduces a higher degree of subjectivity and estimates into the calculation of impairment losses, given the use of information of past events and of the current situation, as well as of projections of future events. Equally relevant are the modelling challenges regarding the inclusion in the measurement of expected losses based on lifetime prospects and the inclusion of forward looking information.

c) *Hedge accounting*

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank is currently considering the possibility of maintaining the application of IAS 39 and postponing the implementation of the new requirements of IFRS 9 in this component.

Bank implementation strategy

The Santander Group, which BST integrates, defined a global work structure with the objective of adapting its internal processes to the norms set forth in IFRS 9, so that these are simultaneously and uniformly applied to all Group subsidiaries and are adaptable to the individual characteristics of each.

Regarding the governance structure of the IFRS 9 implementation project, the Group created a committee with the responsibility of monitoring the project, but also of ensuring that all the areas relevant to its success are involved in this project. In this manner, the Risk Department, the Accounting Department and the Technology and Operations Department of the Bank are involved in this committee. The Internal Audit Department and the external auditor are also involved in the project, holding regular meetings with this committee to monitor project implementation.

BST successfully completed the design and development phase of the IFRS 9 implementation plan. The main objectives achieved include:

- Definition of the functional requirements, as well as the definition of an operational model adapted to the requirements of IFRS 9;

- Definition of a training plan for employees who may be involved in the application of this standard or whose departments will be impacted by the adoption of this standard; and

- With regard to the IT environment, identification of the technological needs as well as the adaptation needs of the current internal control environment.

BST is currently in the implementation phase of the models and requirements defined, in order to ensure the efficient implementation of the norms set forth in IFRS 9, optimizing the resources required to develop the requirements and models defined. When the implementation phase is complete, BST will test the results obtained from the models implemented using several simulations, in order to ensure that the transition to the new normative is in agreement with that initially established. This last phase includes a parallel calculation of the amount of impairment determined in accordance with the requirements of IFRS 9, as a complement to and comparison base with the internal simulations developed by BST during the IFRS 9 implementation project.

The BST Audit Committee is aware of the importance of the IFRS 9 normative implementation project for BST, and is therefore, expected to continue to monitor the project through to completion.

1.2. Consolidation principles and recording of associated companies

The consolidated financial statements now presented reflect the assets, liabilities, revenue, costs, other comprehensive income and cash flows of the Bank and those of the entities directly and indirectly controlled by the Bank (Note 4), including special purpose entities.

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

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

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

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

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

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a shareholding (direct or indirect) exceeds 20%, but is under 50% (with voting rights proportional to the shareholding) or when the Bank has the power to participate in decisions relating to its financial and operating policies, but does not have control or joint control over same. Shareholdings in associated companies are recorded in accordance with the equity method, from the date the Bank gains significant influence until the date same ceases.

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

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

In a step acquisition transaction that results in the acquisition of significant influence, any previously held shareholding is revalued at fair value through profit or loss on the first application of the equity method.

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

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

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

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

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

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

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

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

Currency exchange differences arising on the translation into Euros are accounted in shareholders’ equity under the heading “Revaluation reserves – Foreign exchange fluctuation”.

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

1.3. Summary of the main accounting policies

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

a) Accruals basis

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

b) Foreign currency transactions

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

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

c) Loans and accounts receivable

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

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

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

Commissions and external costs attributable to the underlying operations included in this category, as well as the interest associated with the loans and advances granted, are recognized on an accruals basis, using the effective interest rate method, regardless of when they are received or paid. As from January 1, 2004, the Bank chose to defer commissions received and paid related to loans granted.
The Bank classifies as overdue loans, instalments of principal and interest overdue for more than 30 days. Loans with overdue instalments are denounced in accordance with the Credit Manual approved by the Bank, with the entire debt being considered overdue as from that moment.

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

Impairment

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

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

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

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

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

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

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

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

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

- Contractual breach, such as delays in the payment of the principal and/or interest;
- Significant financial difficulties of the debtor; and
- Significant change in the debtor's financial situation;
- Other adverse changes, such as:
  - The conditions and/or ability to pay; and
  - The economic conditions of the business sector in which the debtor operates, with an impact on the debtor's ability to comply with its obligations.

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

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

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

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

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

Write-off of principal and interest

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

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

Loan sales

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

Derecognition

Assets are derecognized when (i) the Bank’s contractual rights to receive their cash flows expire, (ii) the Bank has substantially transferred all the risks and rewards associated with their possession or (iii) although retaining a portion, but not substantially all the risks and rewards associated with its possession, the Bank has transferred control over the assets.

Factoring

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

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

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

Non-derecognized securitized assets

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

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

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

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

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

Finance leasing operations

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

i) *As lessee*

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

ii) *As lessor*

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

Guarantees provided and irrevocable commitments

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

Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the contract period. Upon the contractual breach, the Bank has the right to revert the guarantee, with the amounts being recognized in Loans and advances to customers after transferring the loss compensation to the beneficiary of the guarantee.

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

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

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

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

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

e) Held to maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and defined maturity, which the Bank has the intention and ability to hold to maturity. Any reclassification or significant sale of financial assets recognized in this category that is not carried out near maturity, or does not fall under the exceptions provided for by the standards, will oblige the Bank to fully reclassify this portfolio to available-for-sale financial assets. In addition, the Bank will be unable to classify any asset in this category for a period of 2 years following the sale/reclassification ("portfolio contamination").

These investments are recorded at amortized cost, based on the effective interest rate method, and at each balance sheet date the existence of objective evidence of impairment is verified. When there is evidence of impairment, the corresponding loss is recognized in the income statement through the use of an “Impairment” heading. If, in a subsequent period, the amount of the impairment loss recognized decreases, and if that decrease can be directly related to an event occurring after the initial recognition of the impairment, the reversal of the impairment amount initially recognized is made through the use of the “Provisions” heading previously constituted. The amount reversed is recognized in the income statement.

f) Financial instruments

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

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

- Financial assets and liabilities held for trading;

- Financial assets and liabilities at fair value through profit or loss;

- Available-for-sale financial assets; and

- Other financial liabilities.

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

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

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

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

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

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

The fair value of derivative financial instruments not traded on active markets, including the credit risk component attributed to the parties involved in the transaction ("Credit Value Adjustments" and "Debit Value Adjustments"), is estimated based on the amount that would be received or paid to settle the contract on that date, considering the current market conditions as well as the credit quality of the counterparties.

ii) Available-for-sale financial assets

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

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

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

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

iii) Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008, in IAS 39 - "Financial instruments: Recognition and measurement", the Bank may reclassify a financial asset that is no longer held for sale or repurchase in the short term (although it may have been acquired or incurred mainly for the purpose of sale or repurchase in the short term), removing it from the fair value through profit or loss category, if certain requirements are met. However, reclassifications from other categories to the category of financial assets at fair value through profit or loss are not allowed. If the Bank sells or reclassifies a significant amount of financial assets held to maturity before maturity during the financial year, or during the previous two financial years, the Bank will have to reclassify all the remaining financial assets held to maturity to the category of available-for-sale. If this occurs, the Bank will not be able to classify assets in the held to maturity category during the two financial years subsequent to the reclassification.

From this date onwards, it is also possible to reclassify financial instruments from the category of financial assets held for sale to the categories of loans and balances receivable and held to maturity investments, provided that the entity is able to prove the capacity and intention to maintain the asset to maturity. Reclassifications are recorded at fair value at the reclassification date, this becoming the "new amortized cost" of the instrument. Any gain or loss registered in equity of the reclassified asset is recycled to results over the term of the instrument at its effective interest rate. If, subsequently, impairment is recognized in the reclassified asset, the amount recognized in equity, as at that date, is recycled to the income statement for the financial year.

iv) Income recognition

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

v) Sale operations with repurchase agreements

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

vi) Impairment of financial instruments

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

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

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

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

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

For financial assets recorded at cost, namely unlisted equity instruments 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 best estimate of the present value of their estimated future cash flows, determined using a discount rate that reflects the risk associated with its holding.

vii) Other financial liabilities

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

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

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

Secondary market transactions

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

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

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

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

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

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

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

- There is formal documentation regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:
  - Identification of the hedging instrument;
  - Identification of the hedged item;
  - Identification of the type of hedged risk; and
  - Definition of the method used to measure the hedging effectiveness and subsequent monitoring.
- Initial expectation that the hedging relationship is highly effective; and
- Throughout the period of the operation, the hedging effectiveness falls between 80% and 125%. The hedging effectiveness is tested at each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

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

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

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

h) Other tangible assets

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

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

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

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

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

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

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

i) Intangible assets

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

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

In the first-half year of 2017 and financial year 2016, the Bank did not recognize internally generated intangible assets.

j) Investment properties

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

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

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

k) Non-current assets held for sale

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

The Bank's property for own use, which was in the process of being sold, was transferred at their net book value in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and accumulated impairment losses), being tested for impairment at the date of their reclassification to non-current assets held for sale, e subject to periodic impairment tests.

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

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

l) Provisions and contingent liabilities

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

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

m) Employees' post-employment benefits

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

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

As from January 1, 2009, employees hired by the Bank are registered with Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Clause 93 of the ACT, published in Boletim de Trabalho e Emprego ("BTE") (Labour and Employment Bulletin) No. 29, of August 8, 2016. This plan is supported by contributions from the employees (1.5%) and the Bank (1.5%) calculated on the amount of the effective monthly salary. For this purpose, each employee can choose his/her own open pension fund.

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

In October 2010 an agreement was reached between the Ministry of Labour and Social Solidarity, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE) to include workers of the banking sector in the General Regime of Social Security. Following this agreement, Decree-Law No. 1- A/2011, of January 3, was issued 2011, defining that current employees in the banking sector at the date of its entry into force (January 4, 2011) are to be included in the General Regime of Social Security, with regard to retirement pensions and in the event of maternity, paternity and adoption. Given the complementary nature foreseen under the rules of the Collective Labour Agreement for the Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Regime of Social Security and those resulting from the Collective Labour Agreement.

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

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

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

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

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

iii) the death subsidy;

iv) the survival pension for children;

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

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

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

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

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

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

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were comprised in the ACT and in BST's defined benefit pension plan as from April 2011. Additionally, the service period of employees hired before July 1, 1997 has been recognized.

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

On August 8, 2016 a new ACT was published by the Ministry of Labour in the BTE. The most relevant changes were as follows:

i) Change in the formula for determining the contribution of the employer to SAMS, which is no longer a percentage of the retirement pension but rather a fixed amount (Euros 88 per beneficiary and Euros 37.93 in the case of pensioners); and

ii) Introduction of a new benefit designated award on retirement - end of career award. This benefit, because it is attributed on retirement or in the event of death, is considered a post-employment benefit and therefore forms part of the retirement responsibilities.

<u>Application of IAS 19</u>

At January 1, 2005, the Bank opted not to apply IAS 19 retrospectively and, therefore, has not re-estimated the actuarial gains and losses that would be deferred in the balance sheet if that standard had been adopted as from the set-up of the pension plans. Accordingly, the actuarial gains and losses existing on January 1, 2004, as well as those resulting from the adoption of IAS 19, were annulled/recorded against retained earnings as at that date.

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

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

- Current service cost;

- Net interest with the pension plan;

- Early retirement cost, corresponding to the increase in the liability due to early retirement; and

- Gains and losses resulting from changes in the plan’s conditions.

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

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

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

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

At June 30, 2017 and December 31, 2016, the rate of coverage of the liabilities of BST for employee benefits, including SAMS and excluding those associated with the London Branch and the former Banif, was 98.29% and 100.02%, respectively.

n) Income tax

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

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

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

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

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

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

The taxation of corporate income for 2017 and for 2016 became as described below:

- Corporate income tax (IRC) rate of 21% on taxable income;
- Municipal surcharge at a rate varying between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income according to the limits presented below:

-	Below Euros 1,500 thousand	0%
-	Between Euros 1,500 thousand and Euros 7,500 thousand	3%
-	Between Euros 7,500 thousand and Euros 35,000 thousand	5%
-	Above Euros 35,000 thousand	7%

Thus, the above referred changes implied that the rate used by the Bank in the calculation and recognition of deferred taxes for the first half-year of 2017 and financial year 2016 was 29%.

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

Following the publication of Notice No. 5/2015 of the Bank of Portugal, the entities that presented their financial statements in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal ("NCA") now apply the International Financial Reporting Standards as endorsed by the European Union in the preparation of their separate financial statements. In this context, in BST's separate financial statements, the customer loan portfolio and the guarantees provided are now subject to the recording of impairment losses calculated in accordance with the requirements of International Accounting Standard 39 - Financial Instruments: Recognition and Measurement (IAS 39), replacing the recording of specific risk provisions, for general credit risks and for country risk, under the terms previously provided for in Notice No. 3/95 of the Bank of Portugal.

Regulatory Decree No. 5/2016, of November 18 (Regulatory Decree) established the maximum limits of impairment losses and of other value corrections for specific credit risk deductible for the purpose of calculating the taxable income in terms of IRC in financial year 2016. This methodology was also applied in the treatment of the transition adjustments related to credit impairment of entities that previously presented their financial statements under the NCAs.

In addition, the Regulatory Decree includes a transitory rule that provides for the possibility of a positive difference between the amount of the credit provisions created on January 1, 2016 under Bank of Portugal Notice No. 3/95 and the impairment losses recorded as at the same date related to the same credits to be considered in the calculation of the taxable income of 2016, but only for the portion that exceeds the tax losses generated in taxation periods started on or after January 1, 2012 and not used. The Bank opted to apply the transitory rule.

Banking sector contribution

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

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

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

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

The rates applicable to the incidence base defined in a) and b) above are 0.110% and 0.0003%, respectively.

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

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

Deferred tax assets included in the perimeter set by the Bank of Portugal, amounting to Euros 272,955 thousand, include Euros 250,000 thousand related to tax losses generated by Banif, of which:

- Euros 138,543 thousand up to 2014; and
- Euros 111,457 thousand generated between January 1 and December 20, 2015.

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

The request filed by the Bank included the figures contained in the resolution measure (Euros 179,000 thousand), which were subsequently updated by the Bank of Portugal to Euros 272,955 thousand, of which Euros 250,000 thousand corresponding to tax losses, due to the exclusion from the perimeter of net liabilities in this amount.

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

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

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

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

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

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

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

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

o) Long-term incentive plans

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

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

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

p) Own shares

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

q) Insurance brokerage services rendered

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

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

r) Cash and cash equivalents

In the preparation of the cash flow statement, the Group considers "Cash and cash equivalents" to be the total of the headings "Cash and deposits at central banks" and "Balances due from other banks", given that the items accounted for under this heading have a maturity of under 3 months, and their risk of change in value is immaterial.

1.4. Comparability of information

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

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

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

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

<u>Employees' post-employment benefits</u>

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

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

<u>Valuation of financial instruments not traded on active markets</u>

Models and valuation techniques, such as those described in Note 1.3 f) 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. f), to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by a body independent of the trading function.

<u>Fair value</u>

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

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

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

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

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

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

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

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

<u>Amortized cost</u>

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

Whenever the estimate of payments or collections associated with financial instruments measured at amortized cost is revised (and provided this does not imply derecognition and recognition of new financial instruments), the book value is adjusted to reflect the revised expected cash flows. The new amortized cost results from the present value of the revised future cash flows discounted at the original effective interest rate of the financial instrument. The adjustment in the amortized cost is recognized in the income statement.

Determination of loan impairment losses

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

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

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

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

In case of debt instruments recorded in this category, unrealized capital losses are transferred from the heading "Revaluation reserve – Fair value" to the income statement whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, its failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer. The amount of the impairment of available-for-sale financial assets based on the above criteria is indicated in Note 23.

Taxes

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

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system (Sistema de Normalização Contabilística ("SNC")), approved by Decree-Law No. 158/2009, of July 13, Decree-Law No. 159/2009, of July 13, was approved.

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

In this regard, these new rules were observed in the computation of the taxable income for the sim-month period ended June 30, 2017 and financial year 2016, in accordance with the Bank´s interpretation of same.

Determination of the outcome of the legal proceedings in progress

The outcome of the legal proceedings in progress, as well as the need for provisioning are estimated based on the opinion of the lawyers/legal advisors of the Bank and the court decisions to date, which may, however, not be upheld.

3. SEGMENT REPORTING

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

Global Corporate Banking:

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

Retail Banking:

This area essentially corresponds to credit granting operations and attracting of funds from private customers and businesses with a turnover under Euros 10 million, through the branch network and telephone and complementary channels.

Commercial Banking:

This area targets companies with a turnover ranging over Euros 10 million. This activity is supported by the branch network as well as by specialized services, and includes a variety of products, namely loans and project, trade, export and real estate financing.

Corporate Activities:

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

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

The income statement by business segment as of June 30, 2017 is made up as follows:

	2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	43,379	210,116	47,682	38,227	339,404
Income from equity instruments	-	-	-	2,863	2,863
Financial margin	**43,379**	**210,116**	**47,682**	**41,090**	**342,267**
Net commissions	20,769	140,853	8,922	(6,244)	164,300
Other results from banking activity	-	3,264	-	(20,351)	(17,087)
Commercial margin	**64,148**	**354,233**	**56,604**	**14,495**	**489,480**
Results from financial operations	7,625	2,011	1,267	40,842	51,745
Net income from banking activities	**71,773**	**356,244**	**57,871**	**55,337**	**541,225**
Operating costs	(10,085)	(212,717)	(15,969)	(1,259)	(240,030)
Depreciation and amortization	(1,504)	(16,713)	(481)	-	(18,698)
Net operating income	**60,184**	**126,814**	**41,421**	**54,078**	**282,497**
Impairment and provisions, net of reversals	605	(6,583)	8,272	(1,419)	875
Result from associates	-	-	-	2,633	2,633
Income before taxes	**60,789**	**120,231**	**49,693**	**55,292**	**286,005**
Taxes	(18,237)	(36,353)	(14,908)	6,003	(63,495)
Net income for the period	**42,552**	**83,878**	**34,785**	**61,295**	**222,510**

At June 30, 2017, the assets and liabilities under management of each business segment, in accordance with the information used by the Bank's Management for decision making, are as follows:

	30-06-2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	17,039,069	-	-	17,039,069
Consumer loans	-	1,520,819	-	-	1,520,819
Other loans	3,514,979	4,203,374	5,371,553	-	13,089,906
Total allocated assets	**3,514,979**	**22,763,262**	**5,371,553**	-	**31,649,794**
Total non-allocated assets					11,994,817
Total Assets					**43,644,611**
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	421,504	23,340,135	4,108,322	590,673	28,460,634
Debt securities	-	36,542	-	3,624,756	3,661,298
Total allocated resources	**421,504**	**23,376,677**	**4,108,322**	**4,215,429**	**32,121,932**
Total non-allocated Liabilities					8,205,050
Total Liabilities					**40,326,982**
Guarantees and sureties given	**185,762**	**408,452**	**776,726**	-	**1,370,940**

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

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

	2016				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	43,185	229,556	74,967	22,274	369,982
Income from equity instruments	-	-	-	330	330
Financial margin	**43,185**	**229,556**	**74,967**	**22,604**	**370,312**
Net commissions	25,068	131,044	12,011	(10,803)	157,320
Other results from banking activity	(14)	3,033	(1)	(8,447)	(5,429)
Commercial margin	**68,239**	**363,633**	**86,977**	**3,354**	**522,203**
Results from financial operations	5,815	1,271	356	80,349	87,791
Net income from banking activities	**74,054**	**364,904**	**87,333**	**83,703**	**609,994**
Operating costs	(9,786)	(230,921)	(24,643)	(1,359)	(266,709)
Depreciation and amortization	(1,559)	(15,349)	(765)	-	(17,673)
Net operating income	**62,709**	**118,634**	**61,925**	**82,342**	**325,612**
Impairment and provisions, net of reversals	(12,826)	(55,281)	(11,403)	26,158	(53,352)
Result from associates	-	-	-	2,010	2,010
Income before taxes	**49,883**	**63,353**	**50,522**	**110,510**	**274,270**
Taxes	(14,965)	(19,175)	(15,157)	(32,169)	(81,466)
Net income for the period	**34,918**	**44,178**	**35,365**	**78,341**	**192,804**

At December 31, 2016 the assets and liabilities under management for each business segment in accordance with the information used by the Bank's Management for decision making, are as follows:

	31-12-2016				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	17,029,555	-	-	17,029,555
Consumer loans	-	1,495,029	-	-	1,495,029
Other loans	3,545,806	4,206,713	5,175,233	-	12,927,752
Total allocated assets	**3,545,806**	**22,731,297**	**5,175,233**	-	**31,452,336**
Total non-allocated assets					11,525,087
Total Assets					42,977,423
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	637,444	23,703,035	3,491,289	681,710	28,513,478
Debt securities	-	52,968	-	3,872,434	3,925,402
Total allocated resources	**637,444**	**23,756,003**	**3,491,289**	**4,554,143**	**32,438,880**
Total non-allocated liabilities					7,272,887
Total Liabilities					**39,711,767**
Guarantees and sureties given	**189,111**	**412,616**	**785,269**	-	**1,386,997**

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

The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet at June 30, 2017 and December 31, 2016, by geographical segments, was as follows:

	30-06-2017		
	Domestic Activity Portugal	International Activity Bahamas	Consolidated Total
Assets			
Cash and deposits at central banks	1,979,803	-	1,979,803
Balances due from other banks	360,840	19	360,859
Financial assets held for trading	1,614,174	-	1,614,174
Available-for-sale financial assets	4,397,142	-	4,397,142
Loans and advances to credit institutions	1,614,251	-	1,614,251
Loans and advances to customers	31,647,563	2,231	31,649,794
Investments held to maturity	237,851	-	237,851
Hedging derivatives	18,970	-	18,970
Non-current assets held for sale	95,572	-	95,572
Investment properties	368,479	-	368,479
Other tangible assets	294,203	345	294,548
Intangible assets	32,556	-	32,556
Investments in associated companies	53,403	-	53,403
Current tax assets	23,290	-	23,290
Deferred tax assets	311,351	-	311,351
Other assets	592,559	9	592,568
Total net assets	43,642,007	2,604	43,644,611
Liabilities			
Resources of central banks	3,080,638	-	3,080,638
Financial liabilities held for trading	1,638,381	-	1,638,381
Resources of other credit institutions	2,435,951	-	2,435,951
Resources of customers and other debts	28,460,129	505	28,460,634
Debt securities	3,661,298	-	3,661,298
Hedging derivatives	66,918	-	66,918
Provisions	181,930	394	182,324
Current tax liabilities	43,520	-	43,520
Deferred tax liabilities	102,476	-	102,476
Equity representative instruments	69,018	-	69,018
Subordinated liabilities	12,315	-	12,315
Other liabilities	573,511	(2)	573,509
Total liabilities	40,326,085	897	40,326,982
Shareholders' equity			
Shareholders' equity attributable to shareholders of BST	3,350,620	(33,667)	3,316,953
Non-controlling interests	676	-	676
Total shareholders' equity	3,351,296	(33,667)	3,317,629
Total liabilities and shareholders' equity	43,677,381	(32,770)	43,644,611

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

	31-12-2016		
	Domestic Activity	International Activity	Consolidated
	Portugal	Bahamas	Total
Assets			
Cash and deposits at central banks	877,917	-	877,917
Balances due from other banks	658,873	19	658,892
Financial assets held for trading	1,758,934	-	1,758,934
Available-for-sale financial assets	5,422,956	-	5,422,956
Loans and advances to credit institutions	563,924	-	563,924
Loans and advances to customers	31,448,518	3,818	31,452,336
Investments held to maturity	243,954	-	243,954
Hedging derivatives	32,700	-	32,700
Non-current assets held for sale	89,437	989	90,426
Investment properties	378,374	-	378,374
Other tangible assets	306,213	852	307,065
Intangible assets	33,854	-	33,854
Investments in associated companies	54,599	-	54,599
Current tax assets	12,720	-	12,720
Deferred tax assets	366,992	-	366,992
Other assets	720,063	1,717	721,780
Total net assets	42,970,028	7,395	42,977,423
Liabilities			
Resources of central banks	2,450,694	-	2,450,694
Financial liabilities held for trading	1,766,765	-	1,766,765
Resources of other credit institutions	2,023,379	-	2,023,379
Resources of customers and other debts	28,510,045	3,433	28,513,478
Debt securities	3,925,402	-	3,925,402
Hedging derivatives	81,655	-	81,655
Provisions	220,850	-	220,850
Current tax liabilities	9,850	-	9,850
Deferred tax liabilities	76,967	-	76,967
Equity representative instruments	69,220	-	69,220
Subordinated liabilities	12,033	-	12,033
Other liabilities	561,000	474	561,474
Total liabilities	39,707,860	3,907	39,711,767
Shareholders' equity			
Shareholders' equity attributable to shareholders of BST	3,303,272	(38,286)	3,264,986
Non-controlling interests	670	-	670
Total shareholders' equity	3,303,942	(38,286)	3,265,656
Total liabilities and shareholders' equity	43,011,802	(34,379)	42,977,423

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

For the six-month periods ended June 30, 2017 and 2016, the income statement, by geographical segments, was as follows:

	2017		
	Domestic Activity Portugal	International Activity Bahamas	Consolidated Total
Interest and similar income	535,327	827	536,154
Interest ans similar charges	(196,745)	(5)	(196,750)
Financial margin	338,582	822	339,404
Income from equity instruments	2,863	-	2,863
Income from services and comissions	197,839	28	197,867
Charges with services and comissions	(33,561)	(6)	(33,567)
Result of assets and liabilities at fair value through profit or loss	(2,418)	-	(2,418)
Result of available-for-sale financial assets	35,690	-	35,690
Result of foreign exchange revaluation	4,312	113	4,425
Result from sale of other assets	14,048	-	14,048
Other operating results	(16,799)	(288)	(17,087)
Net income from banking activities	540,556	669	541,225
Staff costs	(156,590)	(73)	(156,663)
General administrative costs	(83,257)	(110)	(83,367)
Depreciation in the year	(18,695)	(3)	(18,698)
Provisions, net of reversals	(7,378)	(708)	(8,086)
Loan impairment net of reversals and recoveries	(20,123)	5,234	(14,889)
Impairment of other financial assets net of reversals and recoveries	164	-	164
Impairment of others assets net of reversals and recoveries	24,186	(500)	23,686
Results from associates	2,633	-	2,633
Income before tax and non-controlling interests	281,496	4,509	286,005
Current taxes	(49,788)	-	(49,788)
Deferred taxes	(13,707)	-	(13,707)
Income after taxes and before non-controlling interests	218,001	4,509	222,510
Non-controlling interests	-	-	-
Consolidated net income attributable to the shareholders of BST	218,001	4,509	222,510

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

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

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

4. GROUP COMPANIES AND TRANSACTIONS OCCURRING DURING THE YEAR

At June 30, 2017 and December 31, 2016, the subsidiaries and associated companies and their most significant financial data, extracted from their respective separate financial statements, excluding conversion adjustments to IAS/IFRS, may be summarized as follows:

	Direct (%) Participation		Effective (%) Participation		Total assets (net)		Shareholder's equity		Net income of the year	
Company	30-06-2017	31-12-2016	30-06-2017	31-12-2016	30-06-2017	31-12-2016	30-06-2017	31-12-2016	30-06-2017	31-12-2016
BANCO SANTANDER TOTTA, S.A.	-	-	-	-	45,988,048	45,801,324	3,014,665	2,834,839	348,903	336,500
TOTTA IRELAND, PLC [4]	100.00	100.00	100.00	100.00	926,842	944,147	444,012	430,106	9,792	3,251
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	83,740	180,244	83,710	180,210	-	(621)
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. [1]	100.00	100.00	100.00	100.00	121,888	122,350	116,589	116,989	612	2,258
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,749	55,755	55,745	55,747	(1)	(1)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	79.28	79.08	79.28	79.08	382,620	393,896	333,139	330,892	3,094	7,752
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,035	6,917	6,899	6,774	125	333
HIPOTOTTA NO. 1 PLC	-	-	-	-	142	142	38	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	819,579	855,338	(6,359)	(12,429)	(1)	(6,590)
HIPOTOTTA NO. 5 PLC	-	-	-	-	756,575	776,282	(8,271)	(9,538)	(4,304)	(5,978)
HIPOTOTTA NO. 4 FTC	-	-	-	-	758,314	806,271	760,086	796,623	828	(8,031)
HIPOTOTTA NO. 5 FTC	-	-	-	-	716,716	749,211	715,308	740,895	1,543	(7,378)
ATLANTES MORTGAGE NO 1 PLC[3]	-	-	-	-	87,119	106,032	-	(11,276)	-	-
ATLANTES MORTGAGE NO 1 FTC[3]	-	-	-	-	99,731	85,950	11,527	84,105	-	-
ATLANTES FINANCE 6 [3]	-	22.02	-	22.02	-	58,939	-	453	-	-
Securitization operations managed by GAMMA, STC [3]	100.00	100.00	100.00	100.00	1,878,532	2,717,179	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.81	25.81	n/a	11,218	n/a	7,179	n/a	(8)
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.50	21.50	21.50	21.50	326,171	339,037	75,204	83,418	9,357	60,545
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.77	25.77	25.77	25.77	144,729	145,123	96,629	94,407	2,222	1,949
BANIF INTERNACIONAL BANK, LTD (2)	100.00	100.00	100.00	100.00	2,836	44,705	936	3,514	4,453	(4,487)

n/a – not available

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

At June 30, 2017 and December 31, 2016, 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	Headquarters
TOTTA IRELAND, PLC [4]	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Funchal	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. [1]	Real estate management	Lisbon	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate	Lisbon	Equity method
BANIF INTERNATIONAL BANK [2]	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Lisbon	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Lisbon	Equity method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Securitization operations managed by GAMMA, STC [3]	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC [3]	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 [3]	Securitized loans fund	Portugal	Equity method
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Lisbon	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Lisbon	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Fund management	Lisbon	Equity method

(1) The shareholders' equity of this subsidiary includes supplementary capital contributions totalling Euros 99,760 thousand.

(2) This entity was consolidated for the first time in 2015, due to the resolution measure applied to the former Banif. The share capital of this subsidiary is represented by 25,000,000 common shares with a nominal value of 1 Euro each and 10,000 preference shares with a nominal value of 1 cent each. The preference shares were issued on June 24, 2009 and on June 26, 2009; it being decided by the Board of Directors of the subsidiary to issue a "Global Share Certificate for Ten Thousand Preference Shares" which, in turn, was subscribed for Euros 10,000 thousand by another entity of the Banif Group, which was not acquired by BST. During financial year 2016, the Bank acquired the preference shares for an amount of Euros 90 thousand.

(3) These companies were consolidated for the first time in 2015. Gamma - Sociedade de Titularização de Créditos, S.A. ("Gamma") was a securitization company, held by Oitante until December 31, 2016. Under the acquisition of a significant part of Banif's activity, BST acquired eleven securitization operations whose loans were originated by Banif and ceded to Gamma, which financed itself through the issuance of bonds with different levels of subordination and rating for each securitization operation. For simplification purposes, the Bank considered these securitizations as a whole, denominating them "Gamma STC", having recorded these vehicles in accordance with the ongoing involvement of the Group in these operations, determined based on the percentage of the equity piece held. Additionally, there is a securitization named "Atlantes Mortgages PLC 1" whose loans were sold to a securitization fund called "Atlantes Mortgages No. 1 FTC" which issued participation units subscribed by the Irish company "Atlantes Mortgages No. 1 PLC". The financial statements considered for consolidation purposes relate to the sub-consolidation of the fund and the existing company in Ireland, and the Group made adjustments to the statutory accounts. Finally, "Atlantes Finance 6" refers to a securitization for which the loans were also assigned to Gamma, and for which the BST Group does not own the totality of the equity piece. On December 31, 2016, the Bank acquired the entire share capital of Gamma from Oitante for an amount of Euros 7,933 thousand.

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

(4) By virtue of this subsidiary closing its financial year on November 30, the amounts reflected in the columns of "Net income for the period" correspond to the net income determined in the periods between December 1, 2016 and June 30, 2017 and in the periods between December 1, 2016 and December 31, 2016. In the periods between January 1 and June 30, 2017, the net income of Totta Ireland, PLC amounted to Euros 6,541 thousand.

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

During financial year 2016, the Bank closed down the following companies:

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

At June 30, 2017 and December 31, 2016, the balance sheet of Novimovest Fund was as follows:

	30-06-2017	31-12-2016
Securities portfolio	3,059	3,175
Real estate portfolio	368,479	378,374
Accounts receivable	10,266	10,916
Cash and banks	567	489
Accruals and deferrals	249	942
	382,620	393,896
Fund capital	333,139	330,892
Adjustments and provisions	5,352	5,407
Accounts payable	41,579	55,335
Accruals and deferrals	2,550	2,262
	382,620	393,896

At June 30, 2017 and December 31, 2016, the consolidated net income includes a profit of Euros 2,453 thousand and Euros 3,319 thousand, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This heading is made up as follows:

	30-06-2017	31-12-2016
Cash	209,844	224,159
Demand deposits at Central Banks:		
Bank of Portugal	1,769,959	653,758
	1,979,803	877,917

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

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

The compliance with the minimum requirements for a given observation period is carried out taking into account the average amount of the balances of deposits with the Bank of Portugal during said period.

6. BALANCES DUE FROM OTHER BANKS

This heading is made up as follows:

	30-06-2017	31-12-2016
Balances due from domestic banks		
Demand deposits	5,495	12,191
Cheques for collection	72,436	66,420
Interest receivable	320	-
Balances due from foreign banks		
Other Credit Institutions		
Demand deposits	280,930	578,819
Cheques for collection	1,678	1,462
	360,859	658,892

At June 30, 2017 and December 31, 2016, the balances of "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This heading is made up as follows:

	30-06-2017	31-12-2016
Financial assets held for trading		
Derivatives with positive fair value	1,611,115	1,755,759
Securities – Participating units	3,059	3,175
	1,614,174	1,758,934
Financial liabilities held for trading		
Derivatives with negative fair value	(1,638,381)	(1,766,765)

At June 30, 2017 and December 31, 2016, the headings of derivative financial instruments were made up as follows:

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

	30-06-2017			31-12-2016		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
Forwards	10,819	10,927	(108)	13,162	13,611	(449)
Swaps						
Currency swaps	33	642	(609)	8,128	9,049	(921)
Interest rate swaps	1,467,166	1,488,746	(21,580)	1,573,218	1,574,903	(1,685)
Equity swaps	6,643	11,023	(4,380)	2,027	648	1,379
Options						
Foreign exchange options	2,176	2,157	19	2,382	2,368	14
Equity options	15,331	13,628	1,703	28,720	28,292	428
Caps & Floors	108,947	111,258	(2,311)	128,122	137,894	(9,772)
	1,611,115	1,638,381	(27,266)	1,755,759	1,766,765	(11,006)

At June 30, 2017, the headings of assets and liabilities relating to “Derivative financial instruments” are net of the amounts of approximately Euros 66,182 thousand and Euros 58,745 thousand, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments" (Euros 126,669 thousand and Euros 129,288 thousand at December 31, 2016, respectively).

The majority of the derivative financial instruments held for trading celebrated with customers were hedged "back-to-back" with Banco Santander, S.A.

At June 30, 2017 and December 31, 2016, the heading "Securities – Participation units" corresponds to the participation units held in Fundo de Investimento Imobiliário Fechado Maxirent (Real Estate Investment Fund).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	30-06-2017							
	Acquisition cost	Interest Receivable	Hedge Adjustments	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 27)	(Note 23)	
Debt instruments								
Issued by residents								
Treasury Bonds	3,862,098	55,231	20,372	123,564	(9,879)	113,685	(116)	4,051,270
Other residents								
Unsubordinated debt	250,334	4,053	-	6,054	-	6,054	(230)	260,211
Subordinated debt	2,822	1	-	-	-	-	(2,822)	1
	4,115,254	59,285	20,372	129,618	(9,879)	119,739	(3,168)	4,311,482
Equity instruments								
Issued by residents								
Measured at fair value	56,904	-	-	819	(528)	291	(24,460)	32,735
Measured at cost	83,849	-	-	-	-	-	(32,418)	51,431
Issued by non-residents								
Measured at fair value	1,382	-	-	-	-	-	-	1,382
Measured at historical cost	857	-	-	-	-	-	(745)	112
	4,258,246	59,285	20,372	130,437	(10,407)	120,030	(60,791)	4,397,142

	31-12-2016							
	Acquisition cost	Interest Receivable	Hedge Adjustments	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 27)	(Note 23)	
Debt instruments								
Issued by residents								
Treasury Bonds	4,946,587	105,163	30,573	38,070	(160,108)	(122,038)	(119)	4,960,166
Other residents						-		
Acquired in securitization operations	3,513		-	-	-	-	-	3,513
Unsubordinated debt	351,635	11,099	-	10,899	-	10,899	(230)	373,403
Subordinated debt	2,983	1	-	-	-	-	(2,983)	1
	5,304,718	116,263	30,573	48,969	(160,108)	(111,139)	(3,332)	5,337,083
Equity instruments								
Issued by residents								
Measured at fair value	57,375	-	-	897	(741)	156	(24,505)	33,026
Measured at cost	84,140	-	-	-	-	-	(32,787)	51,353
Issued by non-residents						-		
Measured at fair value	1,383	-	-	-	-	-	-	1,383
Measured at historical cost	857	-	-	-	-	-	(746)	111
	5,448,473	116,263	30,573	49,866	(160,849)	(110,983)	(61,370)	5,422,956

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

At June 30, 2017 and December 31, 2016, the headings of "Treasury Bonds" included capital gains of Euros 20,372 thousand and Euros 30,573 thousand, respectively, relating to value adjustments resulting from interest rate risk hedging operations. These securities have the following characteristics:

	30-06-2017					
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
Treasury bonds - Portugal						
Maturing between one and three years	346,013	701	22,897	7,795	-	377,406
Maturing between three and five years	329,991	2,461	-	9,384	-	341,836
Maturing between five and ten years	3,185,607	52,065	(2,525)	96,506	-	3,331,653
Other	487	4	-	-	(116)	375
	3,862,098	55,231	20,372	113,685	(116)	4,051,270

	31-12-2016					
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
Treasury bonds - Portugal						
Maturing between one and three years	-	-	-	-	-	-
Maturing between three and five years	1,425,731	35,308	27,244	33,943	-	1,522,226
Maturing between five and ten years	3,520,370	69,850	3,329	(155,981)	-	3,437,568
Other	486	5	-	-	(119)	372
	4,946,587	105,163	30,573	(122,038)	(119)	4,960,166

At June 30, 2017 and December 31, 2016, the Bank held in its portfolio Portuguese Treasury Bonds, in the amounts of Euros 628,206 thousand and Euros 877,472 thousand respectively, which were used as collateral in financing operations (Note 20).

At June 30, 2017 and December 31, 2016, the heading "Debt instruments" included, amongst others, the following securities:

	30-06-2017					31-12-2016				
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Impairment	Book Value
Adquired in securitization operations										
ATLANTES FINANCE 6 S 03/20/33	-	-	-	-	-	3,513	-	-	-	3,513
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	200,119	3,366	3,813	-	207,298	200,402	7,144	7,009	-	214,555
Banco Comercial Português 22/06/2017	-	-	-	-	-	101,021	2,512	1,009	-	104,542
CGD 3% 2014/2019	49,985	687	2,241	-	52,913	49,982	1,443	2,881	-	54,306
Other	230	-	-	(230)	-	230	-	-	(230)	-
	250,334	4,053	6,054	(230)	260,211	351,635	11,099	10,899	(230)	373,403
Subordinated debt										
BPSM/97 - TOPS - OB. PERP. SUB	2,822	1	-	(2,822)	1	2,983	1	-	(2,983)	1

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

At June 30, 2017 and December 31, 2016, the heading "Equity instruments" includes the following securities:

	30-06-2017				31-12-2016			
	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	28,528	(515)	-	28,013	28,925	(718)	-	28,207
UNICAMPUS-FEI IMOBILIARIO FECHAD	1,500	14	-	1,514	1,500	14	-	1,514
VISA INC series C	1,375	-	-	1,375	1,375	-	-	1,375
FCR PORTUGAL VENTURES VALOR 2	3,836	171	(3,099)	908	3,836	297	(3,099)	1,034
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	491	-	765	274	468	-	742
GARVAL - SOC.DE GARANTIA MUTUA S	374	36	-	410	518	32	-	550
FII FECHADO GEF II	391	7	-	398	391	(11)	-	380
Other	1,271	87	(624)	734	1,157	74	(624)	607
Securities with 100% impairment	20,737	-	(20,737)	-	20,782	-	(20,782)	-
	58,286	291	(24,460)	34,117	58,758	156	(24,505)	34,409
Recorded at cost								
FUNDO RECUPERACAO FCR CATEGOR	32,689	-	(12,715)	19,974	32,603	-	(12,715)	19,888
Fundo Fechado de Investimento Imobiliário - Imorent	18,663	-	(4,000)	14,663	18,663		(4,000)	14,663
BANIF PROPERTY	15,350	-	(10,000)	5,350	15,350	-	(10,000)	5,350
SIBS - SGPS, S.A.	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,749	-	(531)	3,218	3749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,749	-	(531)	3,218	3,749	-	(531)	3,218
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	1,065	-	(214)	851	1,065	-	(214)	851
Securities with 100% impairment	5,085	-	(5,085)	-	5,456	-	(5,456)	-
Other	895	-	(87)	808	901	-	(86)	815
	84,706	-	(33,163)	51,543	84,997	-	(33,533)	51,464

At June 30, 2017 and December 31, 2016, the Bank held 5,861,770 participation units in “Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional” in the amount of Euros 28,528 thousand and Euros 28,925 thousand, respectively, which were subscribed through the payment in cash of Euros 2 thousand, the delivery of real estate properties and the remainder through the sale of real estate and subsequent subscription of participation units.

At June 30, 2017 and December 31, 2016, the Bank subscribed to capital increases of Fundo Recuperação, FCR in the amount of Euros 86 thousand and Euros 1,018 thousand, respectively. At June 30, 2017, the Bank held in its portfolio 33,688 participation units corresponding to a participation of 4.12% in the capital of that Fund.

At June 30, 2017 and December 31, 2016, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets presents the following devaluating percentages on their acquisition cost:

	30-06-2017				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	933,473	18,361	(2,525)	(9,879)	939,430
Equity instruments					
Between 0% and 25%	28,643	-	-	(528)	28,115
	962,116	18,361	(2,525)	(10,407)	967,545

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

	31-12-2016				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	3,963,213	78,610	30,573	(160,108)	3,912,288
Equity instruments					
Between 0% and 25%	29,432	-	-	(733)	28,699
Between 25% and 50%	19	-	-	(8)	11
	29,451	-	-	(741)	28,710
	3,992,664	78,610	30,573	(160,849)	3,940,998

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This heading is made up as follows:

	30-06-2017	31-12-2016
Loans and advances to other domestic banks		
Deposits	200,000	200,000
Loans	99,086	55,216
Interest receivable	2,707	2,220
	301,793	257,436
Loans and advances to other foreign banks		
Very short term loans and advances	1,003,356	44,930
Deposits	285,581	223,367
Other applications	23,469	38,156
Interest receivable	52	35
	1,312,458	306,488
	1,614,251	563,924

At June 30, 2017 and December 31, 2016, the heading "Loans and advances to other foreign banks - Other applications" includes margin accounts of Euros 21,971 thousand and Euros 37,734 thousand, respectively.

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

10. LOANS AND ADVANCES TO CUSTOMERS

This heading is made up as follows:

	30-06-2017	31-12-2016
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	143,412	146,417
Loans	4,730,393	4,416,723
Current account loans	899,721	905,215
Overdrafts	125,185	106,338
Factoring	1,037,473	1,133,408
Finance leasing	833,171	817,078
Other credits	731,995	611,223
To individuals		
Mortgage loans	13,399,230	13,180,788
Consumer credit and other loans	1,941,801	1,864,890
Foreign loans		
To corporate clients		
Loans	178,682	208,265
Current account loans	6,967	7,406
Overdrafts	85	189
Factoring	45,785	46,687
Finance leasing	4,708	5,095
Other credits	10,165	10,952
To individuals		
Mortgage loans	425,667	411,741
Consumer credit and other loans	36,880	37,131
	24,551,320	23,909,546
Loans represented by securities		
Non-subordinated debt securities	4,310,977	4,201,242
Non-derecognized securitized assets		
To corporate clients - loans		
Gamma STC	-	483,100
To individuals		
Mortgage loans		
Hipototta nº 4 PLC	755,284	795,196
Hipototta nº 5 PLC	708,654	738,289
Gamma STC	1,556,048	1,631,395
Finance leasing		
Gamma STC	-	7,783
	3,019,986	3,655,763

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

Overdue loans and interest		
Up to 90 days	29,233	77,790
More than 90 days	1,087,227	1,214,694
	1,116,460	1,292,484
	32,998,743	33,059,035
Accrued interest		
Loans and advances	42,659	71,469
Loans represented by securities	17,383	16,911
Non-derecognized securitized assets	1,610	5,015
Hedge adjustments	(2,443)	(1,971)
Deferred expenses	69,232	73,752
Commissions associated with amortized cost (net)	(114,826)	(109,353)
	13,615	56,104
	33,012,358	33,115,139
Impairment of loans and advances to customers (Note 23)	(1,362,564)	(1,662,803)
	31,649,794	31,452,336

In the first half-year of 2017 and financial year 2016, the Bank sold mortgage and company loan portfolios, most of which had already been written off. As a result of these transactions, net gains were recorded in the first half-year of 2017 and 2016, amounting to Euros 10,868 thousand and Euros 12,527 thousand, respectively (Note 39).

At June 30, 2017 and December 31, 2016, the heading “Domestic loans - To individuals – Mortgage loans” included loans allocated to the autonomous pool of covered bonds issued by the Bank totalling Euros 8,082,149 thousand and Euros 8,051,500 thousand, respectively (Note 22).

Changes in impairment of loans and advances to customers during the first half-year of 2017 and 2016 are presented in Note 23.

At June 30, 2017 and December 31, 2016, overdue loans and interest are made up as follows:

	30-06-2017	31-12-2016
Up to three months	29,233	77,790
Between three and six months	161,460	43,252
Between six months and one year	152,266	273,034
Between one year and three years	410,775	398,178
More than three years	362,726	500,230
	1,116,460	1,292,484

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

At June 30, 2017 and December 31, 2016, the active and overdue loans with and without evidence of impairment, were as follows, considering the segments used for the reckoning of impairment losses by the Bank:

	30-06-2017			31-12-2016		
	Overdue loans	Performing loans	Total loans	Overdue loans	Performing loans	Total loans
Corporate loans						
Without objective evidence of impairment	-	12,552,462	12,552,462	-	11,184,292	11,184,292
With objective evidence of impairment	702,102	489,227	1,191,329	772,228	629,694	1,401,922
	702,102	13,041,689	13,743,791	772,228	11,813,986	12,586,214
Mortgage loans						
Without objective evidence of impairment	-	15,968,867	15,968,867	-	16,044,807	16,044,807
With objective evidence of impairment	326,919	662,351	989,270	391,851	691,870	1,083,721
	326,919	16,631,218	16,958,137	391,851	16,736,677	17,128,528
Consumer loans						
Without objective evidence of impairment	-	1,149,614	1,149,614	-	1,114,600	1,114,600
With objective evidence of impairment	17,993	53,921	71,914	18,710	52,436	71,146
	17,993	1,203,535	1,221,528	18,710	1,167,036	1,185,746
Loans granted through credit cards						
Without objective evidence of impairment	-	296,723	296,723	-	295,498	295,498
With objective evidence of impairment	12,945	5,365	18,310	16,181	4,772	20,953
	12,945	302,088	315,033	16,181	300,270	316,451
Other loans to individuals						
Without objective evidence of impairment	-	656,682	656,682	-	1,733,945	1,733,945
With objective evidence of impairment	56,501	60,686	117,187	93,514	70,740	164,254
	56,501	717,368	773,869	93,514	1,804,685	1,898,199
	1,116,460	31,895,898	33,012,358	1,292,484	31,822,655	33,115,139

11. HELD TO MATURITY INVESTMENTS

This heading is made up as follows:

	30-06-2017			31-12-2016		
	Acquisition cost	Interest receivable	Book Value	Acquisition cost	Interest receivable	Book Value
Other national public entities						
CAMARA MUNICIPAL DE LISBOA/99	2,792	-	2,792	4,240	-	4,240
Other national entities						
Non-subordinated debt						
EDIA 2010/2030	18,076	171	18,247	18,745	188	18,933
IBERWIND II P- CONSULTORIA SENIO	20,101	17	20,118	21,210	20	21,230
IBERWIND II P-CONSULTORIA SENIOR	6,062	11	6,073	6,398	13	6,411
REN REDES ENERGETICAS 4.125% 2018	9,165	154	9,319	9,305	341	9,646
TAGUS CLASSE A-VARIAVEL-12/05	57,501	40	57,541	60,991	44	61,035
ENERGYON NO.2 CLASS B NOTES MAY	33	-	33	32	-	32
CAIXA GERAL DE DEPOSITOS 2017	123,709	19	123,728	122,403	24	122,427
	234,647	412	235,059	239,084	630	239,714
	237,439	412	237,851	243,324	630	243,954

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

The amounts recognized at June 30, 2017 and December 31, 2016 in fair value reserves, relating to the reclassified financial assets, are as follows:

	Fair value reserve	
	30-06-2017 (Note 27)	31-12-2016 (Note 27)
Financial assets held for sale to held to maturity	7,575	7,992

12. HEDGING DERIVATIVES

This heading is made up as follows:

	30-06-2017			31-12-2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	16,044	59,258	(43,214)	22,218	69,871	(47,653)
Equity swaps	2,926	3,056	(130)	6,741	5,676	1,065
Options	-	614	(614)	-	863	(863)
Cash-flows hedge						
Interest rate swaps	-	3,990	(3,990)	3,741	5,245	(1,504)
	18,970	66,918	(47,948)	32,700	81,655	(48,955)

At June 30, 2017 and December 31, 2016, the breakdown of the derivative financial instruments was as follows:

	30-06-2017								
		Notional amounts							
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts EUR	Notional amounts Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(108)	107,074	35,160	32,079	340	-	174,653	87,376	87,277
Sold		107,031	35,141	32,053	340	-	174,565	89,593	84,972
Currency swaps									
Purchased	(609)	36,055	138	-	-	-	36,193	656	35,537
Sold		36,585	135	-	-	-	36,720	36,096	624
Interest rate swaps	(21,580)	328,293	2,559	427,749	2,595,221	20,000,244	23,354,066	23,354,066	-
Equity swaps	(4,380)	-	-	-	436,171	522,196	958,367	958,367	-
Cross currency swaps									
Purchased	19	47,838	55,601	54,530	-	-	157,969	113,938	44,031
Sold		45,392	55,601	54,530	-	-	155,523	113,938	41,585
Opções de cotações									
Purchased	1,703	-	-	-	113,938	-	113,938	113,938	-
Sold		-	-	-	113,938	-	113,938	113,938	-
Caps & Floors	(2,311)	130	30,339	10,540	2,387,795	880,664 -	3,309,468	3,309,468	-
	(27,266)	708,398	214,674	611,481	5,647,743	21,403,104	28,585,400	28,291,374	294,026
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(52,223)	-	-	-	200,000	400,000	600,000	600,000	-
Liabilities and loans	9,009	1,910	8,019	691	135,832	877,767	1,024,219	848,964	175,254
Auto Collable options	(612)	-	-	196,916	-	-	196,916	196,916	-
Equity swaps	(131)	137,570	149,103	538,432	179,376	-	1,004,481	878,112	126,369
Cash flow hedge									
Interest rate swaps									
Cash flow	(3,991)	-	-	-	522,370	-	522,370	465,624	-
	(47,948)	139,480	157,122	736,039	1,037,578	1,277,767	3,347,986	2,989,616	301,623

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

	31-12-2016								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(449)	67,751	38,592	18,852	953	-	126,148	62,032	64,116
Sold		67,718	38,575	18,838	952	-	126,083	62,024	64,059
Currency swaps									
Purchased	(921)	975,230	-	-	-	-	975,230	-	975,230
Sold		970,553	-	-	-	-	970,553	970,553	-
Interest rate swaps	(1,685)	4,401,381	2,205,417	280,277	2,844,331	16,636,801	26,368,207	26,368,207	-
Equity swaps	1,379	519	-	-	436,066	275,418	712,003	712,003	-
Cross currency swaps									
Purchased	14	182,703	32,278	47,934	272	-	263,187	-	263,187
Sold		182,703	32,278	47,934	272	-	263,187	-	263,187
Opções de cotações									
Purchased	428	-	1,654	-	-	-	1,654	-	1,654
Sold		-	1,654	-	-	-	1,654	-	1,654
Caps & Floors	(9,772)	43	1,311,620	31,068	4,117,973	1,334,960	6,795,664	6,795,664	-
	(11,006)	6,848,601	3,662,068	444,903	7,400,819	18,247,179	36,603,570	34,970,483	1,633,087
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(61,691)	-	-	-	-	600,000	600,000	600,000	-
Liabilities and loans	14,038	17,530	12,199	10,561	107,588	696,800	844,678	654,943	189,735
Auto Collable options	(863)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	1,065	244,484	178,977	287,227	645,101	-	1,355,789	1,216,415	139,374
Cash flow hedge									
Interest rate swaps									
Cash flow	(1,504)	125,000	100,000	-	521,671	-	746,671	746,671	-
	(48,955)	387,014	291,176	297,788	1,470,876	1,296,800	3,743,654	3,414,545	329,109

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

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

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

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

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

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

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

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

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

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

13. NON-CURRENT ASSETS HELD FOR SALE

This heading is made up as follows:

	30-06-2017	31-12-2016
Property received as settlement of defaulting loans	145,780	138,310
Own property for sale	2,605	3,225
Equipment	1,753	1,992
Other properties	100	100
	150,238	143,627
Impairment (Note 23)	(54,666)	(53,201)
	95,572	90,426

The changes occurring under the heading "Non-current assets held for sale" during the six-month periods ended June 30, 2017 were as follows:

	30-06-2017													
	December 31, 2016									Transfers		June 30, 2017		
	Gross amount	Impairment	Increases	Sales	Transferências Valor Bruto (Nota 15)	Impairment (Note 23) Increases	Reversals		Utilization	Gross amount	Impairment (Note 23)	Gross amount	Impairment	Net amount
Property:														
Received as settlement of defaulting loans	138,310	(49,668) -	27,681 -	(34,683) -	-	(934)	2,012	2,012	6,269	14,472	(9,617)	145,780 -	(51,938) -	93,842
Own property for sale	3,225	(1,943)	379	(999)	-	(111)	7	7	699	-	-	2,605	(1,348)	1,257
Equipment	1,992	(1,590)	263	(502)	-	(426)	214	214	422	-	-	1,753	(1,380)	373
Other properties	100	-	-	-	-	-	-		-	-	-	100	-	100
	143,627	(53,201)	28,323	(36,184)	-	(1,471)	2,233		7,390	14,472	(9,617)	150,238	(54,666)	95,572

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

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

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

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

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

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

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

14. INVESTMENT PROPERTIES

	30-06-2017	31-12-2016
Properties held by Novimovest Fund	368,479	378,374

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

At June 30, 2017 and December 31, 2016, the properties held by the Novimovest Fund had the following characteristics:

	30-06-2017	31-12-2016
Land		
Urbanized	14,981	14,876
Non-urbanized	1,123	1,123
Construction projects		
Other construction projects	16,756	36,884
Finished constructions		
Rented	257,392	260,836
Not rented	78,227	64,655
	368,479	378,374

On the other hand, during the first half-year of 2017 and 2016, the properties held by the Novimovest Fund generated, amongst others, the following income and annual charges:

	30-06-2017	30-06-2016
Rents	7,877	8,967
Condominium expenses	(632)	(664)
Maintenance and repair expenses	(407)	(307)
Insurances	(114)	(126)
	6,724	7,870

The changes occurring under the heading "Investment properties" during the six-month period ended June 30, 2017 and during financial year 2016, were as follows:

	30-06-2017				
	Balances at December 31, 2016	Increases	Fair value valuation	Sales	Balances at June 30, 2017
Properties held by Novimovest Fund	378,374	-	(1,412)	(8,483)	368,479

	31-12-2016				
	Balances at December 31, 2015	Increases	Fair value valuation	Sales	Balances at December 31, 2016
Properties held by Novimovest Fund	387,193	-	8,100	(16,919)	378,374

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

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

Investment properties held by the Bank are valued on a biannual basis, or whenever an event occurs which raises doubts as to the value of the last valuation carried out, using specialized independent entities, in accordance with the valuation methodologies described in Note 1.3.

At June 30, 2017 and December 31, 2016, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	Level 3	
	30-06-2017	31-12-2016
Investment properties	368,479	378,374

According to the requirements of IFRS 13, the main features of the higher valued investment properties in the Bank's portfolio at June 30, 2017 and December 31, 2016, should be summarized showing the valuation techniques adopted and the relevant inputs used in the estimation of their fair value, as presented below:

Description of the property	Use	Value on 30-06-2017	Value on 31-12-2016	Valuation technique	Relevant inputs
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,614	34,614	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lotes 1, 2 e 3 Plots in Matosinhos	Urbanized	40,969	40,601	Comparative market method / Residual value method	Capitalization rate Land value and cost of construction and marketing per m2
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	25,265	25,265	Income method / Comparative market method	Lease value per m2
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,850	15,850	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	11,942	12,173	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	11,451	12,263	Income method / Comparative market method (2015) Income method / Cost method (2015)	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 e G2 Golf courses in Loulé	Leased out	12,180	12,033	Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logistico SPC Armazéns 1 e 4 Warehouse in Vila Franca de Xira	Leased out (SPC 1) Vacant (SPC 4)	10,295	10,296	Income method / Comparative market method (2015) Income method / Cost method (2014)	Lease value per m2 Capitalization rate
Alfena - Valongo Terrenos Plots in Valongo	Non-urbanized	-	8,732	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		162,566	171,827		

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

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

15. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these headings during the six-month periods ended June 30, 2017 and 2016 were as follows:

	30-06-2017													
							Transfers							
							From/to non-current assets held for sale							
	31-12-2016				Write-offs and sales						30-06-2017			
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Depreciation in the period	Impairment Reversal (Note 23)	Gross Amount	Accumulated depreciation	Impairment (Note 23)	Net amount
Tangible assets														
Property														
Property for own use	402,284	143,664	3,870	1,826	2,215	155	(10,223)	(3,519)	3,732	-	391,672	143,722	3,870	244,080
Leasehold expenditure	148,941	141,295	-	-	151	154	(46)	(46)	1,331	-	148,744	142,426	-	6,318
Other property	1,307	148	20	-	14	-	-	-	3	500	1,293	151	520	622
Unfinished tangible assets														
Property for own use	88	-	-	-	-	-	-	-	-	-	88	-	-	88
	552,620	285,107	3,890	1,826	2,380	309	(10,269)	(3,565)	5,066	500	541,797	286,299	4,390	251,108
Equipment														
Furniture and fixtures	23,621	19,843	-	1,243	83	82	-	-	445	-	24,781	20,206	-	4,575
Machinery and tools	6,027	5,462	-	103	3	3	-	-	75	-	6,127	5,534	-	593
Computer hardware	95,298	83,486	-	1,418	84	79	-	-	2,075	-	96,632	85,482	-	11,150
Indoor facilities	28,458	15,404	-	1,738	21	15	(258)	(116)	1,085	-	29,917	16,358	-	13,559
Vehicles	20,470	9,800	-	743	2,483	1,735	-	-	947	-	18,730	9,012	-	9,718
Security equipment	13,264	12,368	-	318	-	-	-	-	153	-	13,582	12,521	-	1,061
Other equipment	5,546	4,706	-	200	1	1	-	-	119	-	5,745	4,824	-	921
Unfinished tangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	192,684	151,069	-	5,763	2,675	1,915	(258)	(116)	4,899	-	195,514	153,937	-	41,577
Other tangible assets														
Leased equipment	281	281	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,826	-	-	36	-	-	-	-	-	-	1,862	-	-	1,862
Other	3,464	3,463	-	-	1	1	-	-	-	-	3,463	3,462	-	1
	5,571	3,744	-	36	1	1	-	-	-	-	5,606	3,743	-	1,863
	750,875	439,920	3,890	7,625	5,056	2,225	(10,527)	(3,681)	9,965	500	742,917	443,979	4,390	294,548
Intangible assets														
Software purchased	414,887	385,087	-	5,294	-	-	(225)	-	8,733	-	419,956	393,820	-	26,136
Unfinished intangible assets	2,894	-	-	2,141	-	-	225	-	-	-	5,260	-	-	5,260
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Positive consolidation differences	1,160	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	422,287	388,433	-	7,435	-	-	-	-	8,733	-	429,722	397,166	-	32,556

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

	30-06-2016															
							Transfers									
							From/to non-current				Foreign exchange					
	31-12-2015				Write-offs and sales		assets held for sale (Note 13)		Depreciation		differences and others		30-06-2016			
	Gross amount	Accumulated depreciation	Impairment	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Impairment Reversal	Gross amount	Amortizações Acumuladas	Gross Amount	Accumulated depreciation	Impairment	Net amount
Tangible assets																
Property																
Property for own use	387,162	139,061	3,843	4,995	-	-	(715)	(241)	3,541	36	(376)	(292)	391,066	142,069	3,879	245,118
Leasehold expenditure	148,784	138,518	-	6	173	173	-	-	1,604	-	(3)	(3)	148,613	139,945	-	8,668
Other property	1,293	287	20	-	-	-	-	-	63	-	-	-	1,293	350	20	923
Unfinished tangible assets																
Property for own use	9,034	-	-	5,282	-	-	-	-	-	-	-	-	14,317	-	-	14,317
	546,273	277,866	3,863	10,284	173	173	(715)	(241)	5,208	36	(379)	(295)	555,289	282,364	3,899	269,026
Equipment																
Furniture and fixtures	20,840	19,129	-	1,010	46	46	-	-	370	-	(1)	(1)	21,803	19,452	-	2,351
Machinery and tools	5,555	5,462	-	13	45	45	-	-	19	-	(1)	(1)	5,522	5,435	-	87
Computer hardware	98,949	89,608	-	3,919	10,307	10,306	-	-	2,099	-	-	-	92,562	81,401	-	11,161
Indoor facilities	24,740	13,551	-	1,267	4	4	(1)	(1)	939	-	-	-	26,002	14,484	-	11,517
Vehicles	21,848	11,720	-	1,159	3,608	3,556	-	-	949	-	(2)	(2)	19,397	9,111	-	10,286
Security equipment	12,669	12,172	-	123	-	-	-	-	87	-	-	-	12,791	12,259	-	532
Other equipment	5,320	4,472	-	89	-	-	-	-	117	-	-	-	5,409	4,589	-	820
Unfinished tangible assets	14	-	-	164	-	-	-	-	-	-	-	-	178	-	-	178
	189,935	156,114	-	7,745	14,010	13,957	(1)	(1)	4,580	-	(4)	(3)	183,665	146,732	-	36,933
Other tangible assets																
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,829	-	-	-	-	-	-	-	-	-	-	-	1,829	-	-	1,829
Other	3,464	3,464	-	-	-	-	-	-	-	-	51	51	3,515	3,515	-	-
	5,574	3,745	-	-	-	-	-	-	-	-	51	51	5,625	3,796	-	1,829
	741,782	437,724	3,863	18,029	14,183	14,130	(717)	(242)	9,788	36	(332)	(248)	744,579	432,892	3,899	307,788
Intangible assets																
Software purchased	393,964	368,693	-	8,434	19	-	-	-	7,885	-	-	-	402,379	376,577	-	25,802
Unfinished intangible assets	5,782	-	-	2,239	-	-	-	-	-	-	-	-	8,022	-	-	8,022
Business transfers	3,345	3,345	-	-	-	-	-	-	-	-	-	-	3,345	3,345	-	-
	403,091	372,037	-	10,674	19	-	-	-	7,885	-	-	-	413,746	379,922	-	33,824

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

16. INVESTMENTS IN ASSOCIATED COMPANIES

At June 30, 2017 and December 31, 2016, this heading was made up as follows:

Investments in associates	30-06-2017 Effective participation (%)	30-06-2017 Book value	31-12-2016 Effective participation (%)	31-12-2016 Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	25,81	1,855	25.81	1,855
Unicre - Instituição Financeira de Crédito, S.A.	21.50	28,148	21.50	29,916
Lusimovest	25.76	24,900	25.76	24,328
		54,903		56,099
Impairment of investments in associates (Note 23)				
Benim - Sociedade Imobiliária, S.A.		(1,500)		(1,500)
		53,403		54,599

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

At June 30, 2017 and December 31, 2016, the financial investments held in Unicre included goodwill. The impairment test performed on the goodwill of Unicre did not evidence any impairment loss in this financial investment.

17. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

At June 30, 2017 and December 31, 2016, these headings were made up as follows:

	30-06-2017	31-12-2016
Current tax assets:		
Corporate income tax receivable	23,290	12,720
Current tax liabilities:		
Corporate income tax payable	1,139	7,662
Other	42,381	2,188
	43,520	9,850
Deferred tax assets:		
Relating to temporary differences	311,351	366,992
Deferred tax liabilities:		
Relating to temporary differences	99,429	73,819
Relating to tax credits	3,047	3,148
	102,476	76,967

At June 30, 2017 and December 31, 2016, the heading "Current tax assets – Corporate income tax receivable" included Euros 8,437 thousand and Euros 7,858 thousand, respectively, paid by the Bank in respect of some corrections made by the Tax Authorities to its tax returns in previous years. Since the Bank does not agree with the grounds of such corrections it recorded those payments as an asset and lodged administrative appeals regarding same.

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

At June 30, 2017 and December 31, 2016, corporate income tax in the income statement was made up as follows:

	30-06-2017	30-06-2016
Current tax		
Of the period	(39,292)	(28,875)
Special contribution to the banking sector	(21,580)	(19,633)
Consortiums ("ACE's")	(1,326)	(563)
Other	12,410	11,445
	(49,788)	(37,626)
Deferred tax		
Increases and reversals of temporary differences	(13,707)	(43,840)
	(63,495)	(81,466)

Changes in deferred tax assets and liabilities for the period ended at June 30, 2017 and for financial year ended December 31, 2016 were as follows:

	30-06-2017			
	Balances at December 31, 2016	Other comprehensive income	Income statement	Balances at June 30, 2017
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	171,032	-	(8,072)	162,960
Liabilities relating to potential capital losses	(4,931)	-	12	(4,919)
Revaluation of tangible assets	(3,148)	-	102	(3,046)
Pensions:				
Early retirement pensions	21,078	-	2,549	23,627
Retirement pensions and actuarial deviations	83,578	-	(7,945)	75,633
Transfer of pension liabilities to the Social Security	4,536	-	(152)	4,384
Securitization operations:				
Premium/discount on debt issued	(162)	-	13	(149)
Recognition of an interest accrual regarding the notes with higher subordination	(8,146)	-	(213)	(8,359)
Results on intra-group securities purchases	(24,745)	-	268	(24,477)
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	(1,227)	-	(201)	(1,428)
Cash flow hedges	5,127	(336)	-	4,791
Available-for-sale financial assets	34,664	(67,106)	-	(32,442)
Deferred commissions	2,604	-	525	3,129
Capital gains only considered for tax purposes	(1,505)	-	(75)	(1,580)
Application of the equity method in the valuation of investments in associated companies	1,864	-	(17)	1,847
Long-term incentives plan	2,092	-	84	2,176
Integration costs	7,314	-	(585)	6,728
	290,025	(67,442)	(13,707)	208,875

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

	30-06-2016			
	Balances at December 31, 2015	Other comprehensive income	Income statement	Balances at June 30, 2016
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	220,997	-	(19,498)	201,499
Liabilities relating to potential capital losses	(1,818)	-	-	(1,818)
Revaluation of tangible assets	(3,311)	-	69	(3,242)
Pensions:				
Early retirement pensions	23,096	-	(56)	23,040
Retirement pensions and actuarial deviations	101,629	-	(10,817)	90,812
Transfer of pension liabilities to the Social Security	4,838	-	(151)	4,687
Long service bonuses	10,861	-	(257)	10,604
Securitization operations:				
Premium/discount on debt issued	(185)	-	13	(172)
Recognition of an interest accrual regarding the notes with higher subordination	(4,271)	-	(279)	(4,550)
Results on intra-group securities purchases	(21,642)	-	(2,206)	(23,848)
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	(559)	-	(357)	(916)
Cash flow hedges	132	2,928	-	3,060
Available-for-sale financial assets	(51,701)	43,240	-	(8,461)
Deferred commissions	1,870	-	381	2,251
Capital gains only considered for tax purposes	(1,540)	-	17	(1,523)
Application of the equity method in the valuation of investments in associated companies	(330)	-	-	(330)
Long-term incentives plan	1,962	-	85	2,047
Investments in subsidiaries, associates and joint ventures	15,369	-	(10,783)	4,586
	295,397	46,168	(43,840)	297,725

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

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

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

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

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

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

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

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

18. OTHER ASSETS

This heading is made up as follows:

	30-06-2017	31-12-2016
Debtors and other applications		
Debtors resulting from operations with futures	6,270	6,612
VAT recoverable	7,859	6,315
Debtors for loan interest subsidies	11,313	12,993
Other debtors	36,984	37,925
Debtors and other applications - overdue capital and interest	8,878	9,304
Shareholders' loans		
Fafer - Empreendimentos Urbanisticos Construção, S.A.	364	364
Gestínsua - Aquisições e alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda	-	2,068
Other intercompany loans - Banif	-	23,083
Gold, other precious metals, coins and medals	3,073	3,062
Promises and other assets received as settlement of defaulting	126,449	136,349
Deferred costs on participations in consortiums loans	24,625	37,553
Deferred costs	2,537	2,783
Other assets pending regularization	468,395	582,826
	696,873	861,363
Impairment losses (Note 23)		
Debtors and other applications		
Debtors and other applications	(7,919)	(7,973)
Debtors, other investments and other assets		
Assets received as settlement of defaulting loans	(36,046)	(41,547)
Own properties for sale	(20,220)	(19,314)
Supplies	(486)	(25,489)
Other assets and other investments	(39,634)	(45,260)
	(104,305)	(139,583)
	592,568	721,780

The heading “Debtors and other applications - Debtors resulting from operations with futures” corresponds to the current accounts maintained by the Bank with international financial institutions related to the trading of futures. Customers’ futures margin accounts are recorded under the heading "Creditors and other resources - Creditors resulting from operations with futures” (Note 26).

At June 30, 2017 and December 31, 2016, the heading “Debtors and other applications - Overdue capital” included Euros 6,224 thousand and Euros 6,268 thousand, respectively, related to overdue rents of properties leased by the Novimovest Fund.

At June 30, 2017 and December 31, 2016, “Income receivable” included, essentially, commissions receivable from insurance companies related to the sale of their products (Note 44).

At June 30, 2017 and December 31, 2016, the heading "Other” includes transactions pending settlement in accordance with the following detail:

	30-06-2017		31-12-2016	
	Other assets	Other liabilities (Note 26)	Other assets	Other liabilities (Note 26)
Interest receivable from swap contracts established with Portuguese State-owned companies	394,152	-	533,487	-
Cheques, values in transit and other transactions to be settled	26,767	(51,049)	-	(96,284)
Transfers within SEPA	27,322	(137,683)	-	(82,610)
Balances to be settled in ATM's	2,834	-	-	-
Other	17,320	(7,886)	49,339	-
	468,395	(196,618)	582,826	(178,894)

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

19. RESOURCES OF CENTRAL BANKS

This heading is made up as follows:

	30-06-2017	31-12-2016
Resources from Bank of Portugal		
Deposits	3,076,000	2,446,000
Resources from other Central Banks		
Deposits	4,638	4,694
	3,080,638	2,450,694

20. RESOURCES OF OTHER CREDIT INSTITUTIONS

This heading is made up as follows:

	30-06-2017	31-12-2016
Resources of Domestic Credit Institutions		
Deposits	167,932	115,607
Other resources	614	3,301
Interest payable	70	8
	168,616	118,916
Resources of Foreign Credit Institutions		
Consigned resources	750,000	600,063
Very short term resources	-	4,088
Deposits	79,913	89,899
Sale operations with repurchase agreement	1,396,210	1,078,860
Other resources	41,083	131,387
Interest payable	84	86
Revenue with deferred income	45	80
	2,267,335	1,904,463
	2,435,951	2,023,379

At June 30, 2017 and December 31, 2016, the heading “Resources of foreign credit institutions – Sale operations with repurchase agreement”, is made up as follows, by type of underlying asset:

	30-06-2017			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	628,206	(21)	(16)	628,169
Non-subordinated debt	177,750	(26)	(35)	177,689
Bonds issued by non-residents	590,348	(2)	6	590,352
	1,396,304	(49)	(45)	1,396,210

	31-12-2016			
	Principal	Interest	Deferres costs	Total
Treasury Bonds - Portugal	877,472	(40)	(80)	877,352
Bonds issued by non-residents	201,508	-	-	201,508
	1,078,980	(40)	(80)	1,078,860

At June 30, 2017 and December 31, 2016, the heading “Resources of foreign credit institutions – Consigned resources” included Euros 750,000 thousand and Euros 600,000 thousand, respectively, related to loans obtained from the European Investment Bank (EIB).

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

21. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This heading is made up as follows:

	30-06-2017	31-12-2016
Demand deposits	12,906,103	12,961,964
Term deposits	11,897,891	11,224,579
Other clients resources	2,121,028	2,400,247
Savings deposits	1,369,334	1,730,071
Advance notice deposits	38,243	38,987
	28,332,599	28,355,848
Interest payable	29,972	43,342
Cheques and orders payable	92,142	108,994
Hedge adjustments	5,921	5,294
	128,035	157,630
	28,460,634	28,513,478

22. DEBT SECURITIES

This heading is made up as follows:

	30-06-2017	31-12-2016
Bonds in circulation		
Covered bonds		
Issued	6,950,000	6,950,000
Repurchased	(4,450,000)	(4,450,000)
Interest payable and another deferred costs and income	(10,886)	11,882
Bonds issued in securitization operations		
Issued	3,441,116	4,509,231
Repurchased	(2,219,683)	(3,061,174)
Interest payable and another deferred costs and income	(75,766)	(80,675)
Cash Bonds		
Issued	-	25,005
Repurchased	-	(8,983)
Interest payable and another deferred costs and income	-	1,242
	3,634,781	3,896,528
Other		
EMTN Programme	26,288	28,460
Interest payable	229	254
	26,517	28,714
Value adjustments of hedging operations	-	160
	3,661,298	3,925,402

In line with law, the holders of covered bonds have a special credit privilege over the autonomous pool of assets, which constitutes a guarantee of the debt to which the bondholders will have access in case of insolvency of the issuer.

The conditions of the covered and cash bonds are described in Appendix I.

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

Between May 2008 and June 2017, BST issued nineteen tranches of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". At June 30, 2017 and December 31, 2016, the covered bonds had an autonomous pool of assets comprising:

	30-06-2017	31-12-2016
Loans and advances to customers	8,082,149	8,051,500
Interest on loans	6,558	6,593
Commissions	(39,543)	(38,367)
Deferred expenses	5,401	5,847
	8,054,565	8,025,573

Changes in the debt issued by the Bank during the first half-year of 2017 and financial year 2016 were as follows:

	Deposit certificates	Bonds outstanding		EMTN Programme	
		Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2015	52,392	6,810,189	(4,293,983)	200,167	(3,047)
Issues made	-	2,950,000	-	-	-
Issues repaid	(51,141)	(2,785,000)	2,785,000	(172,612)	3,047
Issues repurchased	-	-	(2,950,000)	-	-
Exchange rate movements	(1,251)	(184)	-	905	-
Balances at December 31, 2016	-	6,975,005	(4,458,983)	28,460	-
Issues made	-	1,000,000	-	-	-
Issues repaid	-	(1,024,800)	8,983	-	-
Exchange rate movements	-	(205)	-	(2,172)	-
Balances at June 30, 2017	-	6,950,000	(4,450,000)	26,288	-

Changes in bond issues associated with securitization operations during the first half-year of 2017 and financial year 2016 were as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2015	5,758,634	(3,401,765)
Repaid	(1,249,403)	599,227
Repurchases		
Hipototta 4 - Classe A	-	(28,165)
Hipototta 5 - Classe A2	-	(137,539)
Atlantes Mortgage 3 - Classe A	-	(91,932)
Azor Mortgage 1 - Classe C	-	(500)
Azor Mortgage 1 - Classe B	-	(500)
Balances at December 31, 2016	4,509,231	(3,061,174)
Repaid	(1,068,115)	859,783
Repurchases		
Hipototta 4 - Classe A	-	(18,292)
	-	(18,292)
Balances at June 30, 2017	3,441,116	(2,219,683)

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

23. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during the six-month periods ended June 30, 2017 and 2016, were as follows:

	2017				
	31-12-2016	Increases	Reversals	Utilizations	30-06-2017
Provision for tax contingencies	11,802	-	-	-	11,802
Provision for pensions and other charges	85,982	25,239	-	(37,575)	73,646
Impairment and provisions for guarantees and other sureties given	21,547	5,773	(4,060)	-	23,260
Other provisions	101,519	42,879	(61,745)	(9,037)	73,616
	220,850	73,891	(65,805)	(46,612)	182,324

	2016				
	31-12-2015	Increases	Reversals	Utilizations	30-06-2016
Provision for tax contingencies	12,063	600	-	-	12,663
Provision for pensions and other charges	99,444	435	-	(20,469)	79,410
Impairment and provisions for guarantees and other sureties given	11,187	630	(1,158)	-	10,659
Other provisions	200,396	15,882	(15,440)	(53,185)	147,653
	71,988	17,547	(16,598)	(73,654)	250,385

	2017						
	Balances at 31-12-2016	Impairment losses	Reversal of impairment losses	Transfers and others	Utilizations	Balances at 30-06-2017	Recovery of overdue loans
Impairment of loans and advances to customers (Note 10):							
Domestic loans	696,237	493,888	(607,749)	-	(12,009)	570,367	
Foreign loans	28,761	-	-	-	(28,761)	-	-
Non-derecognized securitized loans	10,719	362	(2,145)	-	-	8,936	-
Other securitized loans and receivables	4,053	2,081	-	-	-	6,134	-
Impairment of overdue loans and interest Loans and advances to customers							-
Foreign loans	713,229	333,637	(108,433)	-	(243,841)	694,592	2,651
Non-derecognized securitized loans	59,244	4,962	(10,037)	-	(34,479)	19,690	-
Foreign loans	147,560	14,122	(103,148)	5,279	(968)	62,845	-
Other securitized loans and receivables	3,000	-	-	-	(3,000)	-	-
	1,662,803	849,052	(831,512)	5,279	(323,058)	1,362,564	2,651
Impairment of available-for-sale financial assets (Note 8)	61,370	25	(189)	-	(415)	60,791	-
Impairment of investments in associated companies (Note 16)	1,500	-	-	-	-	1,500	-
	62,870	25	(189)	-	(415)	62,291	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	53,201	1,471	(2,233)	9,617	(7,390)	54,666	-
Tangible assets (Note 15)	3,890	500	-	-	-	4,390	-
Other assets (Note 18)	139,583	9,808	(33,232)	(9,617)	(2,237)	104,305	-
	196,674	11,779	(35,465)	-	(9,627)	163,361	-
	1,922,347	860,856	(867,166)	5,279	(333,100)	1,588,216	2,651

	30-06-2016						
	Balances at 31-12-2015	Impairment losses	Reversal of impairment losses	Utilizations	Other	Balances at 30-06-2016	Impairment recovery
Impairment of loans and advances to customers:							
Domestic loans	1,061,142	72,112	(44,328)	(36,726)	-	1,052,200	-
Foreign loans	2,420	-	-	-	-	2,420	-
Non-derecognized securitized loans	9,382	136	(120)	-	-	9,398	-
Other securitized loans and receivables	5,891	41	-	-	-	5,932	-
Impairment of overdue loans and interest						-	
Domestic loans	984,626	64,840	(44,772)	(183,949)	(3,181)	817,564	(1,289)
Foreign loans	90,169	505	(4,470)	(2,767)	-	83,437	(28)
Non-derecognized securitized loans	190,746	3,187	(3,458)	(730)	(135)	189,610	-
Other securitized loans and receivables	1,110	-	(1,090)	-	-	20	-
	2,345,486	140,821	(98,238)	(224,172)	(3,316)	2,160,581	(1,317)
Impairment of available-for-sale financial assets	82,161	13,497	(11,308)	(12,722)	-	71,628	-
Impairment of investments in associated companies	1,500	-	-	-	-	1,500	-
	63,443	13,497	(11,308)	(12,722)	-	73,128	-
Non-current assets held for sale	120,839	10,600	(1,977)	(8,479)	-	120,983	-
Tangible assets	3,863	36	-	-	-	3,899	-
Other assets	76,482	5,519	(5,230)	(1,160)	22,580	98,191	-
	151,997	16,155	(7,207)	(9,639)	22,580	223,073	-
	1,377,058	170,473	(116,753)	(246,533)	19,264	2,456,782	(1,317)

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

At June 30, 2017 and December 31, 2016, the provision for pensions and other charges is made up as follows:

	30-06-2017	31-12-2016
Restructuring plans	49,740	62,315
Supplementary pension plan of the Board of Directors (Note 47)	23,906	23,667
	73,646	85,982

24. EQUITY REPRESENTATIVE INSTRUMENTS

At June 30, 2017 and December 31, 2016, this heading is made up as follows:

	30-06-2017	31-12-2016
Participation units in Novimovest Fund not held by the Bank	69,018	69,220
	69,018	69,220

25. SUBORDINATED LIABILITIES

This heading is made up as follows:

	30-06-2017	31-12-2016
Subordinated Perpetual Bonds 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
Banco Santander Totta SA 7.5%	7,599	7,599
	296,139	296,139
Repurchased securities	(284,265)	(284,265)
Interest payable	441	159
	12,315	12,033

The conditions of the subordinated liabilities are detailed in Appendix II.

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

26. OTHER LIABILITIES

This heading is made up as follows:

	30-06-2017	31-12-2016
Creditors and other resources		
Creditors resulting from operations with futures	6,270	6,612
Other resources		
Secured account resources	78,970	81,314
Collateral account resources	1,295	807
Other resources	1,489	1,497
Public sector		
VAT payable	2,246	3,553
Withholding taxes	16,316	17,612
Social Security contributions	4,545	5,265
Other	895	757
Collections on behalf of third parties	178	178
Contributions to other health systems	1,632	1,685
Other creditors		
Creditors under factoring contracts	23,575	27,934
Creditors for the supply of goods	11,669	5,272
Other creditors	29,131	28,464
Relating to personnel		
Vacation and vacation subsidy	25,566	33,933
Other variable remuneration	21,257	29,190
Other personnel costs	9,166	165
General administrative costs	71,488	69,614
Outros	10,280	18,298
Liabilities with pensions and other benefits (Note 45)		
BST total responsabilities		
BST Pension Fund	953,524	932,276
London branch Pension Fund	46,878	49,894
Former Banif Pension Fund	139,906	139,906
Pension Fund Value		
Fair value of BST Pension Fund	(937,232)	(932,465)
Fair value of London branch Pension Fund	(36,514)	(37,501)
Fair value of Former Banif Pension Fund	(115,823)	(115,823)
Other deferred income	2,535	12,339
Liability operations to be settled	7,649	1,804
Other (Note 18)	196,618	178,894
	573,509	561,474

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

27. SHAREHOLDERS' EQUITY

At June 30, 2017 and December 31, 2016, the Bank's share capital was represented by 1,256,723,284 shares with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Taxagest, SGPS, S.A. (own shares)	14,593,315	1.16%	14,593
Own shares	305,330	0.02%	305
Other	645,126	0.05%	645
	1,256,723,284	100.00%	1,256,723

On March 23, 2016 and December 30, 2015, the Bank increased its share capital through the issue of 300,000,000 new shares on each of these dates.

Under Ordinance No. 408/99, of June 4, published in the Diário da República – I Série B, No. 129 (Government Gazette), the share premium, amounting to Euros 193,390 thousand, cannot be used to pay out dividends or to purchase own shares.

The “Other equity instruments” correspond to supplementary capital contributions made by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined redemption term. These instruments can only be redeemed by decision of the Bank's Board of Directors, with prior approval of the Bank of Portugal.

In the first half-year of 2016 the Bank paid dividends in the amount of Euros 178,287 thousand (net of the dividends allocated to own shares), equivalent to a dividend of approximately Euros 0.1419 per share.

In the first half-year of 2017 the Bank paid dividends in the amount of Euros 348,667 thousand (net of the dividends allocated to own shares), equivalent to a dividend of approximately Euros 0.2774 per share.

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

At June 30, 2017 and December 31, 2016, the revaluation reserves were made up as follows:

	30-06-2017	31-12-2016
Revaluation reserves		
Reserves resulting from the fair value valuation		
Available-for-sale financial assets (Note 8)	120,030	(110,983)
Investments held to maturity (Note 11)	(7,575)	(7,992)
Available-for-sale financial assets of companies under the equity method	526	202
Cash-flow hedging instruments	(16,521)	(17,682)
Actuarial gains and losses (Note 45)		
Pension Fund of BST	(685,314)	(695,584)
Pension Fund of the Lond branch of BST	(13,924)	(16,172)
Former Banif Pension Fund	(4,826)	(4,826)
Actuarial gains and losses of companies under the equity method	(2,485)	(2,691)
Legal revaluation reserves	23,245	23,245
	(586,844)	(832,483)
Deferred tax reserves		
For temporary differences		
Reservas resultantes da valorização ao justo valor		
Available-for-sale financial assets	(32,442)	34,664
Available-for-sale financial assets of companies under the equity method	(134)	(51)
Cash-flow hedging instruments	4,791	5,127
Tax impact of actuarial gains and losses	186,179	186,179
Tax impact from the change in accounting policies of companies under the equity method	673	725
Relating to the revaluation of tangible assets	(3,148)	(3,311)
	155,919	223,333
	(430,925)	(609,150)

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of the realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to share capital.

During 1998, under Decree-Law No. 31/98, of February 11, the Bank revalued its tangible fixed assets, which resulted in an increase in their respective value, net of accumulated depreciation, of approximately Euros 23,245 thousand, which was recognized in revaluation reserves. The net amount resulting from the revaluation may only be used to increase share capital or offset losses, to the extent of their use (amortization) or the sale of the assets it relates to.

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

At June 30, 2017 and December 31, 2016, the heading “Other reserves and retained earnings” was made up as follows:

	30-06-2017	31-12-2016
Legal reserve	344,749	311,098
Other reserves		
Reserves of consolidated companies	358,856	238,051
Reserves of companies consolidated under the equity method	3,006	9,782
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	265	83
Retained earnings	609,741	726,339
	1,983,876	1,952,612

Legal reserve

In accordance with the provisions of Decree-Law No. 298/92, of December 31, amended by Decree-Law No. 201/2002, of September 26, BST set up a legal reserve fund that shall attain the higher of the amount of the share capital or of the sum of the free reserves and retained earnings. For this purpose, a portion of the annual net income on a stand-alone basis is transferred to this reserve each year, until the aforementioned amount is attained.

This reserve may only be used to offset accumulated losses or increase share capital.

Merger reserve

Under the current legislation, the merger reserve is equivalent to the legal reserve and may only be used to offset accumulated losses or increase share capital.

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

28. CONSOLIDATED NET INCOME FOR THE YEAR

The consolidated net income for the first half-year of 2017 and 2016 may be summarized as follows:

	30-06-2017		30-06-2016	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Semester net income of BST (individual basis)	348,903	348,903	175,442	175,442
Net income of other Group companies:				
Totta Ireland, Plc.	6,541	6,541	12,234	12,234
Novimovest - Fundo de Investimento Imobiliário Aberto	3,094	2,453	4,207	3,319
Unicre, Instituição Financeira de Crédito, S.A.	9,357	2,012	10,386	2,233
Gama STC	-	-	2,125	2,125
Totta Urbe, Empresa de Administração e Construções, S.A.	612	612	425	425
Banif International Bank, LTD	4,453	4,453	218	218
Totta & Açores, Inc. - Newark	-	-	(753)	(753)
Santotta - International, SGPS, S.A.	-	-	(623)	(623)
Atlantes Mortgage 1	(1,563)	(1,563)	(584)	(584)
Lusimovest Fundo de Investimento Imobiliário	2,222	573	-	-
Taxagest, S.A.	(1)	(1)	1	1
	24,715	15,080	27,636	18,595
Adjustments to the consolidated results				
Elimination of dividends:				
Totta Ireland, Plc.		(10,800)		(10,020)
Unicre, Instituição Financeira de Crédito, S.A.		(4,171)		(5,573)
Santotta - International, SGPS, S.A.		(96,500)		-
		(111,471)		(15,593)
Adjustments related with securitization operations		(27,897)		5,759
Dissolution of BSTI		-		8,806
Dissolution of Totta & Açores, Inc.		-		93
Other		(2,105)		(298)
Consolidated net income for the period		222,510		192,804

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the financial year.

	30-06-2017	30-06-2016
Consolidated net income attributable to the shareholders of BST	222,510	192,804
Weighted average number of ordinary shares issued	1,256,723,284	1,113,316,691
Weighted average number of own shares	14,898,645	14,883,750
Weighted average number of ordinary shares outstanding	1,241,824,639	1,098,432,941
Basic earnings per share attributable to the shareholders of BST	0.18	0.18

Basic earnings per share coincide with the diluted earnings per share since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

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

29. NON-CONTROLLING INTERESTS

Third parties' shareholdings in Group companies at June 30, 2017 and December 31, 2016 have the following detail, by entity:

	30-06-2017	31-12-2016
TAXAGEST	557	557
Other	119	113
	676	670

30. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	30-06-2017	31-12-2016
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,370,940	1,386,997
Documentary credits	276,023	265,987
Assets pledged as guarantees		
Bank of Portugal	135,220	140,412
Deposit Guarantee Fund	79,826	71,443
Investor Indemnity System	6,140	5,496
Assets pledged as guarantees	9,033,443	10,485,995
	10,901,592	12 356 330
Commitments		
Credit lines		
Revocable	4,189,443	4,591,949
Irrevocable	737,334	536,938
Deposit Guarantee Fund	63,655	63,655
Investor Indemnity System	4,799	4,586
Other revocable commitments	215	215
	4,995,446	5 197 343
Liabilities for services rendered		
Deposit and custodial services	23,416,660	22,420,417
Amounts received for collection	113,126	107,175
Other values	4	4
	23,529,790	22,527,596

Deposits Guarantee Fund (Fundo de Garantia de Depósitos)

The Deposits Guarantee Fund was created in November 1994 as provided for in Decree-Law No. 298/92, of December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, set by a Ministry of Finance Ordinance, was made through the delivery of cash and deposit securities, having been amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

Until 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, having also accepted an irrevocable commitment to the Deposits Guarantee Fund to pay the remaining 10% of the annual contribution if, and when, required to do so. The total accumulated unpaid amount of this commitment at June 30, 2017 and December 31, 2016 amounted to Euros 63,655 thousand. Assets pledged as a guarantee to the Bank of Portugal are recorded under off-balance sheet headings at market value. In the first half-year of 2017 and 2016, the Bank paid and recorded the full amount of the annual contribution amounting to Euros 21 thousand and Euros 12 thousand, respectively (Note 40).

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

Investors Indemnity System (Sistema de Indemnização aos Investidores (SII))

The liabilities to the Investors Indemnity System are not recorded as a cost but are guaranteed through the acceptance of an irrevocable commitment to pay said liabilities, if required to do so, with part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. At June 30, 2017 and December 31, 2016, such liabilities amounted to Euros 4,799 thousand and Euros 4,586 thousand, respectively.

31. INTEREST AND SIMILAR INCOME

This heading is made up as follows:

	2017	2016
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	-	27
In foreig credit institutions	15	6
Interest on applications		
In domestic credit institutions	1,408	1,647
In foreign credit institutions	4,145	14,241
Interest on loans and advances to customers		
Domestic loans	246,025	270,022
Foreign loans	6,453	6,828
Other loans and receivables (commercial paper)	39,165	45,036
Interest from securitized assets not derecognized	15,303	41,899
Income from comissions received associated to amortized cost	21,209	19,716
Interest on overdue loans	6,407	5,808
Interest and similar income on other financial assets		
Financial assets held for trading	-	1,193
Available-for-sale financial assets	62,431	74,917
Held-to-maturity investments	3,271	5,183
Hedging derivatives	128,106	77,994
Other interest and similar income		
Swap agreements	-	9,144
Other	2,216	912
	536,154	574,573

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

32. INTEREST AND SIMILAR CHARGES

This heading is made up as follows:

	2017	2016
Interest on resources of Central Banks		
Bank of Portugal	1,725	3,870
Interest on resources of credit institutions		
Domestic	92	2,321
Foreign	1,145	4,254
Interest on customers' deposits		
Deposits		
Residents	31,340	65,677
Non-residents	3,105	3,521
Interest on debt securities issued		
Deposit certificates	-	714
Bonds	18,261	29,763
Other debt securities	339	70
Interest on subordinated liabilities		
Subordinated loans	315	36
Interest on hedging derivatives	133,324	75,767
Swap agreements	-	12,334
Other interest and similar charges	2,242	788
Payables associated to amortized cost		
Debt securities	4,862	5,476
	196,750	204,591

33. INCOME FROM EQUITY INSTRUMENTS

This heading refers to dividends and income received and is made up as follows:

	2017	2016
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	2,799	-
BANIF Property	-	280
Unicampos	49	43
Other	15	7
	2,863	330

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

34. INCOME FROM SERVICES AND COMMISSIONS

This heading is made up as follows:

	2017	2016
On guarantees given		
Guarantees and secureties	7,938	9,348
Documentary credits	1,341	2,005
On commitments to third parties		
Irrevocable credit lines	56	201
Revocable commitments	1,494	178
By banking services provided		
Deposit and custody services	2,245	2,319
Asset management and collection	5,739	6,252
Real estate and mutual fund management	9,583	8,933
Transfers	782	592
Card transactions	41,478	33,475
Annuities	11,773	10,173
Credit operations	23,082	17,963
Other	140	1,574
On operations carried out on behalf of third parties		
On securities	8,939	9,203
Other	114	83
Other commission received		
Insurance companies (Note 44)	46,636	44,290
Deposits	23,854	15,318
Cheques	5,535	3,948
Other	7,138	24,473
	197,867	190,328

35. CHARGES WITH SERVICES AND COMMISSIONS

This heading is made up as follows:

	2017	2016
On guarantees received		
Guarantees and secureties	1,909	754
On banking services rendered by third parties		
Funds for collection and management	648	1,560
Custumers transactions	21,881	21,090
Credit operations	5,034	5,117
Other	2,329	2,605
On operations carried out by third parties		
Securities	922	841
Other	710	760
Other commission paid	134	281
	33,567	33,008

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

36. RESULT OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	2017	2016
Financial assets held for trading		
Equity instruments	(57)	41
Derivative instruments:		
Swaps:		
Currency swaps	(105)	(344)
Interest rate swaps	(3,554)	(34,220)
Equity swaps	(670)	347
Options :		
Currency swaps	121	183
Equity swaps	1,738	108
Interest rate guarantee contracts	151	401
	(2,376)	(33,484)
Hedging derivatives:		
Swaps:		
Interest rate swaps	7,891	(29,768)
Equity swaps	2,199	3,880
Autocallable options	279	618
Value adjustments of hedged assets and liabilities	(10,411)	25,235
	(42)	(35)
	(2,418)	(33,519)

37. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	2017			2016		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	35,535	-	35,535	83,590	(1,721)	81,869
Equity instruments						
Measured at fair value	107	(6)	101	8,180	(8)	8,172
Measured at historical cost	55	(1)	54	478	-	478
	35,697	(7)	35,690	92,248	(1,729)	90,519

In the first half-year of 2017 and 2016, the gains recorded under the heading "Result of available-for-sale financial assets" were mainly justified by the sale of Portuguese Treasury Bonds.

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

38. RESULT OF FOREIGN EXCHANGE REVALUATION

This heading is made up as follows:

	2017	2016
Gains on the revaluation of the foreign exchange position	48,585	181,061
Exchange gains on investments in foreign operations	-	1,717
Losses on the revaluation of the foreign exchange position	(44,160)	(178,376)
	4,425	4,402

39. RESULT FROM THE SALE OF OTHER ASSETS

This heading is made up as follows:

	2017	2016
Gains on the sale of loans and advances to customers (Note 10)	11,334	12,658
Gains on the repurchase of bonds issued associated with securitization operations	-	8,678
Gains on non-current assets held for sale	4,848	4,162
Gains on other tangible assets	5,834	2,271
Other gains on financial operations	233	19
	22,249	27,788
Losses on other tangible assets	(6,979)	(936)
Losses on the sale of loans and advances to customers (Note 10)	(466)	(131)
Losses on non-current assets held for sale	(41)	(272)
Other losses on financial operations	(715)	(60)
	(8,201)	(1,399)
	14,048	26,389

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

40. OTHER OPERATING RESULTS

This heading is made up as follows:

	2017	2016
Operating income and revenue		
Rents received	7,996	9,097
Unrealized gains on investment properties	17,556	4,637
Reimbursement of expenses	1,363	4,033
Income from rendering of services	2,034	4,408
Rents of automatic payment terminals	10,079	7,363
Other	1,237	2,576
	40,265	32,114
Other operating expenses		
Subscriptions and donations	(4,136)	(3,220)
Contributions to the Deposit Guarantee Fund	(21)	(12)
Contributions to the Resolution Fund	(19,352)	(15,090)
Unrealized losses on investment properties	(19,011)	(5,792)
Charges related to transactions made by customers	(2,985)	(2,173)
Expenses with automatic teller machines	(6,374)	(5,183)
Other charges and operating expenses	(3,977)	(4,572)
Other taxation		
Direct	(645)	(654)
Indirect	(851)	(847)
	(57,352)	(37,543)
	(17,087)	(5,429)

For the sim-month periods ended June 30, 2017 and 2016, the heading "Rents received" includes the amounts of Euros 7,877 thousand and Euros 8,967 thousand, respectively, related to the income earned by the Novimovest Fund.

Decree-Law No. 24/2013, of February 19, established the contributory regime by the banks to the new Resolution Fund created for the purpose of preventing, mitigating and containing systemic risk. According to Notice No. 1/2013 and the Instructions No. 6/2013 and No. 7/2013 of the Bank of Portugal, the Bank is to pay an initial and a regular contribution to the Resolution Fund. BST's periodic contribution for the years 2017 and 2016 amounted to Euros 4,556 thousand and Euros 2,850 thousand, respectively.

In accordance with the Single Resolution Mechanism these contributions will be transferred to the Single Resolution Fund, in accordance with Article 3, paragraph 3 of the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014.

The Bank of Portugal, as resolution authority, determines the value of the contribution of each institution based on the risk profile of each entity. As foreseen in a letter from the Bank of Portugal, the Single Resolution Board (Conselho Único de Resolução ("CUR")) permitted that for the years 2017 and 2016, banks could opt for the use of an irrevocable commitment to pay, in respect of 15% of the annual contribution amount. The contribution for the years 2017 and 2016 amounted to Euros 14,795 thousand and Euros 14,400 thousand and the irrevocable commitment in cash amounted to Euros 2,611 thousand and Euros 2,160 thousand, respectively.

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

41. STAFF COSTS

This heading is made up as follows:

	2017	2016
Remuneration		
Management and supervisory boards (Note 47)	4,646	4,600
Employees	104,940	110,478
Stock option plans (Note 48)	186	166
Other variable remuneration	11,722	14,102
	121,494	129,346
Mandatory social charges		
Charges on remuneration	28,939	30,912
Pension Funds (Note 45)	3,182	2,161
Other mandatory social charges	500	696
	32,621	33,769
Other staff costs		
Complementary pension plan (Note 45)	291	324
Staff transfers	255	255
Other	2,002	2,388
	2,548	2,967
	156,663	166,082

42. GENERAL ADMINISTRATIVE COSTS

This heading is made up as follows:

	2017	2016
External services:		
Specialized services	26,908	40,459
Maintenance of software and hardware	20,405	19,521
Rent and leases	6,958	8,667
Communications	6,116	7,977
Advertising and publishing	5,950	6,111
Travel, lodging and representation expenses	2,899	2,586
Maintenance and repairs	2,136	1,917
Transportation	1,773	1,807
Insurance	609	1,143
Staff training	1,070	1,034
Other	3,103	3,586
External supplies:		
Water, electricity and fuel	4,312	4,603
Current consumable material	993	1,092
Other	135	124
	83,367	100,627

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

43. RESULTS FROM ASSOCIATED COMPANIES

This heading is made up as follows:

	2017	2016
Unicre - Instituição Financeira de Crédito, S.A.	2,012	2,233
Lusimovest	573	-
Benim - Sociedade Imobiliária, S.A.	(2)	(223)
Atlantes Finance 6 C 3/20/33	50	-
	2,633	2,010

44. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered relates mainly to the commissions earned with the commercialization of life and non-life insurance products, and is made up as follows:

	2017			2016		
	Life Products	Non-Life Products	Total (Note 34)	Life Products	Non-Life Products	Total (Note 34)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	25,541	-	25,541	26,002	-	26,002
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	16,511	-	16,511	13,360	-	13,360
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	1,010	1,010	-	664	664
Liberty Seguros	-	3,574	3,574	-	4,264	4,264
	42,052	4,584	46,636	39,362	4,928	44,290

At June 30, 2017 and December 31, 2016, the heading “Other assets – Income receivable – Other services rendered” (Note 18) included commissions’ receivable from insurance companies, as follows:

	2017	2016
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	11,781	11,880
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	2,719	2,477
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	181	154
Other	16	1,263
	14,697	15,774

These amounts relate, essentially, to the commissions accrued in respect of insurance premiums sold and not yet invoiced during the second quarter of 2017 and the last quarter of 2016, respectively.

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

45. EMPLOYEES' POST EMPLOYMENT BENEFITS

For the purpose of determining BST's past service liability relating to active and retired employees, actuarial studies were carried out by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability, as well as the corresponding current service costs, were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy as of June 30, 2017 and in the four previous years, as well as the respective coverage, are as follows:

	2017	2016	2015	2014	2013
Estimate of responsibilities for past services:					
Pensions					
Current employees	312,036	314,119	303,523	308,223	282,028
Pensioners	32,496	31,526	26,928	26,343	22,891
Retired staff and early retired staff	446,341	424,970	399,942	415,679	399,434
	790,873	770,615	730,393	750,245	704,353
Healthcare systems (SAMS)	147,963	147,207	151,544	151,903	137,970
Death subsidy	6,387	6,372	5,759	5,543	4,562
Prize in retirement	8,301	8,082	-	-	-
	953,524	932,276	887,696	907,691	846,885
Coverage of responsibilities:					
Net assets of the Fund	937,232	932,465	914,204	910,580	840,543
Excess / insufficient funding	(16,292)	189	26,508	2,889	(6,342)
Actuarial and financial deviations generated in the period/year					
Change in assumptions	-	30,579	-	37,912	42,565
Experience adjustments:					
Other actuarial (gains) / losses	9,907	23,815	(9,857)	6,580	(1,775)
Financial (gains)/ losses	(20,177)	2,050	(17,675)	1,111	(3,115)
	(10,270)	25,865	(27,532)	7,691	(4,890)
	(10,270)	56,444	(27,532)	45,603	37,675

In 2011, a tripartite agreement was established, between the Finance Ministry, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE), regarding the transfer to Social Security of part of the liabilities with pensioners who, at December 31, 2011, were covered by the substitutive Social Security regime under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's Pension Fund assets covering such liabilities were also transferred to Social Security. According to Decree-Law No. 127/2011, of December 31, the amount of the pension liabilities transferred to Social Security was determined considering the following assumptions:

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

The liabilities transferred to Social Security amounted to Euros 456,111 thousand and were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the updated financial and actuarial assumptions, amounted to Euros 435,260 thousand. The difference between the liabilities transferred to Social Security calculated using the assumptions set out in Decree-Law No. 127/2011, of December 31 (Euros 456,111 thousand) and those used by the Bank (Euros 435,260 thousand), amounting to Euros 20,851 thousand, was recorded under the heading "Staff costs" of the income statement for 2011.

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

The assumptions used by the Bank to determine the liabilities immediately before the transfer to Social Security were the following:

	Active Employees	Retired Employees
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above mentioned assumptions amounted to Euros 1,186,387 thousand, of which Euros 435,260 thousand corresponding to the liabilities transferred to Social Security, as mentioned above.

The main assumptions used by the Bank to determine its liabilities with retirement pensions as of June 30, 2017 and December 31, 2016 were as follows:

Mortality table	TV 88/90
Pension fund return rate	2,00%
Actuarial technical rate (discount rate)	2,00%
Salary growth rate	0,75%
Pension growth rate	0,50%
Inflation rate	0,75%

Decree-Law No. 167-E/2013, of December 31, changed the normal retirement age of the general Social Security regime, but without the application of the sustainability factor in respect of beneficiaries retiring at that age.

The discount rate used in the reckoning of liabilities was determined by reference to the market rates of bonds of low risk companies with a similar period to that of the settlement of the liabilities.

Changes in the past service liabilities for the six-month period ended June 30, 2107 and financial year December 31, 2016 may be detailed as follows, with regard to BST's pension plan:

	30-06-2017	31-12-2016
Liabilities at the beginning of the financial period/year	932.276	887.696
Current service cost	2.268	4.247
Interest cost	8.956	21.282
Actuarial (gains)/losses	9.907	54.394
Early retirement	24.483	14.554
Amounts paid	(25.632)	(41.026)
ACT change	-	(11.220)
Contributions of employees	1.266	2.349
	-----------	-----------
Liabilities at the end of the financial period/year	953.524	932.276
	======	======

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

The cost for the financial year relating to pensions includes the current service cost and the interest cost, net of the estimated return on the assets of the Pension Fund. In the six-month period ended June 30, 2017 and financial year 2016, pension costs were made up as follows:

	30-06-2017	2016
Current service cost	2.268	4.247
Interest cost	8.956	21.282
Return on assets calculated with the discount rate	(8.956)	(21.282)
	--------	---------
Defined benefits plan	2.268	4.247
Defined contribution plan	631	979
London Branch plan	283	308
	-------	-------
	3.182	5.534
	====	====

As from January 1, 2009, employees hired by BST are integrated in Social Security, and are covered by a supplementary defined contribution pension plan with acquired rights under Clause 93 of the ACT (published in BTE No. 29, of August 8, 2016). Said plan is supported by contributions of the employees (1.5%) and of BST (1.5%) based on the amount of the effective monthly salary. For this purpose, each employee can choose an open pension fund to which BST transfers its contribution.

Changes occurring in actuarial gains and losses in the six-month period ended June 30, 2017 and financial year 2016 were as follows:

Balance at December 31, 2015	639,140

Actuarial losses on pensions generated in 2016	47,036
Financial losses on pensions generated in 2016	1,459
Actuarial losses on healthcare benefits and death subsidy in 2016	7,358
Financial losses on healthcare benefits and death subsidy in 2016	591

Balance at December 31, 2016 (Note 27)	695,584
Actuarial losses on pensions generated in the period	9,907
Financial gains on pensions generated in the period	(20,177)

Balance at June 30, 2017 (Note 27)	685,314
	=====

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. At June 30, 2017 and December 31, 2016, the number of Fund participants was as follows:

	30-06-2017	2016
Active employees (1)	4,949	5,103
Pensioners	1,114	1,092
Retired and early retired staff	5,451	5,358
	---------	---------
	11,514	11,553
	=====	=====

(1) Of whom 271 and 265 employees are included in the new defined contribution plan as of June 30, 2017 and December 31, 2016, respectively.

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

The main demographic changes occurring in the six-month period ended 2017 and financial year 2016, were the following:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2015	236	5,002	5,325	1,052
Leavers:				
Current employees	(16)	(37)	-	(28)
Due to mortality	-	-	(106)	-
Transfers	-	(127)	127	-
Joiners	45	-	12	68
Total number at December 31, 2016	265	4,838	5,358	1,092
Leavers:				
Current employees	(15)	(33)	-	(28)
Due to mortality	-	-	(43)	-
Transfers	-	(128)	128	-
Joiners	21	1	8	50
Total number at June 30, 2017	271	4,678	5,451	1,114

Changes occurring in BST's Pension Fund the sim-month period ended 2017 and financial year 2016 were the following:

Net assets at December 31, 2015	914,204

Contributions made by the Bank (cash)	37,706
Contributions made by employees	2,349
Net return of the Fund:	
Return on assets calculated with the discount rate	21,282
Fund performance above the discount rate	(2,050)
Pensions paid	(41,026)

Net assets at December 31, 2016	932,465

Contributions made by employees	1,266
Net return of the Fund:	
Return on assets calculated with the discount rate	8,956
Fund performance below the discount rate	20,177
Pensions paid	(25,632)

Net assets at June 30, 2017	937,232
	======

The return rates of the Pension Fund on the above mentioned dates were 6,53% and 2,18%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including shares, bonds, other debt instruments, shareholdings in collective investment institutions, bank deposits and other assets of a monetary nature as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, with the Fund Management Company having the choice to adopt a more or less conservative policy, by increasing or decreasing the exposure to shares or bonds, according to its expectations about the market developments and in accordance with the defined investment limits.

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

The current investment policy of BST´s Pension Fund defines the following limits:

Class of assets	Limits
Bonds	40% to 95%
Real Estate	0% to 25%
Shares	0% to 20%
Liquidity	0% to 15%
Other	0% to 10%
Commodities	0% to 5%

At June 30, 2017 and December 31, 2016, BST's Pension Fund breakdown was as follows:

	30-06-2017	31-12-2016
Debt instruments:		
. Rating A	10,808	21,014
. Rating BBB	248.459	235.590
. Rating BB	96.083	148.349
. Without rating attributed either to the issue or the issuer	62.374	10.496
Real Estate Investment Funds	171.903	173.265
Securities Investment Funds	181.356	173.956
Deposits	29.065	58.459
Real estate:		
. Commercial buildings	51.250	51.239
. Land	863	863
Equity instruments:		
. Portuguese listed companies	486	1.178
. Portuguese non-listed companies	112	112
. Foreign listed companies	45.602	38.951
Derivative financial instruments:		
. Listed options	15	(645)
Other	38.856	19.638
	----------	-----------
	937.232	932.465
	======	======

On these dates, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	30-06-2017	31-12-2016
Property leased out	14,947	14,936
Securities (including participation units in funds managed by the Group)	167,570	160,779
	-----------	-----------
	182,517	175,715
	======	======

In 2010 an insurance contract was undertaken with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from a new supplementary retirement plan granted to the Bank's executives. The initial contribution to the new plan amounted to Euros 4,430 thousand. In the six-month period ended June 30, 2017 and financial year 2016, the premium paid by the Bank amounted to Euros 291 thousand and Euros 324 thousand, respectively (Note 41).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disability.

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

For all the possibilities, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of the death of the beneficiary, said amount will be increased by Euros 6,000.

Defined benefit pension plan – London Branch

At June 30, 2017 and December 31, 2016, the main assumptions used in the reckoning of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London Branch of BST were the following:

Mortality table	AMC00/AFC00
Actuarial technical rate (discount rate)	2.60%
Salary growth rate	3.60%
Pension growth rate	2.10%
Inflation rate	2.60%

At June 30, 2017 and December 31, 2016, the liabilities with the defined benefit pension plan of the London Branch of BST and its coverage were as follows:

	30-06-2017	31-12-2016
Estimated liabilities for past services	46,878	49,894
Net assets of the Pension Fund	36,514	37,501
Not financed amount – London Branch	(10,364)	(12,393)

Regarding to the specific pension plan of the London Branch of BST, the changes in the past service liabilities in the six-month period ended June 30, 2017 and financial year 2016, may be presented as follows:

Liabilities at December 31, 2015	44,559
Current service cost	165
Interest cost	1,439
Actuarial losses	4,490
Amounts paid	(759)
Liabilities at December 31, 2016	49,894
Current service cost	129
Interest cost	621
Actuarial gains	(3,397)
Amounts paid	(369)
Liabilities at June 30, 2017	46,878

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

Changes in the Pension Fund of the London Branch of BST in the six-month period ended June 30, 2017 and financial year 2016 were as follows:

Net assets at December 31, 2015	40,125
Net return of the Fund:	
Return on assets calculated with the discount rate	1,296
Fund performance above the discount rate	(3,285)
Contribution made by the Branch	124
Pensions paid	(759)

Net assets at December 31, 2016	37,501
Net return of the Fund:	
Return on assets calculated with the discount rate	467
Fund performance above the discount rate	(1,149)
Contribution made by the Branch	64
Pensions paid	(369)

Net assets at June 30, 2017	36,514
	=====

The costs with the defined benefit pension plan of BST's London Branch in the six-month period ended June 30, 2017 and financial year 2016 were as follows:

	30-06-2017	2016
Current service cost	129	165
Interest cost	621	1,439
Return on assets calculated with the discount rate	(467)	(1,296)
	-------	------
	283	308
	===	===

The changes and the detail of the actuarial gains and losses of BST's London Branch in the six-month period ended June 30, 2017 and financial year 2016 were as follows:

Balance at December 31, 2015	8,397

Actuarial losses on pensions	4,490
Financial losses on pensions	3,285

Balance at December 31, 2016 (Note 27)	16,172
Actuarial gains on pensions	(3,397)
Financial losses on pensions	1,149

Balance at June 30, 2017 (Note 27)	13,924
	====

At June 30, 2017 and December 31, 2016, BST's London Branch Pension Fund portfolio included the following assets:

	30-06-2017	31-12-2016
Debt instruments	31,066	31,868
Equity instruments	5,580	5,568
Deposits	132	65
	---------	---------
Fund's net asset value	36,514	37,501
	=====	=====

<u>Pension Fund - former Banif</u>

Following the resolution measure applied to Banif on December 20, 2015, a group of employees was transferred to BST, including their liabilities for past services. Responsibilities were also transferred for retired employees, early retirees, pensioners and former participants with acquired rights. On January 27, 2016, the Bank requested the Insurance and Pension Fund Supervisory Authority's approval to the transfer to BST of Banif's position whilst member of the Banif Pension Fund, in the defined benefit pension plan, subpopulations A and B and in the defined contribution pension plans II and III. The Bank of Portugal, through letter dated June 7, 2016, transmitted that the parties involved in the split of the liabilities for past services should review some of the terms of the Extinction Contract of the Corresponding Quota of the Pension Fund. In the first quarter of 2017, the parties involved came to an agreement, with the legal formalities being underway in respect of the transfer of the responsibilities with retired staff, early retired staff, pensioners and ex-participants with acquired rights and the corresponding quota of the Fund assets.

The employees of the former Banif were covered by different types of pension plans:

a) The first defined benefit pension plan, was subdivided into the Banif and the former Banco Banif e Comercial dos Açores ("BBCA") populations, with different benefits. Defined benefit pension plan I – subpopulation BANIF: (i) payment of disability, presumed disability and survival pension supplements to Social Security payments; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS). For employees that are eligible for retirement pension, the contribution of 6.5% was based on the pensions and for employees with a defined contribution plan, the benefit was converted into a capital lump sum at retirement, representing 6.5% of the paid-in capital, based on the initial contribution increased by the value of future contributions. The future contributions to SAMS were altered in accordance with the new rules of the ACT.

b) Defined benefit pension plan I – subpopulation former BBCA (closed to new participants): (i) payment of retirement, disability, presumed disability and survival pensions, according to ACT and the changes introduced by Decree-Law No. 1-A/2011, of January 3, and Decree-Law No. 127/2011, of December 31; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS) and (iii) death benefit, both under the ACT.

The former Banif also had two defined contribution pension plans:

c) Pension Plan II – Monthly contribution by the former Banif of 4.5% of the reference remuneration and an initial contribution at the date of the incorporation of the Plan, which included all employees admitted into service in the former Banif before January 1, 2007, with the exception of the employees admitted following the merger with the former BBCA, who are not covered by the Company Agreement. The initial contribution, allocated to the respective separate accounts, was calculated in function of: (i) the supplementary old-age pensions estimated in the assessment of responsibility made by the Actuary Responsible for the Pension Plan at December 31, 2006; and (ii) the present value of future contributions.

d) Pension Plan III – monthly contribution by the former Banif of 1.5% of the reference remuneration of the employees admitted into service after January 1, 2007, who had not passed away or terminated their employment up to the date of the Company Agreement.

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

The former Banif's responsibilities with pension plans were assumed by BST. At December 31, 2016 the population covered is as follows:

	Subpopulation Banif	Subpopulation BBCA	Total
Current employees	795	211	1,006
Retired staff and pensioners	91	128	219
Early retired staff	13	178	191
Former participants with vested rights	-	87	87
Retired of the defined contribution plan	153	-	153
Total	1,052	604	1,656

Defined contribution pension plan - employees covered

Plan II	537
Plan III	289
Total	826

The estimated liabilities for past services at December 31, 2016, based on the assumptions used by BST, for the defined benefit pension plan (considering both subpopulations: the former Banif and the former BBCA), are as follows:

	Libilities				
	Pensions	SAMS	Death Subsidy	Prize in retirement	Total
Current Employees	31,375	9,346	177	1,173	42,071
Retired staff	60,899	4,646	333	-	65,878
Pensioners	5,630	633	-	-	6,263
Early retired staff	16,556	4,064	-	-	20,620
Former participants with vested rights	4,453	621	-	-	5,074
Total liabilities for past services	118,913	19,310	510	1,173	139,906
Book value of the transferred pension fund					115,823
Insufficient fund					(24,083)

At December 31, 2016, the portfolio of the former Banif Pension Fund associated with the defined benefit pension plan was as follows:

Type of Assets	Total	Relative weight
Debt instruments	53,481	45.16%
Securities investment fund	32,974	27.84%
Real estate fund	3,189	2.69%
Real estate properties	18,407	15.54%
Equity instruments	851	0.72%
Deposits	2,582	2.18%
Other	6,948	5.87%
	118,432	
Assets to be transferred	(2,609)	
	115,823	

The net asset amount to be transferred corresponds to the amount of the assets of the Pension Fund portfolio that will cover the liabilities of the employees of the former Banif who were not transferred to the Bank.

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

46. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolio, through twelve operations, with a total initial amount of Euros 23,250,000 thousand. The loans were sold at their nominal value (book value) to securitization funds denominated Fundos Hipototta FTC (hereinafter Hipototta FTC Funds), with the exception of the last securitization operations (Hipototta No. 11 and Hipototta No. 12), for which the loans were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus). A substantial part of the securitization operations were repurchased by BST under those agreements, with the remaining securitization operations being Hipototta No. 4 and Hipototta No. 5.

Hipototta FTC Funds are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under those loans to Hipototta Funds. The Santander Group does not hold any direct or indirect shareholding in Navegator.

To finance these operations, Hipototta Funds issued participation units for the same amount of the loan portfolios purchased, which were fully subscribed by Hipototta PLC Funds, with registered offices in Ireland.

Furthermore, Hipototta FTC Funds channel all the amounts received from BST and from the Portuguese Treasury (Direcção Geral do Tesouro) to Hipototta PLC Funds, segregating the instalments between principal and interest.

To finance these operations, the Hipottota PLC Funds issued bonds with different levels of subordination and rating and, consequently, of return.

At June 30, 2017, the bonds issued and still outstanding are as follows:

Hipototta nº 4 PLC

Issued debt	Amount		Rating			Remuneration	
	Initial	Current	S&P	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	662,971	A	September 2048	December 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	24,870	A	September 2048	December 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	78,547	CCC	September 2048	December 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	766,388					
Class D	14,000	14,000	NR	September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	780,388					

Hipototta nº 5 PLC

Issued debt	Amount		Rating				Remuneration	
	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	611,109	A-	A1	February 2060	February 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A-	Baa1	February 2060	February 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	BB+	Baa3	February 2060	February 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	BB+	Ba3	February 2060	February 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	BB-	B3	February 2060	February 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
Class F	10,000	7,181	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	725,290						

The bonds issued by Hipototta's No. 4 PLC pay interest quarterly on March 30, June 30, September 30 and December 30 of each year. The bonds issued by Hipototta No. 5 PLC pay interest quarterly on February 28, May 30, August 30 and November 30 of each year.

BST has the option to early redeem the bonds on the above mentioned dates. For all Hipototta, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or lower than 10% of the initial amount of the operations.

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

Furthermore, up to five days before each quarterly interest payment date, all Hipototta have the option to make partial repayments of the Class A, B and C bonds, as well as of Class D and E bonds in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

The Class D bonds of Hipototta No. 4, and the Class F bonds of Hipottota No. 5 constitute the last liabilities to be paid.

The remuneration of these bonds corresponds to the difference between the income generated by the securitized loan portfolio and the sum of all the costs related to the operation, namely:

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodian fees and servicer fees, both charged by BST, and the management fee, charged by the Funds);
- Interest on the other classes of bonds; and
- Impairment losses.

When the securitization operations were contracted, the estimated income from the securitized loan portfolios included in the computation of the remuneration of the Class D bonds for Hipototta No. 4 PLC corresponded to an average annual rate of 0.9%. For the Class F bonds of Hipototta No. 5 PLC, this corresponded to an annual average of 0.9% of the total loan portfolio.

When the securitization operations were contracted, subordinated loans were granted by BST to Hipototta as facilities/credit lines in case of need of liquidity by Hipototta. Swap agreements were also celebrated between the Santander Group and securitization vehicles of BST and the Santander Group intended to cover interest rate risk.

Securitization operations of the former Banif

Following the resolution measure applied to the former Banif, BST acquired a number of securitization operations issued by this entity, and the corresponding securitized loans and bonds issued were transferred.

Securitization operations acquired are presented below:

Atlantes Mortgage No. 1

Operation implemented in February 2003 by the former Banif, where mortgage loans were sold to Atlantes Mortgage No.1 FTC, a securitization fund that issued participation units subscribed by Atlantes Mortgage No.1 PLC based in Ireland. For funding purposes, Atlantes Mortgage No.1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitization is managed by Navegator.

Atlantes Mortgage nº 1 PLC

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	462,500	34,079	A+	A1	January 2036	Euribor 3 months + 0.054%
Class B	22,500	22,500	B	A1	January 2036	Euribor 3 months + 1.3%
Class C	12,500	12,500	B-	Ba2	January 2036	Euribor 3 months + 2.6%
Class D	2,500	2,500	B-	B3	January 2036	Euribor 3 months + 4.75%
	500,000	71,579				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	515,400	86,979				

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

Atlantes Mortgage No. 2

Operation implemented in March 2008 by the former Banif, where mortgages loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 2 Class A, B, C and D bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage nº 2

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	349,100	158,402	BBB+	A	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,453	BB+	BBB	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,483	B-	BB	September 2060	Euribor 3 months + 1,65%
	375,000	177,338				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	193,463				

Atlantes Mortgage No. 3

Operation implemented in October 2008 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 3 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage nº 3

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	558,600	268,672	A+	A+	August 2061	Euribor 3 months + 0,2%
Class B	41,400	33,726	NR	NR	August 2061	Euribor 3 months + 0,5%
	600,000	302,398				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	360,066				

Atlantes Mortgage No. 4

Operation implemented in February 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 4 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage nº 4

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	514,250	304,342	A+	A+	December 2064	Euribor 3 months + 0,2%
Class B	35,750	33,142	NR	NR	December 2064	Euribor 3 months + 0,5%
	550,000	337,484				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	411,734				

Atlantes Mortgage No. 5

Operation implemented in December 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 5 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

Atlantes Mortgage nº 5

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	455,000	257,243	A+	A+	November 2068	Euribor 3 months + 0,15%
Class B	45,000	42,538	NR	NR	November 2068	Euribor 3 months + 0,3%
	500,000	299,781				
Class C	66,250	66,250	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	366,031				

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

Atlantes Mortgage No. 7

Operation implemented in November 2010 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 7 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

Atlantes Mortgage nº 7

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	199,593	A+	A+	August 2066	Euribor 3 months + 0,15%
Class B	39,700	34,379	NR	NR	August 2066	Euribor 3 months + 0,3%
	397,000	233,972				
Class C	63,550	63,550	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	297,522				

Azor Mortgage No. 1

Operation implemented in November 2004 by the former Banif, where mortgage loans originated in the former BBCA (Banif e Banco Comercial dos Açores, S.A.) were sold to Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes, bonds fully subscribed by Azor Mortgages PLC, based in Ireland. For funding purposes, Azor Morgages PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and the respective rights to receive payments on the loans and the duties to pay to Azor Mortgages PLC were transferred from Sagres STC to Gamma STC, a company currently owned by BST.

Azor Mortgage nº 1

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	9,671	A+	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	BBB	A1	September 2047	Euribor 3 months + 0,76%
Class C	9,000	9,000	B-	A3	September 2047	Euribor 3 months + 1,75%
	281,000	37,671				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	47,671				

Azor Mortgage No. 2

Operation implemented in July 2008 by the former Banif, where mortgage loans originated by the former BBCA were sold to Gamma STC. To finance the operation, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,000	122,141	A+	A	December 2065	Euribor 3 months + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 months + 0,8%
	299,500	165,221				
Class D	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,250	171,971				

47. RELATED ENTITIES DISCLOSURES

The related entities of the Bank with which it had balances or transactions in the first half-year 2017 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Novimovest - Fundo de Inv. Imobiliario	Portugal
Santotta Internacional, S.G.P.S, Sociedade Unipessoal, LDA	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitization operations managed by GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
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 Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxemburg
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, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Span
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, SA	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The related entities of the Bank with which it had balances or transactions in 2016 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman Islands
Banif International Bank, Ltd (Bahamas)	Bahamas
Serfin International Bank & Trust	Cayman Islands
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
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Novimovest - Fundo de Inv. Imobiliario	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
Securitization operations managed by GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect control by the Group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A., 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
Grupo Banesto	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A. SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander Issuances, S.A.	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Santander, Asset Management, SGFIM, S.A.	Portugal
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

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

At June 30, 2017 and December 31, 2016, the balances and off-balance sheet items maintained with related entities were as follows:

	30-06-2017		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	11,784	-	5,019
Financial assets held for trading	225,887	-	5,469
Loans and advances to credit institutions	318,296	50,024	227,678
Loans and advances to customers	-	39,213	1,366
Hedging derivatives	18,970	-	-
Investments in associated companies	-	53,403	-
Other assets	6,279	3,920	16,867
Liabilities:			
Financial liabilities held for trading	1,583,203	-	5,375
Resources of other credit institutions	17,598	6,448	2,362
Resources of customers and other debts	266,712	431	667,396
Debt securities	94,666	-	-
Hedging derivatives	66,918	-	-
Subordinated liabilities	-	-	4,297
Other liabilities	29	-	11,612
Costs:			
Interest and similar charges	125,768	-	11,971
Charges with services and commissions	1,932	-	988
Result of assets and liabilities at fair value through profit or loss	730,591	-	102,191
General administrative costs	-	-	22,576
Income:			
Interest and similar income	120,971	274	1,260
Result of assets and liabilities at fair value through profit or loss	774,095	-	102,191
Income from services and commissions	229	52	26,599
Result of foreign exchange revaluation	952	-	-
Result from associates	-	2,582	-
Other operating results	-	-	119
Off balance sheet items:			
Guarantees provided and other contingent liabilities	54,318	22	11,191
Guarantees received	1	-	1,162
Commitments to third parties	152,406	53,000	137,541
Currency operations and derivatives	20,952,955	-	387,182
Responsibilities for services rendered	3,341,299	1,089	2,440,364

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

	31-12-2016		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	43,983	-	2
Financial assets held for trading	317,457	-	701
Loans and advances to credit institutions	246,750	1	233,310
Loans and advances to customers	-	40,143	3,321
Hedging derivatives	30,649	-	-
Investments in associated companies	-	54,599	-
Other assets	6,284	16,089	16,304
Liabilities:			
Financial liabilities held for trading	1,710,300	-	2,812
Resources of other credit institutions	175,736	9,676	1,229
Resources of customers and other debts	-	862	744,785
Debt securities	61,398	-	16,965
Hedging derivatives	81,644	-	-
Subordinated liabilities	-	-	4,299
Other liabilities	364	-	659
Costs:			
Interest and similar charges	108,163	2	50,934
Charges with services and commissions	2,198	-	1,975
Result of assets and liabilities at fair value through profit or loss	996,042	-	80,870
Result of foreign exchange revaluation	872	-	-
General administrative costs	-	-	44,552
Income:			
Interest and similar income	142,480	1	3,002
Result of assets and liabilities at fair value through profit or loss	783,569	-	97,587
Income from services and commissions	423	473	98,298
Result of available-for-sale financial assets	473	-	-
Result from associates	-	13,226	-
Other operating results	-	-	207
Off balance sheet items:			
Guarantees provided and other contingent liabilities	25,710	-	9,322
Guarantees received	1	-	1,122
Commitments to third parties	134,045	2,000	134,729
Currency operations and derivatives	29,333,418	-	140,395
Responsibilities for services rendered	3,298,784	2,101	2,128,993

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

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

At June 30, 2017 and December 31, 2016 loans and advances granted to members of management and supervisory boards, considered key management personnel of the Bank, amounted to Euros 515 thousand and Euros 560 thousand, respectively. At June 30, 2017 and 2016, fixed and variable remuneration amounted to Euros 4,646 thousand and Euros 4,600 thousand, respectively (Note 41).

In 2015 financial year the Bank approved a new Individual Long-term Incentive Plan, to be a part of the multiannual variable remuneration, which is described in Note 48. For the members of the Board of Directors, the amount recorded under the heading "Staff costs" in the six-month periods ended June 30, 2017 and 2016 is presented below:

	2017	2016
Individual Long-term Incentive Plan	75	66
	===	===

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement (Acordo Colectivo de Trabalho - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. l).

At the General Meeting held on May 30, 2007, BST's shareholders approved the "Regulation for the supplementary attribution of retirement pensions for age or disability" for the executive members of the Board of Directors of the former Totta and who are executive members of BST's Board of Directors (Executive Committee), as previously defined in the former Totta regulation. Members of the Board of Directors whose time in office is at least fifteen years, whether consecutive or interpolated, will be entitled to a pension supplement equivalent to 80% of their gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when their time in office is less than fifteen years. For these situations, it has been currently defined that the pension supplement will be 65% of the gross annual salary, whenever the time in office is equal to or greater than ten years, and 75% of the gross annual salary, whenever the time in office is equal to or greater than twelve years. This defined benefit plan is a supplementary plan that is dependent of the general Social Security regime.

At June 30, 2017 and December 31, 2016, the liabilities with this plan amounted to Euros 23,906 thousand and Euros 23,667 thousand, respectively, and were covered by a provision in the same amount recorded under the heading "Provision for pensions and other charges" (Note 23).

With regard to employment termination benefits, in accordance with Company Law (Código das Sociedades Comerciais), whenever the term of a member of the management or supervisory board is early terminated by BST, the latter will pay the member the future remuneration that he/she would be entitled to up to the end of the respective term-of-office.

48. LONG-TERM INCENTIVE PLANS - SHARES

The Bank has an Individual Long-term Incentive Plan, in the context of the multi-annual variable remuneration, for a restricted number of employees. The materialization of this plan is subject to compliance with the following objectives:

i) Growth of the consolidated earnings per share ("EPS") of Banco Santander in 2018 as compared with 2015;
ii) Relative behaviour of the Total Shareholder Return ("TSR") of the Bank in the period 2016-2018 as compared with the weighted TSRs of a reference group of 35 credit entities (the "Reference Group"), with the TSR attributed resulting from the Bank'sTSR ranking within the Group of Reference;

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

iii) Compliance with the fully loaded common equity tier 1 or CET1 index objective set for financial year 2018, such objective being that, as at December 31, 2018, the fully loaded consolidated CET1 index of the Santander Group exceeds 11%;
iv) Compliance with the Santander Group's growth objective for the underlying return on risk-weighted assets or "RoRWA" in financial year 2018, as compared with 2015.

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 period, under the heading "Staff costs", given these correspond to a remuneration for services rendered. The management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees, on a worldwide basis, covered by the Plan.

At June 30, 2017 and 2016, the total cost of the Share Plan Incentive for all the employees of the Bank covered by same was as follows:

	2017	2016
Individual Long-term Incentive Plan (Note 41)	186	166
	===	===

The employees are entitled to the shares provided they remain in the Santander Group.

49. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

BALANCE SHEET

Categories of financial instruments

At June 30, 2017 and December 31, 2016, financial instruments had the following book value:

	30-06-2017				
	Valued at fair value	Valued at amortized cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	1,769,959	209,844	-	1,979,803
Balances due from other banks	-	286,745	74,114	-	360,859
Financial assets held for trading	1,614,174	-	-	-	1,614,174
Available-for-sale financial assets	4,373,227	-	84,706	(60,791)	4,397,142
Loans and advances to credit institutions	-	1,614,251	-	-	1,614,251
Loans and advances to customers	881,440	32,130,918	-	(1,362,564)	31,649,794
Held-to-maturity investments	-	237,851	-	-	237,851
Hedging derivatives	18,970	-	-	-	18,970
	6,887,811	36,039,724	368,664	(1,423,355)	41,872,844
Liabilities					
Resources of central banks	-	3,080,638	-	-	3,080,638
Financial liabilities held for trading	1,638,381	-	-	-	1,638,381
Resources of other credit institutions	-	2,435,951	-	-	2,435,951
Resources of customers and other debts	1,655,529	26,712,963	92,142	-	28,460,634
Debt securities	-	3,661,298	-	-	3,661,298
Hedging derivatives	66,918	-	-	-	66,918
Subordinated liabilities	-	12,315	-	-	12,315
	3,360,828	35,903,165	92,142	-	39,356,135

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

	31-12-2016				
	Valued at fair value	Valued at amortized cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	653,758	224,159	-	877,917
Balances due from other banks	-	591,010	67,882	-	658,892
Financial assets held for trading	1,758,934	-	-	-	1,758,934
Available-for-sale financial assets	5,399,329	-	84,997	(61,370)	5,422,956
Loans and advances to credit institutions	-	563,924	-	-	563,924
Loans and advances to customers	664,358	32,450,781	-	(1,662,803)	31,452,336
Held-to-maturity investments	-	243,954	-	-	243,954
Hedging derivatives	32,700	-	-	-	32,700
	7,855,321	34,503,427	377,038	(1,724,173)	41,011,613
Liabilities					
Resources of central banks	-	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	1,766,765
Resources of other credit institutions	-	2,023,379	-	-	2,023,379
Resources of customers and other debts	2,083,896	26,320,588	108,994	-	28,513,478
Debt securities	16,332	3,909,070	-	-	3,925,402
Hedging derivatives	81,655	-	-	-	81,655
Subordinated liabilities	-	12,033	-	-	12,033
	3,948,648	34,715,764	108,994	-	38,773,406

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

INCOME STATEMENT

In the six-month periods ended June 30, 2017 and 2016, the net gains and losses on financial instruments were as follows:

	30-06-2017					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,440,285	(1,442,663)	(2,378)	-	-	-
Available-for-sale financial assets	90,979	(33)	90,946	231,013	-	231,013
Balances in central banks and other credit institutions	5,568	-	5,568	-	-	-
Loans and advances to customers	1,219,069	(865,949)	353,120	-	-	-
Held-to-maturity investments	3,271	-	3,271	417	-	417
Hedging derivatives	141,841	(136,687)	5,154	1,161	-	1,161
Resources in central banks and other credit institutions	-	(2,962)	(2,962)	-	-	-
Resources of customers and other debts	39,654	(37,122)	2,532	-	-	-
Debt securities	393	(23,462)	(23,069)	-	-	-
Subordinated liabilities	-	(315)	(315)	-	-	-
	2,941,060	(2,509,193)	431,867	232,591	-	232,591
Guarantees given	13,339	(5,773)	7,566			
Credit lines	1,550	-	1,550			

	30-06-2016					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,026,851	(1,059,146)	(32,295)	-	-	-
Available-for-sale financial assets	202,751	(15,227)	187,524	-	(157,523)	(157,523)
Balances in central banks and other credit institutions	15,921	-	15,921	-	-	-
Loans and advances to customers	535,108	(155,727)	379,381	-	-	-
Held-to-maturity investments	5,183	-	5,183	-	-	-
Derivados de cobertura	84,508	(107,549)	(23,041)	-	(10,097)	(10,097)
Resources in central banks and other credit institutions	-	(10,445)	(10,445)	-	-	-
Resources of customers and other debts	27,990	(74,042)	(46,052)	-	-	-
Debt securities	8,987	(36,023)	(27,036)	-	-	-
Subordinated liabilities	-	(81)	(81)	-	-	-
	1,907,299	(1,458,240)	449,059	-	(167,620)	(167,620)
Guarantees given	12,511	(630)	11,881			
Credit lines	379	-	379			

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

The above mentioned amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which at June 30, 2017 and December 31, 2016, corresponded to net gains of Euros 4,425 thousand and Euros 4,402 thousand, respectively (Note 38).

In the first half-year of 2017 and 2016, the income and expenses with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	30-06-2017			30-06-2016		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	-	-	-	27	-	27
Balances due from other banks	15	-	15	6	-	6
Available-for-sale financial assets	62,431	-	62,431	74,917	-	74,917
Loans and advances to credit institutions	5,553	-	5,553	15,888	-	15,888
Loans and advances to customers	334,561	(15)	334,546	387,853	(740)	387,113
Held-to-maturity investments	3,271	-	3,271	5,183	-	5,183
	405,831	(15)	405,816	483,874	(740)	483,134
Liabilities						
Resources of central banks	-	(1,725)	(1,725)	-	(3,870)	(1,585)
Resources of other credit institutions	-	1,237	1,237	-	(6,575)	(12,197)
Resources of customers and other debts	-	(34,445)	(34,445)	-	(69,198)	(123,963)
Debt securities	-	(23,462)	(23,462)	-	(36,023)	(33,201)
Subordinated liabilities	-	(315)	(315)	-	(36)	(86)
	-	(58,710)	(58,710)	-	(115,702)	(171,032)
Guarantees given	9,279	-	9,279	11,353	-	11,353
Credit Lines	1,550	-	1,550	379	-	379

In the first half-year of 2017 and 2016, commission income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	30-06-2017			30-06-2016		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advances to customers	27,367	(5,745)	21,622	20,834	(5,877)	14,957
Liabilities						
Resources of customers and other debts	36,876	-	36,876	26,568	-	26,568

In the first half-year of 2017 and 2016, the Bank recognized financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to Euros 6,407 thousand and Euros 5,808 thousand, respectively (Note 31).

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

OTHER DISCLOSURES

Hedge accounting

At June 30, 2017 and December 31, 2016, hedging derivatives and financial instruments designated as hedged items were as follows:

	30-06-2017					
	Hedged item				Hedging instrument	
	Nominal Value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	877,990	883,629	(2,443)	881,186	877,990	(4,845)
Available-for-sale financial assets	600,000	608,581	20,372	628,953	600,000	(52,223)
Resources of customers and other debts	(1,643,864)	(1,649,608)	(5,921)	(1,655,529)	1,290,878	13,110
Cash flow hedge:						
Debt securities	522,371	522,371	-	522,371	522,371	(3,991)
	356,497	364,973	12,008	376,981	3,291,239	(47,949)

	31-12-2016					
	Hedged item				Hedging instrument	
	Nominal Value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	661,254	666,095	(1,971)	664,124	661,254	(3,453)
Available-for-sale financial assets	600,000	607,718	30,573	638,291	600,000	(61,691)
Resources of customers and other debts	(2,068,674)	(2,078,602)	(5,294)	(2,083,896)	1,720,799	16,293
Debt securities	(14,930)	(16,172)	(160)	(16,332)	14,930	1,400
Cash flow hedge:						
Loans and advances to customers	307,373	307,373	-	307,373	225,000	3,741
Resources of customers and other debts	521,671	521,671	-	521,671	521,671	(5,245)
	6,694	8,083	23,148	31,231	3,743,654	(48,955)

Cash flow hedges

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

	30-06-2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	(243)	(486)	(890)	(2,372)	-	(3,991)

	31-12-2016					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	2,077	1,417	(251)	(4,747)	-	(1,504)

The gains and losses recognized in the income statement for the six-month periods ended June 30, 2017 and 2016, arising from fair value hedging operations, were as follows:

	2017			2016		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	(472)	472	-	4,402	(4,402)	-
Available-for-sale financial assets	(10,201)	10,201	-	23,948	(23,948)	-
Resources of customers and other debts	102	(144)	(42)	(3,420)	3,385	(35)
Debt securities	160	(160)	-	305	(305)	-
	(10,411)	10,369	(42)	25,235	(25,270)	(35)

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

Fair value of financial instruments

At June 30, 2017 and December 31, 2016, financial instruments were made up as follows:

	30-06-2017			31-12-2016		
	Valued at fair value	Not valued at fait value	Total	Valued at fair value	Not valued at fait value	Total
Assets						
Cash and deposits at central banks	-	1,979,803	1,979,803	-	877,917	877,917
Balances due from other banks	-	360,859	360,859	-	658,892	658,892
Financial assets held for trading	1,614,174	-	1,614,174	1,758,934	-	1,758,934
Available-for-sale financial assets	4,345,599	51,543	4,397,142	5,371,492	51,464	5,422,956
Loans and advances to credit institutions	-	1,614,251	1,614,251	-	563,924	563,924
Loans and advances to customers	881,186	30,768,608	31,649,794	664,124	30,788,212	31,452,336
Held-to-maturity investments	-	237,851	237,851	-	243,954	243,954
Hedging derivatives	18,970	-	18,970	32,700	-	32,700
	6,859,929	35,012,915	41,872,844	7,827,250	33,184,363	41,011,613
Liabilities						
Resources of central banks	-	3,080,638	3,080,638	-	2,450,694	2,450,694
Financial liabilities held for trading	1,638,381	-	1,638,381	1,766,765	-	1,766,765
Resources of other credit institutions	-	2,435,951	2,435,951	-	2,023,379	2,023,379
Resources of customers and other debts	1,655,529	26,805,105	28,460,634	2,083,896	26,429,582	28,513,478
Debt securities	-	3,661,298	3,661,298	16,332	3,909,070	3,925,402
Hedging derivatives	66,918	-	66,918	81,655	-	81,655
Subordinated liabilities	-	12,315	12,315	-	12,033	12,033
	3,360,828	35,995,307	39,356,135	3,948,648	34,824,758	38,773,406

The financial assets and liabilities to which hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

At June 30, 2017 and December 31, 2016, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	30-06-2017					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,233	-	1,609,941	-	-	1,614,174
Available-for-sale financial assets	4,173,539	59,286	120,030	20,372	(27,628)	4,345,599
Loans and advances to customers	877,990	5,893	-	(2,443)	(254)	881,186
Hedging derivatives	-	-	18,970	-	-	18,970
	5,055,762	65,179	1,748,941	17,929	(27,882)	6,859,929
Liabilities						
Financial liabilities held for trading	-	-	1,638,381	-	-	1,638,381
Resources of customers and other debts	1,643,864	5,744	-	5,921	-	1,655,529
Hedging derivatives	-	-	66,918	-	-	66,918
	1,643,864	5,744	1,705,299	5,921	-	3,360,828

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

	31-12-2016					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,212	-	1,754,722	-	-	1,758,934
Available-for-sale financial assets	5,363,475	116,263	(110,982)	30,573	(27,837)	5,371,492
Loans and advances to customers	661,254	5,075	-	(1,971)	(234)	664,124
Hedging derivatives	-	-	32,700	-	-	32,700
	6,028,941	121,338	1,676,440	28,602	(28,071)	7,827,250
Liabilities						
Financial liabilities held for trading	-	-	1,766,765	-	-	1,766,765
Resources of customers and other debts	2,068,674	9,928	-	5,294	-	2,083,896
Debt securities	14,930	1,242	-	160	-	16,332
Hedging derivatives	-	-	81,655	-	-	81,655
	2,083,604	11,170	1,848,420	5,454	-	3,948,648

The methods used to determine the fair value of the financial instruments were based on listed prices on active markets or other valuation techniques, such as discounted cash flows. At June 30, 2017 and December 31, 2016, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	30-06-2017			
	Methodology of determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2)	Other valuation techniques (Level 3)	Total
Assets				
Financial assets held for trading	-	1,611,115	3,059	1,614,174
Available-for-sale financial assets	2,435,445	1,877,868	32,286	4,345,599
Loans and advances to customers	-	881,186	-	881,186
Hedging derivatives	-	18,970	-	18,970
	2,435,445	4,389,139	35,345	6,859,929
Liabilities				
Financial liabilities held for trading	-	1,638,381	-	1,638,381
Resources of customers and other debts	-	1,655,529	-	1,655,529
Debt securities	-	66,918	-	66,918
	-	3,360,828	-	3,360,828

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

	31-12-2016			
	Methodology of determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2)	Other valuation techniques (Level 3)	Total
Assets				
Financial assets held for trading	-	1,755,759	3,175	1,758,934
Available-for-sale financial assets	3,559,291	1,779,603	32,598	5,371,492
Loans and advances to customers	-	664,124	-	664,124
Hedging derivatives	-	32,700	-	32,700
	3,559,291	4,232,186	35,773	7,827,250
Liabilities				
Financial liabilities held for trading	-	1,766,765	-	1,766,765
Resources of customers and other debts	-	2,083,896	-	2,083,896
Debt securities	-	16,332	-	16,332
Subordinated liabilities	-	81,655	-	81,655
	-	3,948,648	-	3,948,648

In accordance with IFRS 7 and IFRS 13, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published on active markets, comprising mainly government debt, some private debt, open securities investment funds and shares.

- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets, valued using indicative bids provided by external counterparties, and the majority of the derivative financial instruments used for hedging and trading purposes. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flow models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or an entity with a similar rating.

  For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

  Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

  - Counterparties with listed credit default swaps – published price quotations on active markets;

  - Counterparties without listed credit default swaps:

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

– Published prices quotations on active markets for counterparties with similar risk; or

– Probability of default estimated taking into consideration the internal rating assigned to the customer (see Credit Risk section of these Notes to the Consolidated Financial Statements) x loss given default (the specific figure for project finance customers and 60% for other customers).

When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Bank classified the derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Bank, the financial instruments were classified as Level 3.

- Level 3 – In this level, the Bank classifies the financial instruments that are valued using internal models, with some inputs that do not correspond to market observable data. Some unlisted securities for which the Bank uses market data extrapolations were classified in this category.

In the first half-year of 2017 and financial year 2016, changes in financial instruments classified as “Level 3” were as follows:

	Financial assets held for trading		Available-for-sale financial assets	Total
	Securities	Derivatives		
At December 31, 2015	3,096	115,388	154,989	273,473
Acquisitions	-	-	63	63
Liquidation	-	-	(1,028)	(1,028)
Reclassifications	-	(115,388)	(122,555)	(237,943)
Changes in fair value	79	-	1,129	1,208
At December 31, 2016	3,175	-	32,598	35,773
Acquisitions	-	-	115	115
Sales	-	-	(542)	(542)
Changes in fair value	(116)	-	115	(1)
At June 30, 2017	3,059	-	32,286	35,345

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

At June 30, 2017 and December 31, 2016, the valuation techniques, the inputs used and the relationship between those inputs and the fair value determined for financial instruments classified as Level 3 were as follows:

Financial instruments	Valuation techniques	Inputs used	Relation between the inputs used and the fair value determined
Financial assets held for trading			
Participation units in Real Estate Investment Funds	Price disclosed by respective Managing Company	. Capitalization rates . Lease values per m2 . Occupation rates	In the event of an increase in the lease value per m2 or occupation rate or a decrease in the capitalization rate, the fair value determined will increase. In the event of a decrease in the lease value per m2 or occupation rate or an increase in the capitalization rate, the fair value determined will decrease.
Derivative financial instruments	Discounted cash flows / Valuation models	. Probability of default (PD) considering the internal credit ratings attributed by the Bank . Specific LGDs	In the event a higher probability of default or LDG is used, the fair value of the financial instrument will decrease. On the other hand, in the event a lower probability of default or LDG is used, the fair value of the financial instrument will increase.
Available-for-sale financial assets			
Debt securities	Discounted cash flows	. Credit spreads determined internally by the Bank	In the event a higher credit risk is used, the fair value of the security will decrease. On the other hand, in the event a lower credit risk is used, the fair value of the security will increase.
Participation units in Real Estate Investment Funds	Price disclosed by respective Managing Company	. Capitalization rates . Lease values per m2 . Occupation rates	In the event of an increase in the lease value per m2 or occupation rate or a decrease in the capitalization rate, the fair value determined will increase. In the event of a decrease in the lease value per m2 or occupation rate or an increase in the capitalization rate, the fair value determined will decrease.

The most representative interest rate curves used in the valuation of financial instruments, by maturity and currency, were the following:

	30-06-2017		31-12-2016	
	EUR	USD	EUR	USD
Overnight	-0.29%	1.29%	-0.22%	1.00%
1 mês	-0.29%	1.29%	-0.22%	1.00%
3 meses	-0.28%	1.30%	-0.23%	1.00%
6 meses	-0.27%	1.33%	-0.22%	1.03%
9 meses	-0.25%	1.38%	-0.21%	1.10%
1 ano	-0.23%	1.43%	-0.20%	1.17%
3 anos	0.00%	1.71%	-0.10%	1.66%
5 anos	0.28%	1.91%	0.08%	1.66%
7 anos	0.54%	2.07%	0.32%	2.15%
10 anos	0.90%	2.23%	0.67%	2.32%

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

At June 30, 2017 and December 31, 2016, the book value and the fair value of the financial instruments valued at amortized cost or historical cost was as follows:

	30-06-2017		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,979,803	1,955,455	(24,348)
Balances due from other banks	360,859	360,859	-
Available-for-sale financial assets	51,543	51,543	-
Loans and advances to credit institutions	1,614,251	1,617,776	3,525
Loans and advances to customers	30,768,608	30,526,802	(241,806)
Investments held to maturity	237,851	236,130	(1,721)
	35,012,915	34,748,565	(264,350)
Liabilities			
Resources of central banks	(3,080,638)	(3,078,204)	2,434
Resources of other credit institutions	(2,435,951)	(2,440,874)	(4,923)
Resources of customers and other debts	(26,805,105)	(26,825,332)	(20,227)
Debt securities	(3,661,298)	(3,686,154)	(24,856)
Subordinated liabilities	(12,315)	(11,609)	706
	(35,995,307)	(36,042,173)	(46,866)

	31-12-2016		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	877,917	875,590	(2,327)
Balances due from other banks	658,892	658,892	-
Available-for-sale financial assets	51,464	51,464	-
Loans and advances to credit institutions	563,924	569,867	5,943
Loans and advances to customers	30,788,212	30,242,261	(545,951)
Investments held to maturity	243,954	238,428	(5,526)
	33,184,363	32,636,502	(547,861)
Liabilities			
Resources of central banks	(2,450,694)	(2,456,188)	(5,494)
Resources of other credit institutions	(2,023,379)	(2,032,065)	(8,686)
Resources of customers and other debts	(26,429,582)	(26,471,121)	(41,539)
Debt securities	(3,909,070)	(3,874,926)	34,144
Subordinated liabilities	(12,033)	(12,000)	33
	(34,824,758)	(34,846,300)	(21,542)

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

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows. At June 30, 2017 and December 31, 2016, the financial instruments recorded at amortized cost or historical cost presented the following detail, by valuation methodology:

	30-06-2017			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,979,803	-	1,979,803
Balances due from other banks	-	360,859	-	360,859
Available-for-sale financial assets	-	-	51,543	51,543
Loans and advances to credit institutions	-	1,614,251	-	1,614,251
Loans and advances to customers	-	913,541	29,855,067	30,768,608
Investments held to maturity	9,319	123,727	104,805	237,851
	9,319	4,992,181	30,011,415	35,012,915
Liabilities				
Resources of central banks	-	(3,080,638)	-	(3,080,638)
Resources of other credit institutions	-	(2,435,951)	-	(2,435,951)
Resources of customers and other debts	-	-	(26,805,105)	(26,805,105)
Debt securities	-	(3,661,298)	-	(3,661,298)
Subordinated liabilities	-	(12,315)	-	(12,315)
	-	(9,190,202)	(26,805,105)	(35,995,307)

	31-12-2016			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	877,917	-	877,917
Balances due from other banks	-	658,892	-	658,892
Available-for-sale financial assets	-	-	51,464	51,464
Loans and advances to credit institutions	-	563,924	-	563,924
Loans and advances to customers	-	-	30,788,212	30,788,212
Investments held to maturity	9,646	122,426	111,882	243,954
	9,646	2,223,159	30,951,558	33,184,363
Liabilities				
Resources of central banks	-	(2,450,694)	-	(2,450,694)
Resources of other credit institutions	-	(2,023,379)	-	(2,023,379)
Resources of customers and other debts	-	-	(26,429,582)	(26,429,582)
Debt securities	-	(3,909,070)	-	(3,909,070)
Subordinated liabilities	-	(12,033)	-	(12,033)
	-	(8,395,176)	(26,429,582)	(34,824,758)

The main assumptions used in the assessment of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- For purposes of determining the future cash flows of the portfolio, the fair value of variable rate loans was determined considering the average spread of the production of the last quarter of the period. Regarding the fixed rate loans, the future cash flows were discounted at the average rates applied by the Bank in the last quarter of the period;

- The fair value of demand deposits from customers was considered to be equal to its book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the period for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the period; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes the identification, measurement, integration and evaluation of the different credit risk exposures and the analysis of its return adjusted for its risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group's Risk Area, which is responsible for managing the special customer vigilance system, the credit risk segmentation based on customer and product characteristics and the scoring and rating systems (applicable to mortgage loans, consumer credit and credit cards) used by the Bank.

Counterparty risk consists of the potential credit risk in transactions on financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and the subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks of certain customer segments, the control perimeter is defined in accordance with the segments involved.

The control over these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the control over risk concentrations by groups of customers/counterparties on a transversal basis (at several levels).

Derivative position risk (denominated Equivalent Credit Risk) is determined as the sum of the present value of each contract (or current replacement cost) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and the contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating in the quantitative control variables relating to the credit quality of each counterparty.

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

At June 30, 2017 and December 31, 2016, the maximum exposure to credit risk and the corresponding book value of the financial instruments were as follows:

	2017		2016	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,979,803	1,979,803	877,917	877,917
Balances due from other banks	360,859	360,859	658,892	658,892
Financial assets held for trading	1,614,174	1,614,174	1,758,934	1,758,934
Available-for-sale financial assets	4,397,142	4,397,142	5,422,956	5,422,956
Loans and advances to credit institutions	1,614,251	1,614,251	563,924	563,924
Loans and advances to customers	31,649,794	36,576,571	31,452,336	36,581,223
Investments held to maturity	237,851	237,851	243,954	243,954
Hedging derivatives	18,970	18,970	32,700	32,700
Investments in associates	53,403	53,403	54,599	54,599
	41,926,246	46,853,023	41,066,212	46,195,099
Guarantees given	1,646,963	1,646,963	1,652,984	1,652,984

The maximum exposure in “Loans and advances to customers” at June 30, 2017 includes Euros 737,334 thousand and Euros 4,189,443 thousand relating to irrevocable credit lines and revocable credit lines, respectively (Euros 536,938 thousand and Euros 4,591,949 thousand at December 31, 2016, respectively).

Loans granted

The Bank reviews loans and advances to customers and other receivables monthly, in order to identify evidence of impairment. For the purpose of the collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in “Carta-Circular” No. 02/2014/DSP issued by the Bank of Portugal on February 26, 2014, the Bank shows the following information reported as at June 30, 2017 and December 31, 2016:

Credit exposure and respective impairment by segment:

	Exposure at June 30, 2017						Impairment at June 30, 2017		
Segmento	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	11,488,453	11,184,333	19,337	532,368	304,120	96,727	(539,020)	(256,302)	(282,718)
Building and CRE	3,215,396	2,754,140	3,419	316,589	461,256	292,891	(476,207)	(99,205)	(377,002)
Mortgage	17,022,697	16,649,067	33,815	1,172,514	373,630	147,422	(233,528)	(35,242)	(198,286)
Retail	2,048,029	1,954,349	5,058	185,389	93,680	33,431	(132,215)	(30,857)	(101,358)
Guarantees not included in other segments	1,670,117	1,670,117	-	-	-	-	(4,854)	(3,329)	(1,525)
	35,444,692	34,212,006	61,629	2,206,860	1,232,686	570,471	(1,385,824)	(424,935)	(960,889)

	Exposure at December 31, 2016						Impairment at December 31, 2016		
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	11,362,063	11,001,367	21,610	472,654	360,696	142,056	(667,261)	(223,315)	(443,946)
Building and CRE	3,292,003	2,872,196	9,951	462,785	419,807	206,526	(586,093)	(194,496)	(391,597)
Mortgage	17,016,192	16,570,188	26,694	1,278,282	446,004	159,699	(258,320)	(39,278)	(219,042)
Retail	2,097,456	1,968,519	4,599	213,162	128,937	46,346	(171,379)	(37,367)	(134,012)
Guarantees not included in other segments	1,574,638	1,574,638	-	-	-	-	(1,297)	(676)	(621)
	35,342,352	33,986,908	62,854	2,426,883	1,355,444	554,627	(1,684,350)	(495,132)	(1,189,218)

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

The reconciliation between the maximum credit exposure referred to in the table above and the total exposure presented in this table for the six-month period ended June 30, 2017 and financial year 2016, is as follows:

	30-06-2017	31-12-2016
Maximum exposure do credit risk	36,576,571	36,581,223
Commitments on credit lines revocable	(4,189,443)	(4,591,949)
Guarantees given and other contingent liabilities - guarantees and sureties	1,370,940	1,386,997
Guarantees given and other contingent liabilities - documentary credits	276,023	265,987
Impairment losses	1,362,564	1,662,803
Deferred expenses	(69,232)	(73,752)
Commissions related to deferred cost (net)	114,826	109,072
Value adjustments of hedged assets	2,443	1,971
Total credit exposure	35,444,692	35,342,352

The detail of total impairment is as follows:

	30-06-2017	31-12-2016
Impairment of loans and advances to customers	(1,362,564)	(1,662,803)
Provisions and impairment for guarantees and commitments	(23,260)	(21,547)
	(1,385,824)	(1,684,350)

The aging of the credit exposure and respective impairment losses, at June 30, 2017 and December 31, 2016, is as follows:

		Total exposure at June 30, 2017			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	11,488,453	11,105,936	78,397	-	304,120
Building and CRE	3,215,396	2,733,192	20,948	-	461,256
Mortgage	17,022,697	16,501,798	147,269	-	373,630
Retail	2,048,029	1,921,512	32,837	-	93,680
Guarantees not included in other segments	1,670,117	1,670,117	-	-	-
	35,444,692	33,932,555	279,451	-	1,232,686
Impairment					
Corporate	(539,020)	(230,210)	(26,092)	-	(282,718)
Building and CRE	(476,207)	(96,368)	(2,837)	-	(377,002)
Mortgage	(233,528)	(21,578)	(13,664)	-	(198,286)
Retail	(132,215)	(20,041)	(10,816)	-	(101,358)
Guarantees not included in other segments	(4,854)	(3,292)	(37)	-	(1,525)
	(1,385,824)	(371,489)	(53,446)	-	(960,889)
	34,058,868	33,561,066	226,005	-	271,797

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

		Total exposure at December 31, 2016			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	11,362,063	10,921,820	79,547	-	360,696
Building and CRE	3,292,003	2,797,264	74,932	-	419,807
Mortgage	17,016,192	16,396,146	174,042	-	446,004
Retail	2,097,456	1,928,514	40,005	-	128,937
Guarantees not included in other segments	1,574,638	1,574,638	-	-	-
	35,342,352	33,618,382	368,526	-	1,355,444
Impairment					
Corporate	(667,261)	(209,840)	(13,475)	-	(443,946)
Building and CRE	(586,093)	(179,382)	(15,114)	-	(391,597)
Mortgage	(258,320)	(21,871)	(17,407)	-	(219,042)
Retail	(171,379)	(21,874)	(15,492)	-	(134,012)
Guarantees not included in other segments	(1,297)	(676)	-	-	(621)
	(1,684,350)	(433,643)	(61,488)	-	(1,189,218)
	33,658,002	33,184,739	307,038	-	166,226

At June 30, 2017 and December 31, 2016, the credit exposure and respective impairment losses, by year of production, are as follows:

	2017														
	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	3,864	209,108	(16,739)	4,288	137,679	(16,916)	125,271	3,904,432	(68,920)	93,651	117,257	(7,545)	2,061	185,117	(883)
2005	982	33,522	(1,550)	814	56,967	(5,329)	27,154	1,267,486	(21,090)	13,692	22,183	(2,941)	168	7,053	(201)
2006	1,055	69,117	(9,256)	943	53,956	(7,682)	28,815	1,532,025	(24,444)	14,098	28,100	(5,306)	191	19,631	(431)
2007	1,562	80,633	(7,125)	1,373	103,826	(28,931)	39,334	2,153,473	(40,223)	19,424	37,595	(3,071)	209	67,726	(56)
2008	1,715	149,177	(10,880)	1,724	131,113	(22,596)	30,086	1,668,129	(34,753)	19,592	44,195	(6,299)	406	123,374	(177)
2009	1,903	180,716	(13,150)	1,613	124,669	(34,112)	19,328	1,136,150	(16,128)	18,685	38,232	(5,005)	302	22,724	(11)
2010	2,595	172,204	(14,516)	1,944	167,173	(32,259)	17,944	1,203,046	(11,100)	25,075	53,246	(8,122)	322	36,405	(32)
2011	2,415	163,487	(17,440)	2,043	125,111	(10,626)	8,514	530,326	(5,963)	24,965	48,938	(6,610)	349	17,399	(394)
2012	2,754	231,936	(29,984)	1,778	326,153	(117,686)	4,719	292,501	(2,233)	37,584	81,160	(10,537)	388	52,924	(315)
2013	5,541	417,069	(124,215)	2,433	188,886	(50,371)	4,508	310,819	(2,135)	59,437	154,935	(15,472)	510	98,160	(1,455)
2014	8,696	738,105	(72,314)	3,019	324,709	(51,002)	4,944	383,007	(1,836)	58,880	220,962	(16,402)	711	145,963	(24)
2015	13,190	1,202,927	(83,276)	4,215	359,953	(45,808)	8,856	764,275	(3,112)	113,448	381,663	(20,430)	1,137	226,244	(360)
2016	15,373	3,734,167	(117,573)	5,281	545,684	(36,154)	12,176	1,100,441	(934)	151,142	506,733	(17,047)	996	202,773	(485)
2017	85,497	4,106,285	(21,001)	21,473	569,515	(16,735)	7,823	776,586	(658)	60,321	312,831	(7,430)	1,479	464,624	(32)
	147,142	11,488,453	(539,020)	52,941	3,215,396	(476,207)	339,472	17,022,697	(233,528)	709,994	2,048,029	(132,215)	9,229	1,670,117	(4,854)

	2016														
	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	4,704	208,127	(24,242)	4,680	156,837	(23,076)	129,524	4,151,259	(78,371)	105,191	140,958	(12,029)	2,145	232,925	(161)
2005	1,151	127,674	(3,447)	904	64,955	(6,531)	27,798	1,324,508	(22,448)	15,379	26,780	(4,127)	186	8,194	(28)
2006	1,267	84,684	(13,596)	1,071	67,564	(15,829)	29,448	1,597,016	(27,146)	15,815	34,419	(7,927)	201	11,011	(336)
2007	1,925	98,924	(13,523)	1,582	144,697	(50,652)	40,259	2,246,255	(44,295)	22,112	46,816	(6,402)	243	57,485	(18)
2008	2,081	169,404	(12,861)	1,965	163,889	(37,644)	30,858	1,745,673	(38,071)	22,403	54,868	(11,921)	439	51,407	(93)
2009	2,359	215,188	(31,716)	1,973	164,238	(56,051)	19,829	1,189,731	(18,169)	21,665	46,912	(7,370)	321	24,588	(10)
2010	3,306	198,145	(21,185)	2,337	193,795	(36,935)	18,442	1,259,141	(12,250)	31,858	71,831	(12,521)	362	39,299	(31)
2011	3,126	198,748	(22,793)	2,507	150,775	(19,046)	8,786	557,094	(6,434)	29,587	64,064	(9,721)	401	19,321	(328)
2012	3,703	283,323	(54,449)	2,236	345,083	(118,888)	4,889	308,632	(2,624)	51,347	112,313	(13,879)	433	56,375	(26)
2013	7,311	476,913	(134,419)	3,043	237,019	(72,756)	4,693	329,372	(2,429)	67,799	201,268	(22,532)	565	76,702	(11)
2014	10,809	888,846	(85,469)	3,489	374,922	(60,424)	5,114	401,846	(1,880)	65,905	272,282	(20,665)	843	173,648	(35)
2015	15,264	1,349,394	(99,105)	4,760	441,364	(60,774)	9,072	792,237	(3,238)	123,480	458,214	(27,367)	1,318	252,827	(171)
2016	96,035	7,062,693	(150,454)	24,955	786,865	(27,484)	12,377	1,113,426	(967)	142,998	566,731	(14,919)	2,178	570,854	(50)
	153,041	11,362,063	(667,261)	55,502	3,292,003	(586,093)	341,089	17,016,192	(258,320)	715,539	2,097,456	(171,379)	9,635	1,574,638	(1,297)

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

At June 30, 2017 and December 31, 2016, the impairment losses estimated individually and using the collective analysis statistical model, by segment, were as follows:

	2017					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	688,467	10,799,986	11,488,453	(346,288)	(192,732)	(539,020)
Construction and CRE	966,850	2,248,546	3,215,396	(429,102)	(47,105)	(476,207)
Mortgage	-	17,022,697	17,022,697	-	(233,528)	(233,528)
Retail	-	2,048,029	2,048,029	-	(132,215)	(132,215)
Guarantees not included in other segments	16,450	1,653,667	1,670,117	(4,771)	(83)	(4,854)
	1,671,767	33,772,925	35,444,692	(780,161)	(605,663)	(1,385,824)

	2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	2,263,062	9,099,001	11,362,063	(396,631)	(270,630)	(667,261)
Construction and CRE	1,168,433	2,123,570	3,292,003	(520,780)	(65,313)	(586,093)
Mortgage	-	17,016,192	17,016,192	-	(258,320)	(258,320)
Retail	-	2,097,456	2,097,456	-	(171,379)	(171,379)
Guarantees not included in other segments	22,818	1,551,819	1,574,638	(1,160)	(137)	(1,297)
	3,454,313	31,888,038	35,342,351	(918,570)	(765,780)	(1,684,350)

At June 30, 2017 and December 31, 2016, the credit risk analysed individually and using the collective analysis statistical model (excluding loans transferred from the former Banif), had the following composition by sector, for the “Corporate” and "Construction and CRE" segments:

	2017					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	175,938	2,018,775	2,194,713	(122,098)	(2,444)	(124,542)
Consulting, scientific, technical and similar consultancy activities	72,913	315,745	388,658	(39,012)	(5,951)	(44,963)
Human health and social support activities	4,813	230,061	234,874	(3,103)	(3,177)	(6,280)
International organizations activities and other extraterritorial institutions	-	56,840	56,840	-	(309)	(309)
Manufacturing industries	112,472	1,893,215	2,005,687	(62,595)	(34,958)	(97,553)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	2,644	60,167	62,811	(1,510)	(962)	(2,472)
Construction	615,674	1,138,180	1,753,854	(228,925)	(94,894)	(323,819)
Real Estate	319,350	718,080	1,037,430	(181,557)	(11,273)	(192,830)
Education	2,820	89,966	92,786	(661)	(1,602)	(2,263)
Other service activities	32,188	660,082	692,270	(17,623)	(1,262)	(18,885)
Transport and storage	16,515	529,304	545,819	(2,291)	(6,404)	(8,695)
Art, entertainment, recreation and sports activities	19,084	45,211	64,295	(8,018)	(2,318)	(10,336)
Agriculture, Livestock, Hunting, Forestry and Fishing	2,546	135,177	137,723	(986)	(3,263)	(4,249)
Wholesale and retail trade	136,255	1,477,456	1,613,711	(61,778)	(47,944)	(109,722)
Administrative and support activities	52,547	190,996	243,543	(16,599)	(4,184)	(20,783)
Information and communication activities	2,458	71,353	73,811	(1,412)	(2,095)	(3,507)
Electricity, gas and water	11,400	1,000,655	1,012,055	(703)	(286)	(989)
Hotels, restaurants and similar	74,358	465,606	539,964	(26,022)	(14,692)	(40,714)
Extractive industries	1,342	20,201	21,543	(497)	(1,683)	(2,180)
Public administration, defense and social security	-	1,928,257	1,928,257	-	(54)	(54)
Other	-	3,205	3,205	-	(82)	(82)
	1,655,317	13,048,532	14,703,849	(775,390)	(239,837)	(1,015,227)

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

	2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1,105,706	1,109,943	2,215,649	(129,450)	(1,543)	(130,992)
Consulting, scientific, technical and similar consultancy activities	92,811	292,034	384,846	(51,105)	(6,964)	(58,069)
Human health and social support activities	29,223	200,105	229,328	(10,716)	(3,048)	(13,764)
International organizations activities and other extraterritorial institutions	-	28,837	28,837	-	(349)	(349)
Manufacturing industries	396,808	1,535,353	1,932,161	(87,009)	(41,710)	(128,719)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	11,837	54,637	66,474	(2,761)	(694)	(3,455)
Construction	708,440	1,227,309	1,935,748	(294,773)	(115,010)	(409,782)
Real Estate	373,543	606,891	980,433	(193,119)	(13,623)	(206,742)
Education	18,158	71,298	89,457	(1,838)	(1,771)	(3,609)
Other service activities	39,864	592,045	631,909	(17,797)	(32,952)	(50,749)
Transport and storage	227,545	303,702	531,248	(2,880)	(9,176)	(12,056)
Art, entertainment, recreation and sports activities	22,966	45,167	68,133	(10,240)	(3,796)	(14,036)
Agriculture, Livestock, Hunting, Forestry and Fishing	5,149	132,526	137,674	(788)	(4,929)	(5,717)
Wholesale and retail trade	193,686	1,475,313	1,668,998	(72,946)	(62,131)	(135,077)
Administrative and support activities	57,619	191,143	248,762	(15,702)	(4,649)	(20,352)
Information and communication activities	3,163	87,124	90,287	(1,470)	(2,125)	(3,594)
Electricity, gas and water	15,551	1,009,421	1,024,972	(1,041)	(10,470)	(11,511)
Hotels, restaurants and similar	127,238	414,287	541,525	(22,910)	(18,802)	(41,713)
Extractive industries	1,766	17,311	19,077	(605)	(2,076)	(2,681)
Public administration, defense and social security	-	1,827,793	1,827,793	-	(31)	(31)
Other	423	331	754	(260)	(93)	(354)
	3,431,495	11,222,571	14,654,066	(917,411)	(335,943)	(1,253,353)

At June 30, 2017 and December 31, 2016, the credit risk analysed individually and using the collective analysis statistical model had the following composition by geography:

	2017					
	Portugal		England		Bahamas	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	1,671,767	(780,161)	-	-	-	-
Collective	33,382,804	(585,796)	379,520	(11,497)	10,601	(8,370)
	35,054,571	(1,365,957)	379,520	(11,497)	10,601	(8,370)

	2016					
	Portugal		England		Bahamas	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	3,454,313	(918,570)	-	-	-	-
Collective	31,400,053	(673,649)	408,314	(14,712)	79,671	(77,419)
	34,854,366	(1,592,219)	408,314	(14,712)	79,671	(77,419)

The risk analysis for customers or economic groups where the Bank has an exposure in excess of Euros 500,000 is performed by risk analysts that monitor those customers and are supported by an internally developed rating model approved by the regulators. These models are mandatorily prepared. The attribution of various levels of internal rating, which vary from 1 to 9, consider the risk level inherent to the customer and a one year probability of default, which the Bank monitors and calibrates on a constant and regular basis. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Owners/Management;
. Access to credit;
. Profitability;
. Generation of flows;
. Solvency.

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

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Equity holders/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by weighting parameter, is subsequently introduced into the Bank's IT system.

In general terms, the Bank's internal rating system may be described as follows:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with moderate credit risk;
Rating 7 – 9: Customer with low credit risk.

At June 30, 2017 and December 31, 2016, the loan portfolio of the Bank presents the following segmentation by internal rating:

	30-06-2017				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	515,332	5,540,798	4,269,498	1,162,825	11,488,453
Building and CRE	302,862	1,885,511	148,793	878,231	3,215,396
Mortgage	2,210,723	1,529,008	12,551,031	731,936	17,022,697
Retail	463,563	301,588	1,101,272	181,606	2,048,029
Guarantees not included in other segments	15,761	986,464	384,134	283,758	1,670,117
	3,508,240	10,243,369	18,454,727	3,238,356	35,444,692

	31-12-2016				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	391,007	6,038,656	1,609,429	3,322,971	11,362,063
Building and CRE	498,746	1,726,451	157,147	909,660	3,292,003
Mortgage	1,967,000	1,424,359	9,310,914	4,313,919	17,016,192
Retail	273,029	251,580	779,089	793,757	2,097,456
Guarantees not included in other segments	16,683	844,810	442,209	270,935	1,574,638
	3,146,466	10,285,857	12,298,788	9,611,241	35,342,352

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

At June 30, 2017 and December 31, 2016, the book value of guarantees and other collateral executed relating to credit operations granted amounted to Euros 199,281 thousand and Euros 198,509 thousand, respectively, and presented the following detail:

	30-06-2017	31-12-2016
Non-current assets held for sale (Note 13):		
Properties received as settlement of defaulting loans	145,780	138,310
Equipment	1,753	1,992
Other assets received as settlement of defaulting loans (Note 18)	126,449	136,349
Available-for-sale financial assets	28,396	28,396
	302,378	305,047
Impairment of non-current assets held for sale (Note 13):		
Properties received as settlement of defaulting loans	(51,938)	(49,668)
Equipment	(1,380)	(1,590)
Impairment of other assets received as settlement of defaulting loans (Note 18)	(36,046)	(41,547)
Impairment of available-for-sale financial assets	(13,733)	(13,733)
	(103,097)	(106,538)
	199,281	198,509

At June 30, 2017 and December 31, 2016, the detail of the fair value and the net book value of property received in settlement of defaulted loans, by type of asset, is as follows:

	2017			2016		
Asset	Items of real estate assets	Assets Fair Value (*)	Book value	Items of real estate assets	Assets Fair Value (*)	Book value
Land						
Urban	45	17,812	15,043	38	14,241	11,716
Rural	49	2,582	2,074	53	2,783	2,238
Constructed buildings						
Commercial	311	31,562	26,793	267	20,678	17,606
Residential	808	55,444	47,937	825	65,362	55,733
Other	11	2,104	1,906	1	942	942
Other	2	97	89	1	336	407
	1,226	109,601	93,842	1,185	104,342	88,642

(*) *does not include the selling costs or the estimated historical loss on the disposal of this type of asset*

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

At June 30, 2017 and December 31, 2016, the detail of the net book value of property received in settlement of defaulted loans, by aging, is as follows:

Asset	2017				
	Less than 1 year	From 1 year to 25 years	From 2.5 years to 5 years	Over 5 years	Total
Land					
Urban	15	408	749	13,871	15,043
Rural	-	149	1,032	893	2,074
Constructed buildings					
Commercial	886	6,160	17,848	1,899	26,793
Residential	13,020	13,041	16,716	5,160	47,937
Other	-	-	98	1,808	1,906
Other	-	-	79	10	89
	13,921	19,758	36,522	23,641	93,842

Asset	2016				
	Less than 1 year	From 1 year to 25 years	From 2.5 years to 5 years	Over 5 years	Total
Land					
Urban	-	203	1,108	10,405	11,716
Rural	-	147	1,223	868	2,238
Constructed buildings					
Commercial	1,856	3,195	11,062	1,493	17,606
Residential	12,090	14,868	22,423	6,352	55,733
Other	-	-	-	942	942
Other	-	-	-	407	407
	13,946	18,413	35,816	20,467	88,642

Restructured credit

At June 30, 2017 and December 31, 2016, the restructured credit operations were identified in accordance with Instruction No. 32/2013 of the Bank of Portugal (replacing Instruction No. 18/2012 of the Bank of Portugal) which establishes the definition of restructured credit due to customers' financial difficulties.

According to said Instruction, the institutions shall identify and mark in their information systems the credit operations of customers with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, extension of the reimbursement deadline, introduction of grace periods, capitalization of interest, reduction of interest rates, interest or principal pardon) or the institution contracts new credit lines to settle (totally or partially) the existing debt service, in which cases the institutions shall include the reference "restructured credit due to financial difficulties of the customer."

A customer is considered to be in a difficult financial position whenever he/she/it has failed to fulfil any of its financial obligations vis-à-vis the institution or if it is predictable, given the information available, that such situation will occur.

The unmarking of restructured credit due to financial difficulties of the customer can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

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

The change occurring in the restructured credit operations during the six-month period ended June 30, 2017 and financial year 2016 was as follows:

Balance of the restructured portfolio (gross of impairment) at December 31, 2015	2,371,866
Restructured loans in the year	1,105,149
Accrued interest of the restructured portfolio	27,807
Restructured loans settlement (partial or total)	(515,419)
Other	(7,893)
Balance of the restructured portfolio (gross of impairment) at December 31, 2016	2,981,510
Restructured loans in the year	46,130
Accrued interest of the restructured portfolio	1,270
Restructured loans settlement (partial or total)	(251,579)
Other	-
Balance of the restructured portfolio (gross of impairment) at June 30, 2017	2,777,331

At June 30, 2017 and December 31, 2016, the portfolio of restructured credit by restructuring measure adopted had the following detail:

	2017								
	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	29,071	1,126,423	(80,206)	4,490	224,589	(204,550)	33,561	1,351,012	(284,756)
Other	31,441	1,080,437	(164,086)	4,939	345,882	(252,333)	36,380	1,426,319	(416,419)
	60,512	2,206,860	(244,292)	9,429	570,471	(456,883)	69,941	2,777,331	(701,175)

	2016								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	33,599	1,220,334	(101,572)	5,154	278,529	(223,725)	38,753	1,498,863	(325,297)
Other	34,515	1,206,549	(190,800)	6,168	276,098	(214,543)	40,683	1,482,647	(405,343)
	68,114	2,426,883	(292,372)	11,322	554,627	(438,268)	79,436	2,981,510	(730,640)

<u>Collateral</u>

At June 30, 2017, the coverage of overdue loans by collateral was as follows:

	30-06-2017						
	Exposure			Collaterals			
Degree of coverage	Non overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collaterals	Total	Impairment
Corporate							
>= 100%	77,812	248,789	326,601	583,269	66,259	649,528	(171,608)
>= 80% and < 100%	11,892	20,919	32,811	22,341	7,650	29,991	(22,226)
>= 60% and < 80%	5,101	38,574	43,675	3,013	26,793	29,806	(40,853)
< 60%	10,789	117,020	127,809	62,098	1,804	63,902	(76,265)
Without guarantees	133,959	266,628	400,587	-	-	-	(253,310)
Mortgage							
>= 100%	345,303	252,124	597,427	972,041	2,037	974,078	(130,793)
>= 80% and < 100%	16,454	40,089	56,543	51,778	-	51,778	(23,205)
>= 60% and < 80%	4,352	26,140	30,492	22,093	-	22,093	(14,596)
< 60%	13,321	13,489	26,810	49,308	-	49,308	(9,414)
Without guarantees	1,353	4,740	6,093	-	-	-	(2,915)
Other individuals							
>= 100%	13,058	15,567	28,625	41,799	6,837	48,636	(17,495)
>= 80% and < 100%	1,927	788	2,715	948	1,642	2,590	(1,167)
>= 60% and < 80%	534	244	778	343	193	536	(476)
< 60%	685	4,347	5,032	180	616	796	(3,703)
Without guarantees	70,406	67,002	137,408	-	-	-	(78,900)
	706,946	1,116,460	1,823,406	1,809,211	113,831	1,923,042	(846,926)

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

At December 31, 2016, the coverage of overdue loans by collateral was as follows:

	31-12-2016						
	Exposure			Collaterals			
Degree of coverage	Non overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collaterals	Total	Impairment
Corporate							
>= 100%	123,381	282,737	406,118	718,338	82,174	800,512	(199,487)
>= 80% and < 100%	5,609	24,933	30,542	23,376	4,928	28,304	(21,769)
>= 60% and < 80%	12,892	40,922	53,814	13,510	24,195	37,705	(47,398)
< 60%	13,875	12,367	26,242	4,196	2,384	6,580	(13,573)
Without guarantees	182,449	409,584	592,033	-	-	-	(416,568)
Mortgage							
>= 100%	382,839	303,138	685,977	1,118,821	-	1,118,821	(149,127)
>= 80% and < 100%	17,178	47,943	65,121	59,490	-	59,490	(26,098)
>= 60% and < 80%	4,906	29,278	34,184	24,765	-	24,765	(16,388)
< 60%	1,997	16,939	18,936	18,163	15	18,178	(12,244)
Without guarantees	1,369	5,249	6,618	-	-	-	(2,867)
Other individuals							
>= 100%	14,829	19,245	34,074	49,472	11,963	61,435	(21,556)
>= 80% and < 100%	1,564	1,564	3,128	1,042	1,951	2,993	(2,011)
>= 60% and < 80%	282	291	573	275	137	412	(318)
< 60%	1,368	3,317	4,685	110	592	702	(3,162)
Without guarantees	78,285	94,977	173,262	-	-	-	(115,309)
	842,823	1,292,484	2,135,307	2,031,558	128,339	2,159,897	(1,047,875)

At June 30, 2017 and December 31, 2016, the degree of coverage of active loans for which impairment was attributed in the individual analysis is as follows:

		30-06-2017			
		Collaterals			
Degree of coverage	Performing loans	Mortgage	Other collaterals	Total	Impairment
>=100%	212,011	277,353	90,694	368,047	(63,446)
>= 80% and < 100%	31,492	19,926	8,858	28,784	(11,491)
>= 60% and < 80%	18,066	10,038	3,900	13,938	(10,378)
< 60%	90,604	15,417	589	16,006	(31,870)
Without guarantees	421,157	-	-	-	(174,625)
	773,330	322,734	104,041	426,775	(291,810)

		31-12-2016			
		Collaterals			
Degree of coverage	Performing loans	Mortgage	Other collaterals	Total	Impairment
>=100%	330,475	521,283	83,420	604,703	(83,990)
>= 80% and < 100%	26,033	13,384	11,112	24,496	(11,211)
>= 60% and < 80%	28,382	17,705	4,259	21,964	(13,743)
< 60%	220,060	69,375	2,371	71,746	(102,765)
Without guarantees	1,907,024	-	-	-	(195,514)
	2,511,974	621,747	101,162	722,909	(407,223)

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

At June 30, 2017 and December 31, 2016, the book value of the debt instruments by external rating, in accordance with Standard & Poor's rating classification, was made up as follows:

	30-06-2017	31-12-2016
Financial assets held for trading		
Rating S&P		
BB+ / BB / BB-	4,311,481	5,229,027
B+ / B / B-	-	104,542
Without external rating	1	3,514
	4,311,482	5,337,083

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

The liquidity risk management policy is decided by the top level body of the organizational area responsible for Asset and Liability Management ("ALM"), the Assets and Liabilities Committee (ALCO), which is presided by the Chairman of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and decides the strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin ("NIM") sensitivity and asset value ("MVE") sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through the liquidity coefficient and the accumulated net illiquidity indicators.

The Bank's financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level considering the credit lines available, the dispersion of the maturities and the minimization of funding activity related costs.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

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

The projected cash flows of the financial instruments (not discounted) at June 30, 2017 and December 31, 2016, in accordance with their contractual maturity, were as follows:

	30-06-2017							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	209,843	-	-	-	1,782,787	-	-	1,992,630
Balances due from other banks	360,859	-	-	-	-	-	-	360,859
Financial assets held for trading	1,614,174	-	-	-	-	-	-	1,614,174
Available-for-sale financial assets	2	14,360	320,610	636,948	511,793	3,579,424	142,991	5,206,128
Loans and advances to credit institutions	1,091,590	18,091	136,156	348,765	-	22,734	-	1,617,336
Loans and advances to customers	143,583	2,036,744	3,529,448	7,213,185	5,633,217	16,782,307	-	35,338,484
Held-to-maturity investments	-	2,700	143,287	19,995	18,493	77,385	-	261,860
Hedging derivatives	18,970	-	-	-	-	-	-	18,970
Investments in associates	-	-	-	-	-	-	54,903	54,903
	3,439,021	2,071,895	4,129,501	8,218,893	7,946,290	20,461,850	197,894	46,465,344
Liabilities								
Resources of central banks	4,638	-	-	2,446,000	630,000	-	-	3,080,638
Financial liabilities held for trading	1,638,381	-	-	-	-	-	-	1,638,381
Resources of other credit institutions	330,767	874,345	481,661	1,486	201,118	550,000	-	2,439,377
Resources of customers and other debts	12,271,718	4,285,328	6,227,484	5,589,493	212,618	16,788	-	28,603,429
Debt securities	-	34,825	161,418	1,065,602	1,018,416	1,599,879	-	3,880,140
Hedging derivatives	66,918	-	-	-	-	-	-	66,918
Subordinated liabilities	-	32	602	1,269	1,271	17,233	-	20,407
	14,312,422	5,194,530	6,871,165	9,103,850	2,063,423	2,183,900	-	39,729,290

	31-12-2016							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	224,158	-	-	-	634,321	-	-	858,479
Balances due from other banks	658,892	-	-	-	-	-	-	658,892
Financial assets held for trading	1,758,934	-	-	-	-	-	-	1,758,934
Available-for-sale financial assets	2	67,413	195,212	1,573,300	821,623	3,817,360	143,755	6,618,665
Loans and advances to credit institutions	66,792	4,583	31,969	440,202	2,033	22,734	-	568,313
Loans and advances to customers	313,396	2,004,310	3,326,351	6,778,775	5,874,672	17,206,129	-	35,503,633
Held-to-maturity investments	-	3,082	134,874	31,032	18,664	84,776	-	272,428
Hedging derivatives	32,700	-	-	-	-	-	-	32,700
Investments in associates	-	-	-	-	-	-	55,248	55,248
	3,054,874	2,079,388	3,688,406	8,823,309	7,351,313	21,131,000	199,003	46,327,292
Liabilities								
Resources of central banks	4,694	-	-	-	-	2,446,000	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	-	-	-	1,766,765
Resources of other credit institutions	694,210	728,902	828	1,537	201,539	400,000	-	2,027,016
Resources of customers and other debts	11,850,970	4,382,514	5,890,485	6,245,952	299,834	17,201	-	28,686,956
Debt securities	160	31,437	1,082,987	939,612	873,962	1,185,176	-	4,113,334
Hedging derivatives	81,655	-	-	-	-	-	-	81,655
Subordinated liabilities	-	4,308	570	1,140	1,141	10,450	-	17,610
	14,398,454	5,147,161	6,974,870	7,188,241	1,376,476	4,058,827	-	39,144,030

The projected cash flows of the financial instruments were determined based on the principles and assumptions used by the Bank to manage and control the liquidity resulting from its operations, namely:

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

- Financial instruments classified as “non-structural” were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;

- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity instrument prices, precious metals and commodities.

The standard methodology applied for the Bank's trading activity is Value at Risk ("VaR"). The Historical Simulation with a 99% confidence level and a time horizon of one day is used as the standard, with statistical adjustments being applied to include the more recent occurrences that affect the level of risk assumed. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measurements.

The reckoned VaR represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

Other measures are simultaneously implemented that permit an additional control of market risk. For abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios for different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of the scenarios seeks to identify the potential risk under extreme market conditions and on the fringes of the probability of occurrence not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being realized over the changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measurements and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results due to parallel changes in the interest rate curves. For the control of the derivative activities, due to the unusual nature of same, specific sensitivity measurements are performed daily, namely estimating sensitivity to changes in the underlying prices (*delta* and *gamma*), volatility (i) and time (*theta*).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed at protecting the volume of effective losses or the results already achieved during the period (Loss Triggers and Stop Losses).

As for the interest rate structural risk, the model used in the analysis permits the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and repricing structure, which determines the sensitivity of the financial margin and the sensitivity of the net asset value of the balance sheet instruments.

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

Interest rate risk

At June 30, 2017 and December 31, 2016, financial instruments, by exposure to interest rate risk, were as follows:

	30-06-2017				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,769,960	209,843	-	1,979,803
Balances due from other banks	-	-	360,859	-	360,859
Financial assets held for trading	-	-	3,059	1,611,115	1,614,174
Available-for-sale financial assets	4,112,432	145,812	138,898	-	4,397,142
Loans and advances to credit institutions	1,213,592	397,821	2,838	-	1,614,251
Loans and advances to customers	4,274,427	27,308,947	66,420	-	31,649,794
Held-to-maturity investments	126,520	111,331	-	-	237,851
Hedging derivatives	-	-	-	18,970	18,970
	9,726,971	29,733,871	781,917	1,630,085	41,872,844
Liabilities					
Resources of central banks	3,076,000	-	4,638	-	3,080,638
Financial liabilities held for trading	-	-	-	1,638,381	1,638,381
Resources of other credit institutions	57,148	2,378,649	154	-	2,435,951
Resources of customers and other debts	16,422,201	11,910,398	128,035	-	28,460,634
Debt securities	2,526,288	1,221,433	(86,423)	-	3,661,298
Hedging derivatives	-	-	-	66,918	66,918
Subordinated liabilities	7,599	4,275	441	-	12,315
	22,089,236	15,514,755	46,845	1,705,299	39,356,135

	31-12-2016				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	653,759	224,158	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,175	1,755,759	1,758,934
Available-for-sale financial assets	5,146,990	157,728	118,238	-	5,422,956
Loans and advances to credit institutions	206,791	353,935	3,198	-	563,924
Loans and advances to customers	4,301,244	27,465,307	(314,215)	-	31,452,336
Hedging derivatives	-	-	-	32,700	32,700
	9,655,025	28,630,729	693,446	1,788,459	40,767,659
Liabilities					
Resources of central banks	2,446,000	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,766,765	1,766,765
Resources of other credit institutions	1,092,997	930,208	174	-	2,023,379
Resources of customers and other debts	17,091,245	11,264,603	157,630	-	28,513,478
Debt securities	2,544,483	1,448,057	(67,138)	-	3,925,402
Hedging derivatives	-	-	-	81,655	81,655
Subordinated liabilities	7,599	4,275	159	-	12,033
	23,182,324	13,647,143	95,519	1,848,420	38,773,406

Financial instruments – non-trading

The methodology used for the estimating the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities based on changes of 100 basis points ("bp") in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin may change as a result of changes in market rates;

- The assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- Future cash flows, duly distributed by repricing dates (variable rate) or maturity dates (fixed rate), are estimated for each sensitive operation (contract);

- Operations are sub-grouped by repricing/maturity date for each previously defined group;

- The intended time ranges for measurement of the interest rate gaps are defined;

- For each group, the cash flows are re-grouped based on the ranges created;

- For each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- The total inflows and outflows are estimated for each range and the difference between these, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap permits the obtaining of an approximate value of the sensitivity of the net assets value and the financial margin to variations in market rates. This approximate value uses the following assumptions:

- Volumes remain constant in the balance sheet and are automatically renewed;

- The movements in the interest rates are assumed to be parallel, whilst the possibility of actual changes for different periods of the interest rate curve is not considered; and

- Different elasticities between the various products are not considered.

Regarding the variation in Net Asset value, an increase in the interest rates originates a decrease in the value of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain unchanged during the period under analysis;

- Maturities and repricing – the actual maturity and repricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- Characteristics of new operations "New business" (term, repricing, volumes, spread, indexing factor, etc.) – the conditions inscribed in the budget for each product are used. When these characteristics cease to fall within market conditions for certain products, the average conditions practised in the last month or the new commercial directives for each product under review are used.

At June 30, 2017 and December 31, 2016, the sensitivity of the Bank's financial instruments to positive and negative changes of 100 basis points (bp) in the interest rates, over a time frame of one year, corresponded to:

	30-06-2017		31-12-2016	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	1,048	69,477	188	15,473
Available-for-sale financial assets	(309,618)	317,744	(375,220)	342,242
Loans and advances to credit institutions	(1,671)	1,141	(2,352)	5,666
Loans and advances to customers	(249,246)	170,928	(219,760)	106,788
Held-to-maturity investments	(848)	2,588	(1,066)	2,768
	(560,335)	561,878	(598,210)	472,937
Hedging derivatives	48,930	(54,386)	50,534	(52,569)
Liabilities				
Resources of central banks	(94,921)	51,079	(83,865)	28,801
Resources of other credit institutions	(5,153)	19,535	(3,159)	12,467
Resources of customers and other debts	(658,375)	536,827	(685,831)	377,920
Debt securities	(109,558)	99,387	(52,935)	25,754
Other subordinated liabilities	(893)	923	(953)	937
	(868,900)	707,751	(826,743)	445,879

Financial instruments - held for trading

Besides the Bank’s own calculation methodology, the basic parameters for the calculation of the VaR are as follows:

- Time horizon: The period of time used for estimating the potential losses on a portfolio, for purposes of measuring the VaR (daily) is 1 day;

- Confidence level: both the VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, for the distribution of losses and gains);

- Exponential deterioration factor: Permits the amount of the changes in market factors to be exponentially weighted over time, by giving less weight to observations that are more distant in time. The exponential deterioration factor applied is calculated periodically taking in consideration the Market Risk methodology;

  The VaR values used are the higher of those arising from the estimate made with the deterioration factor in force and the calculation made using uniform weights.

- Currency of calculation: VaR calculations are made in thousands of Euros, which ensures that the local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow for the accumulation of different units; and

- Time window of market data: A 2 year time window or at least 520 items of data obtained from the VaR calculation reference date, going back in time, is used.

The reckoning of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight for the more recent observations in relation to the reference date of the analysis.

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

Historical simulation consists of using historic changes as a distribution model of the possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between these, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires the valuation of each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. On using revaluation methods, the implicit non-linear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At June 30, 2017 and December 31, 2016, the VaR associated with the interest rate risk corresponds to:

	30-06-2017	31-12-2016
VaR Percentil 99%	(6)	(7)
VaR Weighted Percentil 99%	(3)	(3)

Currency risk

The profile defined for currency risk is very conservative and is based on the hedging policy adopted. The implementation of such policy is the responsibility of the Treasury Department so that the risks involved are maintained at a low level, this being achieved mainly through the use of currency swaps. Currency risk limits are established and monitored by the Market Risk Area.

At June 30, 2017 and December 31, 2016, financial instruments, by currency, were as follows:
Tabelas Diferentes. Numeros e cabecarios

	30-06-2017				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,769,960	209,843	-	1,979,803
Balances due from other banks	-	-	360,859	-	360,859
Financial assets held for trading	-	-	3,059	1,611,115	1,614,174
Available-for-sale financial assets	4,112,432	145,812	138,898	-	4,397,142
Loans and advances to credit institutions	1,213,592	397,821	2,838	-	1,614,251
Loans and advances to customers	4,274,427	27,308,947	66,420	-	31,649,794
Held-to-maturity investments	126,520	111,331	-	-	237,851
Hedging derivatives	-	-	-	18,970	18,970
	9,726,971	29,733,871	781,917	1,630,085	41,872,844
Liabilities					
Resources of central banks	3,076,000	-	4,638	-	3,080,638
Financial liabilities held for trading	-	-	-	1,638,381	1,638,381
Resources of other credit institutions	57,148	2,378,649	154	-	2,435,951
Resources of customers and other debts	16,422,201	11,910,398	128,035	-	28,460,634
Debt securities	2,526,288	1,221,433	(86,423)	-	3,661,298
Hedging derivatives	-	-	-	66,918	66,918
Subordinated liabilities	7,599	4,275	441	-	12,315
	22,089,236	15,514,755	46,845	1,705,299	39,356,135

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

	31-12-2016				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	653,759	224,158	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,175	1,755,759	1,758,934
Available-for-sale financial assets	5,146,990	157,728	118,238	-	5,422,956
Loans and advances to credit institutions	206,791	353,935	3,198	-	563,924
Loans and advances to customers	4,301,244	27,465,307	(314,215)	-	31,452,336
Held-to-maturity investments	243,954	-	-	-	243,954
Hedging derivatives	-	-	-	32,700	32,700
	9,898,979	28,630,729	693,446	1,788,459	41,011,613
Liabilities					
Resources of central banks	2,446,000	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,766,765	1,766,765
Resources of other credit institutions	1,092,997	930,208	174	-	2,023,379
Resources of customers and other debts	17,091,245	11,264,603	157,630	-	28,513,478
Debt securities	2,544,483	1,448,057	(67,138)	-	3,925,402
Hedging derivatives	-	-	-	81,655	81,655
Subordinated liabilities	7,599	4,275	159	-	12,033
	23,182,324	13,647,143	95,519	1,848,420	38,773,406

At June 30, 2017 and December 31, 2016, the VaR associated with currency risk corresponded to:

	30-06-2017	31-12-2016
VaR Percentil 99%	(5)	(6)
VaR Weighted Percentil 99%	(3)	(3)

Asset quotation risk

Financial instruments - held for trading

At June 30, 2017 and December 31, 2016, the Bank had no asset quotation risk associated with financial instruments held for trading and, therefore, the VaR related to this risk is zero.

50. FINANCIAL STATEMENTS' APPROVAL

These financial statements were approved by the Board of Directors on July 22, 2017.

51. NOTE ADDED FOR TRANSLATION

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

BANCO SANTANDER TOTTA, SA

DEBT SECURITIES ISSUED AT JUNE 30, 2017 (NOTE 22)

(Amounts expressed in thousands of Euros)

		Amount of the issue									
Securities Issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Covered Bonds											
Hipotecária XIII - 1ª	EUR	750,000	-	750,000	(5,534)	-	744,466	1.63%	11/Jun/2014	11-jun-2019	Fixed interest rate
Hipotecária XIV	EUR	750,000	750,000	-	-	-	-	0.75%	4/Mar/2015	4-mar-2022	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	3,594	-	753,594	0.88%	27/Oct/2015	27-out-2020	Fixed interest rate
Hipotecária XVI	EUR	450,000	450,000	-	-	-	-	0.84%	24/Feb/2016	24-fev-2022	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	-	0.90%	15/Apr/2016	15-abr-2023	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	-	0.65%	26/Jul/2016	26-jul-2023	Fixed interest rate
Hipotecárias XIX - 1ª	EUR	750,000	750,000	-	-	-	-	0.97%	19/Dec/2016	19-fev-2023	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	-	1.48%	10/Apr/2017	10-abr-2027	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(8,946)	-	991,054	0.88%	25/Apr/2017	25-abr-2024	Fixed interest rate
		6,950,000	**4,450,000**	**2,500,000**	**(10,886)**	**-**	**2,489,114**				
Bonds issued on securitization operations											
Hipototta 4 - Class A - Notes	EUR	662,972	413,439	249,533	(633)	-	248,900	Floating	9/Dec/2005	30/Dec/2048	Euribor 3m+0,12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Class B - Notes	EUR	24,870	24,870	-	-	-	-	Floating	9/Dec/2005	30/Dec/2048	Euribor 3m+0,19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Class C - Notes	EUR	78,547	42,005	36,542	-	-	36,542	Floating	9/Dec/2005	30/Dec/2048	Euribor 3m+0,29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Class D - Notes	EUR	14,000	14,000	-	-	-	-	Floating	9/Dec/2005	30/Dec/2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	611,109	422,109	189,000	(225)	-	188,775	Floating	22/Mar/2007	28/Feb/2060	Euribor 3m+0,13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22/Mar/2007	28/Feb/2060	Euribor 3m+0,17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16/Mar/2007	28/Feb/2060	Euribor 3m+0,24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22/Mar/2007	28/Feb/2060	Euribor 3m+0,50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22/Mar/2007	28/Feb/2060	Euribor 3m+1,75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Class F - Notes	EUR	7,181	7,181	-	-	-	-	Floating	22/Mar/2007	28/Feb/2060	Residual return generated by securitized portfolio

BANCO SANTANDER TOTTA, SA

DEBT SECURITIES ISSUED AT JUNE 30, 2017 (NOTE 22)

(Amounts expressed in thousands of Euros)

Securities Issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed by the Group	Amount of the issue: Consolidated Balance sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Atlantes Mortgage PLC - Class A	EUR	34,079	5,585	28,494	12	-	28,506	Floating	13/Feb/2003	17/Jan/2036	Euribor 3m+0,54%;
Atlantes Mortgage PLC - Class B	EUR	22,500	-	22,500	45	-	22,545	Floating	13/Feb/2003	17/Jan/2036	Euribor 3m+1,30%;
Atlantes Mortgage PLC - Class C	EUR	12,500	-	12,500	58	-	12,558	Floating	13/Feb/2003	17/Jan/2036	Euribor 3m+2,60%;
Atlantes Mortgage PLC - Class D	EUR	2,500	-	2,500	23	-	2,523	Floating	13/Feb/2003	17/Jan/2036	Euribor 3m+4,75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	-	Floating	13/Feb/2003	17/Jan/2036	Residual return generated by securitized portfolio
Azor Mortgage PLC Class A	EUR	9,671	1,988	7,683	-	-	7,683	Floating	25/Nov/2004	20/Sep/2047	Euribor 3m + 0,30%
Azor Mortgage PLC Class B	EUR	19,000	500	18,500	2	-	18,502	Floating	25/Nov/2004	20/Sep/2047	Euribor 3m + 0,76%
Azor Mortgage PLC Class C	EUR	9,000	2,500	6,500	3	-	6,503	Floating	25/Nov/2004	20/Sep/2047	Euribor 3m + 1,75%
Azor Mortgage PLC Class D	EUR	10,000	10,000	-	-	-	-	Floating	25/Nov/2004	20/Sep/2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	158,402	-	158,402	(20,245)	-	138,157	Floating	5/Mar/2008	18/Sep/2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,453	13,453	-	-	-	-	Floating	5/Mar/2008	18/Sep/2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,483	5,483	-	-	-	-	Floating	5/Mar/2008	18/Sep/2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	-	Floating	5/Mar/2008	18/Sep/2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	122,141	122,141	-	-	-	-	Floating	24/Jul/2008	14/Dec/2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	-	Floating	24/Jul/2008	14/Dec/2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	-	Floating	24/Jul/2008	14/Dec/2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	268,672	83,735	184,937	(14,194)	-	170,743	Floating	30/Oct/2008	20/Aug/2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	33,726	33,726	-	-	-	-	Floating	30/Oct/2008	20/Aug/2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	-	Floating	30/Oct/2008	20/Aug/2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	304,342	-	304,342	(40,612)	-	263,730	Floating	16/Feb/2009	30/Dec/2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	33,142	33,142	-	-	-	-	Floating	16/Feb/2009	30/Dec/2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	-	Floating	16/Feb/2009	30/Dec/2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	257,243	257,243	-	-	-	-	Floating	21/Dec/2009	23/Nov/2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	42,538	42,538	-	-	-	-	Floating	21/Dec/2009	23/Nov/2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	66,250	66,250	-	-	-	-	Floating	21/Dec/2009	23/Nov/2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	199,593	199,593	-	-	-	-	Floating	19/Nov/2010	23/Aug/2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	34,379	34,379	-	-	-	-	Floating	19/Nov/2010	23/Aug/2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	63,550	63,550	-	-	-	-	Floating	19/Nov/2010	23/Aug/2066	Residual return generated by securitized portfolio
		3,441,116	**2,219,683**	**1,221,433**	**(75,766)**	**-**	**1,145,667**	Floating			
Other											
Banif Sénior Tx Fixa 2015/2018	USD	26,288	-	26,288	229	-	26,517	2.50%	26/Feb/2015	26/Feb/2018	Fixed interest rate
		26,288	**-**	**26,288**	**229**	**-**	**26,517**				
		10,417,404	**6,669,683**	**3,747,721**	**(86,423)**	**-**	**3,661,298**				

BANCO SANTANDER TOTTA, SA

SUBORDINATED LIABILITIES AT JUNE 30, 2017 (Note 25)

(Amounts expressed in thousands of Euros)

		Amount of the issue			Accrual			Total			
Securities Issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Consolidated Balance sheet	Interest Rate	Maturity	Early repayment as from:
Subordinated Perpetual Bonds 2000	EUR	270,447	270,447	-	98	98	-	-	1.48%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds BSP 2001	EUR	13,818	13,818	-	73	73	-	-	1.51%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds CPP 2001	EUR	4,275	-	4,275	23	-	23	4,298	1.51%	Perpetual	February 23, 2011
Banco Santander Totta Bonds,SA 7,5%	EUR	7,599	-	7,599	418	-	418	8,017	7.50%	Perpetual	October 6, 2026
		296,139	**284,265**	**11,874**	**612**	**171**	**441**	**12,315**			