2012 Annual Report

Santander Totta

2012 Annual Report

Main Indicators

	Dec-12	Dec-11	Var.
Balance Sheet and Results *(million euro)*			
Net Assets	38,527	40,115	-4.0%
Net Loans	26,980	28,372	-4.9%
Customers' Resources	28,892	27,922	+3.5%
Own Funds + Minority Interests + Subordinated Liabilities	2,329	1,968	+18.4%
Net Interest Income (excludind dividends)	541.5	543.5	-0.4%
Fees and Other Income	318.0	328.8	-3.3%
Operating Income	987.1	804.6	+22.7%
Net Operating Income	528.1	297.7	+77.4%
Income Before Taxes & Minority Interests	73.4	17.6	>200%
Net Income	88.1	47.1	+86.9%
Ratios			
ROE	6.4%	2.6%	+3.8 p.p.
ROA	0.2%	0.1%	+0.1 p.p.
Efficiency Ratio (including depreciation)	46.5%	63.0%	-16.5 p.p.
Solvency Ratio*	11.4%	10.3%	+1.1 p.p.
Tier I*	11.4%	10.3%	+1.1 p.p.
Core Capital *	9.9%	9.1%	+0.8 p.p.
Non Performing Loans (+ 90 days) Ratio	3.51%	2.16%	+1.4 p.p.
NPL and Doubtful Loans Ratio	3.54%	2.21%	+1.3 p.p.
Credit at Risk Ratio	4.32%	2.84%	+1.5 p.p.
NPL Coverage (+ 90 days)	98.4%	107.1%	-8.7 p.p.
NPL and Doubtful Loans Coverage Ratio	97.4%	104.5%	-7.1 p.p.
Credit at Risk Coverage Ratio	79.7%	80.5%	-0.8 p.p.
Loan-to-Deposit Ratio**	126.6%	138.8%	-12.2 p.p.
Rating			
FitchRatings			
short term	F3	F1	
long term	BBB-	A	
Moody´s			
short term	NP	P-2	
long term	Ba1	Baa2	
Standard & Poor´s			
short term	B	A-3	
long term	BB	BBB-	
DBRS			
short term	R-1 (low)	-	
long term	BBB (high)	-	
Other Data			
Employees	5,663	5,774	-111
Employees in Portugal	5,613	5,720	-107
Branches	667	715	-48
Total Branches and Corporate Centers in Portugal	652	681	-29

* With results net of payout

** According the definition in the "Memorandum of Understanding"

Governing Bodies

BANCO SANTANDER TOTTA, S.A.

General Meeting

Chairman	António Manuel de Carvalho Ferreira Vitorino
Vice – Chairman	António de Macedo Vitorino
Secretary	António Miguel Leonetti Terra da Motta

Board of Directors

Chairman	Matias Pedro Rodriguez Inciarte
Members	António José Sacadura Vieira Monteiro[1]
	Carlos Manuel Amaral de Pinho
	Eduardo José Stock da Cunha
	João Baptista Leite
	José Carlos Brito Sítima
	José Gruel Moura Leite Maia
	José Manuel Alves Elias da Costa
	Luís Filipe Ferreira Bento dos Santos
	Pedro Aires Coruche Castro e Almeida

Audit Board

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Mazars & Associados, S.R.O.C. Ricardo Manuel Duarte Vidal Castro
Alternative Member	Pedro Manuel Alves Ferreira Guerra

Auditor

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

Executive Committee

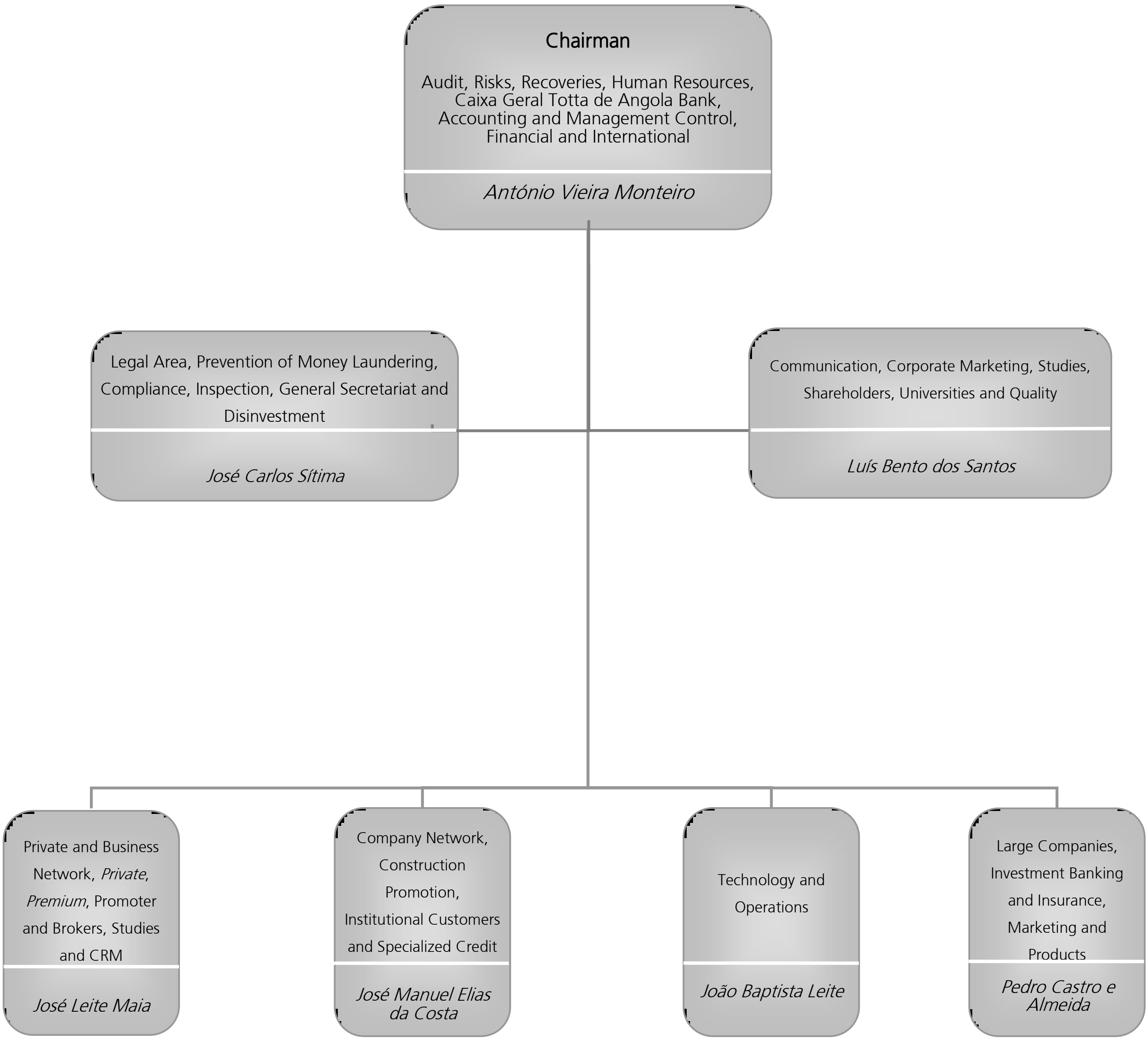
Chairman	António José Sacadura Vieira Monteiro[1]
Members	José Carlos Brito Sítima
	João Baptista Leite
	José Manuel Alves Elias da Costa
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Pedro Aires Coruche Castro e Almeida

Company Secretary

Effective	António Miguel Leonetti Terra da Motta
Alternate	Luís Manuel Baptista Figueiredo

(1) Appointed Chairman of the Executive Committee on 31/01/12

Functional Organization Chart of the Executive Committee – 31/12/12



Relevant facts in 2012

Prizes awarded in 2012

Main awards

Bank of the Year in Portugal – *The Banker*

Best Bank in Portugal - *Euromoney*

Best Bank in Portugal - *Global Finance*

Sounder Large Bank - *Exame*

Other recognitions

Better *Private Banking* - *Euromoney*

And in service categories "Specialized Asset Services", "Customer Relationship Management", "Privacy and Security", "Scope of Products and Services" and "Family Office Services" and "Best Bank in the S*uper Affluent* segment ($500,000- $1,000,000 Dollars) " "Best Bank in the *High Net Worth* segment ($1,000,000-$10,000,000 Dollars) ".

Best Foreign Exchange Provider 2013 in Portugal - *Global Finance*

Best *Contact Centre* of the Banking Sector - *APCC*

Best Distributor of Structured Products and in the sub-category, Best Distributor in Sales - *Euromoney and StructuredRetail Products.com*

Other relevant facts in 2012

January

- António Vieira Monteiro appointed executive chairman of Santander Totta
- Santander Totta and ISEG develop internationalization course for entrepreneurs

February

- Euromoney Magazine elects Santander Totta *Private Banking* as the best in Portugal
- Santander Totta is the only large Bank to show positive results in 2011

March

- Completion of the Special Inspection Programme by the *Troika* and Bank of Portugal (WS3) – Santander Totta Group obtains jointly with another financial institution the best assessment qualification
- Santander Totta elected the "Best Bank in Portugal" by Global Finance magazine
- Santander Totta promotes debate with Universities concerning the Intelligent University Card
- Eduardo Lourenço awarded Lisbon University Prize
- Registrations open for House of Latin America / Santander Totta Scientific Prize

April

- Santander Totta / Nova University Scientific Merit Prize awarded to research on tuberculosis
- Santander Totta celebrates the Internationalization of Coimbra University with the award of 30 scholarships on international mobility
- Launching of structured plan to aid families experiencing difficulties in credit payments

May

- Santander Totta Porto University develop competition on Business Ideas for entrepreneurs
- Santander Totta distinguishes mobility students in Porto University
- Award of Prize for Economic Journalism

June

- Santander Totta wins prize for "Best Contact Centre of the Banking Sector", awarded by the Portuguese Association of Contact Centres
- Santander Totta comes under the surveillance of the DBRS Canadian rating agency, and is singled out with the best classification for the sector
- Employees cycle from Lisbon to Porto on behalf of a fraternal cause
- RedEmprendia launches competition on business ideas for undergraduate students
- Student in the Porto Faculty of Economy wins 9th edition of the *Primus Inter Pares prize*

July

- Santander elected "Best Bank in the World" and Santander Totta "Best Bank in Portugal" Euromoney magazine

September

- Santander Totta concludes agreement with the Faculty of Medical Sciences of Lisbon's Nova University
- Euromoney elects Santander Totta as the "Best Distributor of Structured Products in Portugal"

October

- Santander Totta launches Activation Plan to support Portuguese economy

- Bank brings together exporting companies in the Conference Exports – "Experiences and Opportunities"

November

- Bank Santander Totta signs agreement with Beja Polytechnic Institute
- Santander Totta rewards scientific research in Beira Interior University
- Santander Totta is the "Soundest Bank in Portugal", in the category of Large Banks, in the Exame magazine awards
- "The Banker" magazine elects Santander Totta as the "Bank of the Year in Portugal"

December

- Registrations open for *Primus Inter Pares*
- Results of the Programme of On-Site Inspections exhibiting construction and real estate promotion sectors, singles out Santander Totta as the only large Bank that, in September 2012 did not require recording any further imparity
- 9th Edition of the event "Everyone's Bread" brings together 400 volunteer employees, with compensation of carbon emissions
- Santander Totta sets up Sustainability Committee

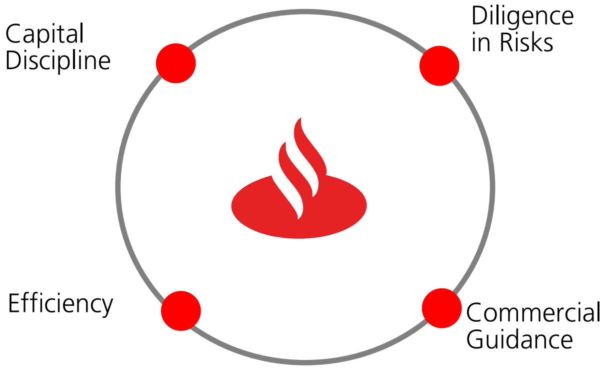
Corporate Data

Santander is a commercial bank with head offices in Spain and present in 10 main markets. Santander is the largest Bank in the Euro Zone in terms of market capitalisation. Founded in 1857, it has €1.388 billion in managed funds, 102 million customers, and 14,392 branches – more than any other international bank – and 187,000 employees at the end of 2012. It is the main financial group in Spain and in Latin America, with relevant positions in the United Kingdom, Portugal, Germany, Poland, and in the Northwest of the United States of America. Santander obtained an income before provisions of 23.559 million euros in 2012, 2% greater than in the previous year.

Santander Totta, in line with the Santander Group, is ruled by the following corporate values:

Dynamism	Initiative and agility to discover and exploit business opportunities ahead of its competitors and flexibility to adapt to market changes
Soundness	The soundness of the balance sheet and the diligence in risk management are the best guarantees of capacity for growth and for the generation of long term value for the shareholders.
Leadership	Vocation for leadership with the best teams and keeping constant guidelines for the Customer and for results
Innovation	Constant search for products and services that answer Customers' new requirements allowing increases in profitability exceeding those of our competitors
Commercial guidance and professional ethics	Continuous improvement in the strategy for the capture, satisfaction and binding of Customers through a wide offer of products and services and of an improved quality of service

The Customer is the fundamental pivot of Santander Totta's business model



Social and Corporate Responsibility

Introduction

Santander Totta's policy of social responsibility, aligned with that of the Santander Group, has as its main pivot the support for learning, promotion of knowledge, merit and entrepreneurship, especially in Higher Education, through the 45 cooperation agreements it concluded with Portuguese Universities and Polytechnic institutions. It is the Bank's belief that Higher Education is one of the prime movers for the development of society and that the academic communities are the main productive and mustering driving forces in the medium term.

The Bank also keeps to an active policy in the areas of social solidarity, through supports and the involvement of employee volunteers in the environment, through the adoption and promotion of measures to combat climate change and sustainable development. Support for culture, promotion of health and welfare and sports, are also relevant areas in the policy for social responsibility, with the objective to increase the corporate social conscience of economic players, thus promoting a fairer and more fraternal society.

In 2012, total investment in Portugal in activities directly related to corporate social responsibility amounted to approximately 5.3 million euros.

A Sustainability Committee was set up in order to include sustainability at the highest level of the Bank's governance structure and to respond to the new challenges being faced.

Universities

The Bank has currently 45 cooperation agreements signed with Higher Education Institutions. Two new cooperation agreements were signed in 2012, with the Faculty of Medical Sciences of Lisbon's Nova University and with the Beja Polytechnic Institute.

During 2012, within the scope of the partnerships instituted out with the Universities, several initiatives were held, of which the following are singled out:

- **Internationalization Day of Porto University**

In the Internationalization Day of Porto University, Bank Santander Totta paid tribute to the 70 students that took part, in 2012, in the programme of international mobility between Porto University and Universities in South America.

In all, since the beginning of the Programme, in 2007, more than 400 students from both sides of the Atlantic benefited from the protocol of cooperation between Santander and Porto University. 163 students from Porto University have already carried out a mobility period in universities in South America, especially in Brazil and Argentina, while 253 South-American youths travelled the other way as scholarship holders of the Santander Universities Programme.

- **Internationalization Day of Coimbra University**

Within the scope of the celebration of the internationalization day of the University, 30 international scholarships were provided for the participants in several mobility programmes with the Portuguese-Brazilian scholarship and the Iberian-American scholarships awarded to students, lecturers and researchers.

- **III Workshop of the Intelligent University Card (TUI)**

The III TUI (Tarjeta Universitária Inteligente) workshop was held in Porto University with the objective to present the project to Universities that do not yet have the card and to share experiences with its use. Present at the event were Porto, Coimbra and Beira Interior Universities, Porto Polytechnic Institute and two Spanish universities, those of Santiago de Compostela and Salamanca.

- Business Ideas Competition in Porto University Porto - iUP25K (3rd edition)

In its third edition, the Business Ideas Prize recognizes innovation in scientific and technological projects at the same time as it promotes entrepreneurship and the setting up of new companies.

The 1st prize was awarded to the project “TerMonitor – Thermography for Medical Applications”, which received 10,000 euros of share capital required to set up a company and 5,000 euros to finance the consultancy procedure for its business plan.

- Santander Totta/Nova University Scientific Merit Prize (5th edition)

In its 5th edition, prizes distinguished researchers Pedro Viana Baptista and Miguel Viveiros, upon having set up a faster and cheaper innovatory system for diagnosing tuberculosis. The project named “Nano TB Nanodiagnostics for XDRT at a point-of-need" received a 25,000 euro prize.

- Lisbon University/Santander Totta Prize (6th edition)

The prize was awarded this year to Eduardo Lourenço, author of “a wide and rich literary work, capable of inspiring the paths of the future in the difficult times the Country is crossing”, in the words of the jury relative to the philosopher, justifying this distinction for its “originality and deep reflection over the significance of culture and of the Portuguese historic constant values, in their insertion in the wider spaces of Europe and the Portuguese speaking world population”.

- Coimbra University/Santander Totta Prize (9th edition)

António Pinho Vargas, musician and researcher was distinguished for his work with a 25,000 euro prize.

- Beira Interior University/Santander Totta Scientific Merit Prize (3rd edition)

These prizes are awarded to researchers and lecturers from the five BIU faculties who carry out learning and research activities, singled out by their scientific merit and by a relevant and innovative intervention.

- Lisbon Technical University/Santander Totta Scientific Prizes (6th edition)

Scientific prizes from LTU and Santander Totta distinguish lecturers and researchers that are singled out for remarkable level scientific work in the several faculties comprised in LTU, with works of great impact in international scientific magazines.

Eleven prizes and fourteen honourable mentions were awarded in 2012. Each prize has a pecuniary value of 3,000 euros and includes an initiation to research scholarship for a six month period.

Prizes were also awarded to the best LTU students: those that were singled out in the context of their global training, in the scientific, academic, cultural and civic fields.

- Lisbon Nova University/Santander Totta Prize for Economic Journalism (6th edition)

The work “What if Portugal should leave the Euro?”, from Jornal de Negócios newspaper, was the great winner of the 6th edition of PEJ, and was also the winner in the Financial Markets category. The article “It is worth while working in local authority enterprises” from Expresso newspaper, was the winner in the Management of Companies and Businesses category, whilst the work “The strength of the third sector”, from Visão magazine, was awarded in the Entrepreneurial Sustainability category.

- *Primus Inter Pares* Prize

Launched in 2003, by Bank Santander Totta and Expresso newspaper, this prize once again distinguished the three best university students in the Economy, Management or Engineering courses.

The winning students will have the opportunity of attending an MBA course in an internationally and nationally prestigious Business School – IESE, in Barcelona, the Instituto de Empresa, in Madrid, the Lisbon MBA (Catholic University and Nova University), the ISCTE, the ISEG and this year, for the first time, the Porto Business School. Those placed 4th and 5th will receive a post graduate course.

The winners in the 9th edition were, placed 1st, André Campos and, in 2nd and 3rd place, respectively, Inês Relvas and Patrícia Viseu.

- **Latin American House / Santander Totta Scientific Prize**

The objective of the Santander Totta/Latin American House University Prize is to reward merit and stimulate the training of Latin-American university students in Portugal, contributing towards the development of a culture of strictness and excellence.

In 2012, 30 candidacies participated in the prize, the winners being the theses of students Carlos Rafael Borges Mendes, of Portuguese origin, in the Technologies and Natural Sciences category, and Mércia Carréra de Medeiros, of Brazilian origin, in the Social Sciences and Humanities category.

Universia

The plan for Universia activities is based on 4 strategic guidelines: cooperation between university and enterprise, employment for university graduates, dissemination of knowledge and the future of higher education.

- **2012/13 Santander Universities Registration Action**

Universia provided support to Bank Santander Totta in this action, which had the objective, in addition to the issue of cards, to establish a strong presence with the Universities, in order to be placed nearer to students when they become undergraduates.

170 promoters were contracted for this initiative that, jointly with the Universia and Santander Totta teams were instrumental in the support for this action's implementation.

- **Implementation of the "Working in Portugal" network**

Universia commenced the implementation this year in Portugal of a unique employment platform that intends being common to all Universities, enabling a greater and more effective and efficient share of information. This platform allows the sharing of contents so that offers of employment and the students' CVs may be shared. This new solution does not hinder any University from keeping its own image or losing the absolute control of the employment offers it has received.

- **Universia Recruitment and Selection**

Universia has a specialized team available for the complete following up of the recruitment procedures, from the pre-selection to the contracting of candidates.

In November 2012, Universia established a presence in university exhibitions held in Porto Faculty of Engineering and in ISEG (Lisbon Technical University) to exhibit this service and support finalists in the choice of careers.

- **CIVEP**

The Iberian-American Virtual Campus for Post-Graduate Courses (CIVEP) was created in 2012. Available in this platform is all the information required concerning Iberian-American universities and institutions that offer such courses, in order that students may enlarge their academic training, with the knowledge of all the training opportunities existing in the Universia Network. In the Portuguese version the platform is already implemented in 12 stands.

- **Miami Seminars**

Throughout 2012, the Universia Network carried out five seminars directed to vice-chancellors, directors, managers and other officers in the Universities comprised in the network. These seminars were held in Miami and had the support of institutions with international prestige. With 200 registrations from more than 15 countries, the satisfaction indices were very high: 99% stated they would recommend the course to their peers.

- **Lisbon Seminar**

"Methodology of University Ranking – How to build a University of international grade" was the topic of a seminar organized by Universia and CRUP. The seminar was held in the chancellery building of Lisbon Nova University, with the main objective to approach the most recent technological advances on methodologies for the classification and measurement in the most prestigious university rankings in the world, with relevance for the Higher Education Institutions in Portugal.

- **Universia Classified Advertisements**

A new site was developed for Universia classified advertisements, with a more attractive design and new available functions, facilitating the purchase and sale of goods and services to university students.

- **International Mobility Guide**

The International Mobility Guide was launched, with two features. The first feature of the Guide is available in Portuguese and Spanish, and is directed towards students registered in the 23 countries covered by the Universia Network, that wish to attend courses in the United States, United Kingdom and China. The second feature is available in Portuguese, Spanish, English and Chinese, and is directed towards members of the university communities of these three countries who may wish to study in a university belonging to the Universia Network.

Social Activity

- **"Everyone's Bread"**

For the 9th consecutive year in Lisbon, and 3rd year in Porto, Santander Totta and CAIS (Association for the Support for the Homeless and to the Needier Population), organized this event of social solidarity, which is already considered a tradition in the Christmas festivities in these two cities and a project of successful volunteering promoted by the Bank.

"Carbon Free" Bread – As a novelty this year, the event had an increased environmental concern, and "Everyone's Bread" was free from carbon emissions. The measurement of carbon emissions produced was carried out, and compensation obtained through investment in projects that reduce emissions and protect the environment. Also promoted were several initiatives of environmental protection, such as the CAIS Recycle Project – that consists in obtaining products based on recyclable materials, recovery of products for recycling, lectures, amongst others.

In this edition's topic, "Together we will multiply sharing", more than 400 volunteering Bank employees produced and distributed bread, together with hot chocolate and good humour, to all passers by who visited the tent of "Everyone's Bread".

- **Ritinha's Home**

This was the fraternal initiative chosen and promoted in the "You Are Santander Week". An internal cause that intended providing help to build a home for a small girl suffering from cerebral paralysis.

The challenge to sell Ritinha's Home key-rings was joined by employees from the branches, from central services and from nine volunteer cyclists from the Bank, which pedalled from Lisbon to Porto to disseminate the cause. A lottery with a bicycle as a prize was also held during Christmas to help this fraternal initiative. The objective achieved 15,000 euros to help towards the building of Ritinha's Home.

Complementarily, and in order to provide the project with a social dimension, the Maria Rita Association of Support to Carers was set up with the objective to help people that care for the handicapped such as Ritinha, with a free service reverting to society and which will operate from this same Home.

- **2012 BIPP Christmas Fair**

Santander Totta was present, with more than 50 employee volunteers, in the BIPP (Information Bank from Parents to Parents) Christmas Fair, during two days. BIPP is a social solidarity private institution, which aims towards the full inclusion in society of people with special needs.

- **Christmas in a shoebox**

For the 4th consecutive year employees and their families again joined this fraternal initiative, to distribute gifts to needy children and youths that live in sheltering institutions.

It was a simple challenge: each child of an employee filled a shoebox with toys he had no further need and which was distributed to a male or female child of the same age that lived in an institution.

This initiative had the strong involvement of the Bank's commercial managements that identified in each of the regions they covered the institutions to be supported. In 2012 the initiative comprised more than 2,100 children and youths in the more than 65 institutions covered.

- **Fraternal Corner**

During "You Are Santander Week", an area dedicated to social solidarity was opened in the Santander Totta central building. The objective of this area is to promote initiatives of social solidarity. Institutions such as "Make a Wish" were thus able to promote their mission with the employees.

- **Santander Totta Mini Marathon**

Within the area of its support for sports and healthy living habits Santander Totta again supported, in 2012, the "Sportzone" Half Marathon and the Mini Marathon, held in the city of Porto, one of the best accepted medium distance competitions in the country. More than 500 employees and family members took part in the competition.

Running was also supporting a social cause. The Bank allied itself to the fraternal features of the competition that annually supports a social project, and this year each registration donated 1€ to the Association "In the Midst of Nothing" an institution that provides support to parents and families living in pre-natal and paediatric intensive care.

- **CEBI Foundation**

Santander Totta is a founder member of the CEBI Foundation since 1995 and supports this social solidarity private institution, the objective of which is to aid needier children, youths, aged people and families, attending its Founders' Meetings and being a member of its Board of Directors.

Standing out within its activities is the promotion of education, comprising 1,800 students, from kindergarten to the 9th year of schooling, of which approximately 400 benefit from activity and social promotion scholarships. Also relevant is the support provided for more than 250 aged people and approximately 400 daily physiotherapy sessions.

- **Donation of computer equipment to Entrajuda**

Within the scope of the protocol concluded with the Institution, the Bank delivered 150 computers to Entrajuda – Bank of Donated Goods, thus contributing to this institution's project for the re-equipment of social solidarity institutions with material or information technology.

- **Donation of equipment for Health Institutions**

Santander Totta supported the Porto branch of the Portuguese Oncology Institute, through the donation of furniture, and the São João de Deus Institute with aid towards the acquisition of material for a continuous care unit with a capacity for 35 patients.

- **Fundraising Seminar**

Santander Totta sponsored the participation of five third sector institutions in the 4th fundraising seminar organized by the *Call to Action*. The main objective of the seminar was to provide the participating companies with the capability for sustainable management and to adequately enlist its resources.

- **Other supports**

Within the scope of its corporate social responsibility project, the Bank closely support the third sector through the granting of aids, sponsorships and donations to Social Solidarity Institutions, Associations and NGO's.

- **Heading on financial literacy in the social networks**

Considering the new communications channels with the community and the relevance of transparent information with its interest groups, the Bank launched, in 2012, a heading on financial literacy in the "facebook" site of Santander Universities. The objective of this heading is to explain economic and financial contents, through videos produced with university students, in a simple and attractive form.

- **"Route of Vocations for the Future"**

Within the scope of support provided to the EPIS (Entrepreneurs for Social Inclusion) Association, Santander Totta received a group of 70 secondary education students included in the "Route of Vocations for the Future", developed by EPIS and by the CEBI Foundation, to aid young students in discovering their professional vocation, providing them with the opportunity to contact different professions during one week, through visits to companies in the most diverse fields.

- SME Internationalization Course

In 2012, Santander Totta promoted with its customers courses on Internationalization, Company – International Business, the objective of which was to provide its customers with greater theoretical and practical knowledge on this important topic, aiming to facilitate the expansion of the international business of Portuguese enterprises. The 1st[t] course was held in Lisbon, in partnership with ISEG – Higher Institute of Economy and Management, and the 2nd in Porto, in partnership with the Porto Faculty of Economy.

- Institute of Social Entrepreneurship (IES)

Santander Totta is a founder member of IES, which resulted from a partnership between a group of social entrepreneurs with INSEAD and Cascais County Council. It intends supporting social entrepreneurs by powering the impact of its initiatives to respond to the growing social and environmental challenges.

Culture

- The book "Everything is connected"

The Bank edited the book "Everything is connected" which comprised the three editions of the conferences held over the same topic within the scope of *Greenfest*. One only book that includes the speeches delivered by the several speakers who, throughout three days, shared unique visions and interpretations on the theme on how everything is connected.

The book's editing also included a fraternal feature. For each book sold, 1€ reverted in favour of the Association "1 Euro Movement", the objective of which is to support financing for associations and social institutions that develop work in diverse areas such as the economy, health, environment, culture and education.

Environment

- Green Festival

For the 5th consecutive year, Santander Totta has supporting the holding of Greenfest, the largest sustainability festival in Portugal, which this year promoted private initiative coupled with an environmentally sustainable attitude.

The Bank organized two workshops. "From the idea to the market: how to finance the launching of your micro business?", where entrepreneurship and the setting up of the business itself was promoted, and the workshop "Young micro entrepreneurs – Barriers to entering", organized in partnership with Deloitte, the objective of which was to alert entrepreneurs to several initial barriers encountered by small businesses, as well as several means of mitigating them.

- Campaign "Give the Planet a pause"

Throughout the whole year and following on the campaign launched in 2011, "Give the Planet a pause", promotion was continued in the internal channels for the adoption of best sustainable practices in the workplace.

- "Clean Desk" Campaign

The Departments of Technological and Operational Risk Management and the Coordination of Human Resources Management developed a Clean Desk campaign, with the objective to improve efficiency and to transmit to customers an image of trust and effectiveness, and to reduce the volume of paper, toners and printing ink used on a day-to-day basis,

This campaign was also accompanied by promoting paper recycling with the topic "Let's Recycle and Save the Forest".

- Measures of energy efficiency and reduction of energy consumption

In 2012, Santander Totta continued developing efforts for the improvement of infrastructure efficiency and for the development of consumption reduction devices.

Investment amounted to 1.4 million euros which resulted in an annual energy saving of 2,742,249 kWh, with the following initiatives singled out:

- In the branches: (1) presence detectors were installed in meeting rooms, offices, washrooms, back-offices, record stores and storerooms to disconnect lighting when the locations are not used (191 branches); (2) obsolete air conditioning systems were replaced by new less powerful systems (6 branches); and (3) change of illuminated indicators by LED systems (150 branches).
- In the central buildings: (1) free cooling systems were installed to operate with external temperatures below 20ºC, disconnecting the air conditioning system; (2) shading was carried out with vinyl film installed on the south and southwest façades of the central building; and (3) lighting control was automated and luminaries installed with light flow regulation to take advantage of natural light.

Business Environment

International Economy

The slowdown in world economy in 2012 was more pronounced than expected, as a result of a deeper worsening of economic confidence, following (i) the worsening of the sovereign debt crisis in the euro zone, and its contamination to the world economy and, simultaneously, (ii) the fears associated to the "fiscal cliff", in the USA. Also, in addition, there are also the negative effects related to the geopolitical instability in several regions of the Globe.

The trend in slowdown was relatively uniform throughout the year, in terms of homologous variation, with a progressive general slowdown in the rates of GDP growth. The slowdown in activity became more visible during the second half year, especially in Europe, with the contamination of the sovereign debt affecting the "core" countries, jointly with the impact of the slowdown in the emerging markets.

At year end, differing growth dynamics were visible, with the euro zone in a recessive situation, resulting from the worsening of the crisis, whilst the USA recovered their growth potential. In the emerging markets, indicators continued showing growth stabilization, at rates below historical averages.

World Economic Growth

	2010	2011	2012
World	**5.1**	**3.9**	**3.2**
Advanced Economies	**3,0**	**1.6**	**1.3**
USA	2.4	1.8	2.3
Euro Area	2,0	1.4	-0.4
United Kingdom	1.8	0.9	-0.2
Japan	4.5	-0.6	2,0
Developing Countries	**7.4**	**6.3**	**5.1**
Africa	5.3	5.3	4.8
Asia	9.5	8,0	6.6
China	10.4	9.3	7.8
Central and Eastern Europe	4.6	5.3	1.8
Middle East	5,0	3.5	5.2
Latin America	6.2	4.5	3,0
Brazil	7.5	2.7	1,0

Source: IMF (January 2013)

Emerging markets were particularly affected by the slowdown, with growth falling below the average of recent past years, a trend that was more visible in Brazil. This resulted from the restrictive policies adopted in the past, in order to avoid risks of overheating and to control possible credit bubbles, to which accrued the impacts of moderation in demand from the developed economies.

Public investment in China also showed moderation, once the programmes of economic stimulus adopted after the 2008/09 crisis were concluded.

Later, stimulus measures were adopted in several countries, including lowering of interest rates, as well as public investment policies.

In China, the central bank decreased its reference interest rates for the first time in several years, after successive climbs and increases in the cash reserves coefficient, with the objective to put a brake on credit growth.

In Brazil, the central bank was more aggressive in the adoption of expansionist policies, by decreasing the reference interest rate by 500 bp to 7.25%, at the same time as it adopted versatility in some of the macro-prudential criteria to stimulate credit concession.

In the USA, economic growth remained moderate, even recording a slight slowdown during the summer period, with unemployment stabilizing at 8%, well above the average of the past years and of the levels considered as consistent with full employment (approximately 6%, according to market consensus). As a result, and due to the higher risks for the North-American economy placed by the European crisis, the Federal Reserve advanced the possibility of the adoption of new non-conventional stimulating measures. In the summer, and in spite of investors anticipating a new wave in the acquisition of public debt (*quantitative easing*), the Federal Reserve only lengthened the "*Twist*" operation, in which it reinvests in longer maturities the applications it already has in North-American public debt.

Already in the 4th quarter, the Federal Reserve made monetary policy still more dependent from the development of the labour market, in spite of the lowering of the unemployment rate to 7.8%. This level is considered very high, its estimated "natural" level is approximately 6.5%. As such, it made known that its reference interest rates should remain at historical minima until 2015, and made public a strengthening of its public debt acquisition programme (*quantitative easing*), in line with which it acquires an additional monthly amount of 45 billion dollars, to which is added the acquisition of 40 billion dollars in securitised mortgage credits, also on a monthly basis.

Throughout the 2d half year, the environment in the USA was affected by the discussion surrounding the "fiscal cliff", the name given to the automatic device for the correction of the budgetary imbalance, should the ceiling of the public debt (currently set at 16.4 trillion dollars) not be increased. Negotiations are currently being held to increase that limit, within the framework of a structural reduction in the budgetary deficit, which is still at approximately 8.5% of GDP. Should this agreement not be reached, taxes on income will be automatically raised, and cuts carried out on expenditure, which could have a negative effect on the economy of approximately 2pp of GDP.

In the United Kingdom, economic growth was also weak, only benefiting casually from the positive effects of the Jubilee of Queen Elizabeth II and of the Olympic and Paralympics Games. Endeavouring to aid the recovery in the activity, within the context of budgetary restrictive policies, the Bank of England kept its reference interest rates at historical minimums (0.5%) and expanded its programme of *quantitative easing* to 375 billion sterling. Simultaneously it launched the programme "Funding for Lending", under which banks may submit new credits to companies as collateral in financing operations with the central bank. The greater the volume of new loans, the lower the financing rate at the BoE will be. At year end, the Bank of England considered its *quantitative easing* programme as completed, advising that it would also assess its impact on the economy. Since the programme started, in January 2009, the Bank of England acquired the equivalent of approximately one third of the medium and long term public debt ("Gilts").

In the euro zone economic confidence worsened, resulting from the successive shock waves associated to the sovereign debt crisis. Although, in an initial stage, confined to the countries now designated as "peripheral", these shock waves have now contaminated the "core" countries, as well as other geographic and economic areas, as previously referred.

This increase in uncertainty became materialized in a generalized reduction in expenditure, with a consequent decrease in private consumption and investment.

	GDP	Inflation
Euro Area	**-0.4**	**2.5**
Germany	0.9	2.1
France	0.2	2.2
Spain	-1.4	2.4
Italy	-2.1	3.3

Source: IMF (January 2013)

The euro zone would thus end 2012 in a recession, with perspectives signalling continuing depressed rates of activity until the 2nd half of 2013, when gradual beginning of recovery in activity could commence.

Contagion became more pronounced in the 1st quarter, with the crisis spreading to Spain and Italy, and being reflected in an increase in interest rates demanded by investors in the several medium and long term public debt auctions then held.

In Spain, pressures worsened after the Government revealed, on the one hand, that the 2011 budget deficit was greater than initially estimated, due to the expenditure overrun in the autonomous regions and, on the other, that the rate of consolidation would be more gradual than had been initially anticipated.

Later, and following the announcement of new difficulties in the credit portfolio of Banco Bankia (created from the merger of several savings banks), a stress test was carried out on the Spanish financial system. This exercise, developed by consultants Roland Berger and Oliver Wyman, estimated the capital needs of the banking sector at an amount between 51 and 62 billion euros, below the 100 billion euros agreed with the European authorities, within a programme of financial support for the restructuring and recapitalization of the sector. The audit's final results, conducted by consultant Oliver Wyman, confirmed capital requirements at 59.3 billion euros, thus within the initial estimate. Banks Santander, BBVA and LaCaixa have no recapitalization requirements, and Banco Popular concluded this process with recourse to private funds.

In an initial stage, this programme shall be carried out by loans to the Spanish State but, later, the European funds EFSF/ESM will be able to directly support the banks, once the setting up is completed of a sole mechanism for banking supervision at European level, which will also include the ECB.

In Greece the programme for the restructuring of the Country's public debt was completed ("PSI – private sector involvement"), the large majority of private investors accepting the terms of trade, with an associated loss equivalent to 53.5% of its nominal value (75% of the value invested) and which, on the one hand, unblocked the approval of the second bailout package, amounting to 180 billion euros and, on the other, should contribute towards the decrease of the Greek public debt which, in percentage terms, may be lowered to 124% of GDP by 2020.

After a first election that resulted in the absence of a stable governing majority, the second electoral process resulted in a parliamentary majority supported by the New Democracy, PASOK and DIMAR, with the Government committed not just to comply with the agreements concluded with the international institutions, but also to solicit flexibility of the targets that would allow a not so harsh adjustment for the economy.

At year end, the new support programme for Greece was finally agreed, within the scope of which new support measures were adopted: (i) reduction by 100bp in the interest rates applicable to the bilateral loans of the first programme; (ii) reduction of 10bp in guarantee commissions; (iii) extension of the maturity of the EFSF loans by 15 years and 10 years interest grace period; and (iv) handing Greece the gains achieved with the Greek public debt portfolio held by the central banks of the Eurosystem.

These decisions substantially reduce the risks of Greece abandoning the euro zone in the short term, revealing the existing commitment to support countries in greater difficulties (obviously subject to compliance with the objectives agreed in the adjustment programmes). These risks had seemed to be particularly high in the first half of the year.

In the 2nd half year, the European Commission also submitted its proposal of a "road map" for the deepening of the Economic and Monetary Union, through the setting up of a true Banking Union. The objective is, in time, to cancel the currently existing risks derived from the connections between the banking sector and the respective sovereign, which contributes towards the fragmentation of the European financial markets.

This union has three features: (i) the sole mechanism of banking supervision, with ECB performing the fundamental role. The ECB will be responsible for supervising banks with assets in excess of 30 billion euros or that represent more than 20% of the country's banking system; (ii) sole mechanism and authority for banking resolution, that defines the criteria for the restructuring and/or resolution of banks in a critical situation; and (iii) a common fund to guarantee deposits, that breaks down the current existing relationship with the sovereign. This fund will not be implemented on an immediate basis.

The European authorities have adopted a number of economic support measures, aiming to achieve shorter term support, whilst structural mechanisms are adopted for crisis resolutions.

The European Council held on 28/29 June decided to strengthen the measures of support for economic growth, with an increase in the share capital of the EIB – European Investment Bank, with the reallocation of community funds and the creation of "project bonds", a common debt issued by the EU to finance investment projects, for a total amount of 130 billion euros, or approximately 1% of European GDP.

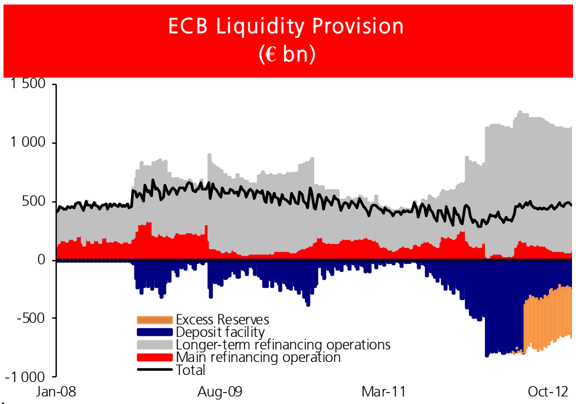
The ECB, reacting to the worsening signs of European recession, lowered the reference interest rates, setting the main supply rate at 0.75% and the deposit rate at 0%, which was reflected by a lowering in the market interest rates. Even then, the ECB recognizes that such measures will have a limited effect on the European economy.

At the end of July, the President of the ECB, in a conference held in London, stated that the ECB would carry out whatever was necessary within its remit to defend the euro, and that this "would be sufficient". In the August meeting, it was advised that ECB would study means of intervention, jointly with the European bailout funds, but the countries that require such intervention would have to request formal support, subject to conditions, from the EFSF/ESM European funds.

The European Central Bank announced the details of its programme of acquisition of public debt, the "*Outright Monetary Transactions*". This programme aims to replace normality in the process of transmission of monetary policy, while eliminating the risk of convertibility that resulted in a pronounced increase of the public debt spreads in Spain and Italy. In general terms, the ECB's intervention will be preceded by a formal request from the most affected countries and subject to conditionality. Once this formality completed, the ECB will intervene without limits over the shorter terms of the yield curve (up to 2 years).

For countries already undergoing adjustment programmes, such as Portugal, ECB relinquishes the possibility of intervention when access to the market becomes a reality.

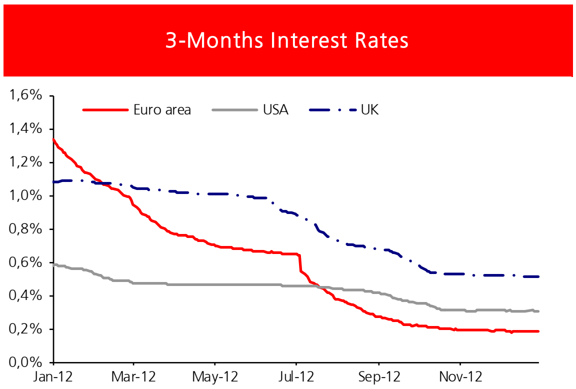
Throughout the year, ECB kept the unlimited liquidity supply to the European banking system, with the second 3 year liquidity supply operation carried out in January, within which scope the sector obtained funds amounting to 500 billion euros. Taken jointly the two very long term operations resulted in total funds being obtained amounting to 1.019 billion euros. A significant portion of these funds was requested as a precautionary measure, since at the beginning of 2012 there were financial institutions with large amounts of debt maturing during the year and the risks of lack of refinancing capacity in the market were very high. As such, the amounts deposited with the ECB were fairly high, amounting to 665 billion euros. As from July, when ECB lowered the deposit rate to 0%, the amount deposited in the deposit facility was reduced to 262 billion euros, with the remainder deposited as excess reserves.



Source: ECB

This greater volume of deposits with the ECB had as effect a pronounced decrease in short term interest rates. The Eonia interest rate, which reflects the average rate of overnight operations carried out in the European interbank market, fell to approximately 0.07%, whilst the Euribor interest rates, at year end, were all set below the refi rate. The 3 months Euribor rate was set at 0.187%, at the end of 2012, a decrease of 117bp relative to the 2011 closing rates.

Equally in the USA and in the United Kingdom the short term interest rates decreased to historical minimums, in the face of weak economic signs and the more or less explicit commitment of the central banks to keep the reference interest rates at the current minimum levels, until the economy begins showing more material signs of sustained recovery.



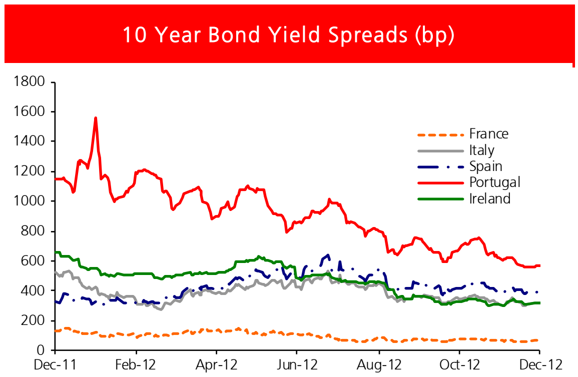
Source: Bloomberg

High volatility continued dominating the evolution of the main financial markets in a context of deep aversion to risk. As a result, the euro zone financial markets became more than ever fragmented, with a progressive "nationalization" that hindered, in the opinion of the ECB, the transmission of monetary policy.

A relevant reaction occurred in the public debt markets, with a widening of the credit spreads to new historical maximums, with the respective peak occurring in the summer, in Spanish and Italian interest rates, when the uncertainty over the budgetary and financial situation reached its climax.

The statements of the President of the ECB, Mario Draghi, in July, that he would carry out whatever was necessary and within his remit to defend the euro, and the subsequent perspectives that the ECB could intervene in the public debt markets, markedly contributed to invert the trend in the financial markets, with the spreads becoming corrected at the lower limits.

The widening of spreads also reflected the strong demand for "core" countries public debt, particularly Germany that, for the lower maturities (up to 2 years), even recorded negative interest rates.

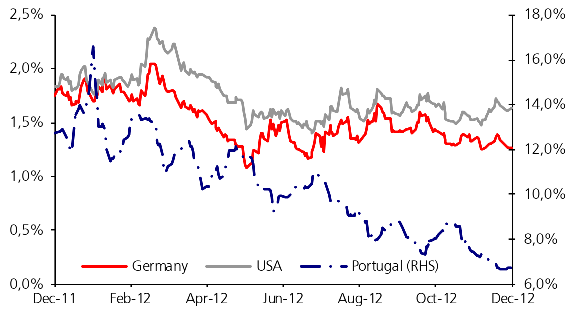


Source: Bloomberg

Spreads of Portugal's public debt vis-a-vis Germany, recorded a differentiated evolution, reaching a maximum level in the beginning of the year, when the negotiation of the Greek public debt was being held, to later decreasing gradually and systematically throughout the year. At the end of 2012, the 10 year spread was placed below 600bp, and later decreasing to approximately 500bp during January 2013.

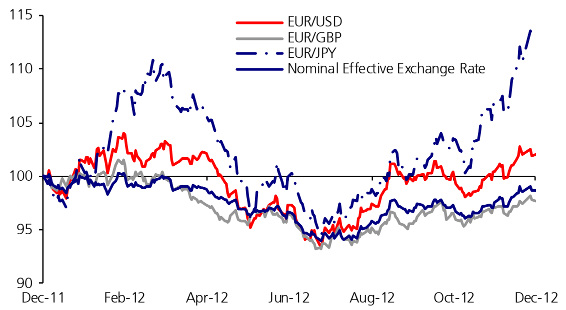
Portuguese yields, at year end, were already set below those recorded in April/May 2011, at the time of the request and later negotiation of the Programme for Economic and Financial Adjustment.

10 Year Bond Yields



Source: Bloomberg

Main Exchange Rates
(Dec-2011 = 100)



Source: Bloomberg

In the USA, the evolution in long term interest rates was marked by featuring historical minimum levels, close to 1.5%. The intervention of the Federal Reserve in the public debt markets – effective and anticipated by investors – continued supporting yields at levels below those that would be consistent with the high budgetary deficits and with the dynamics of the public debt, which had already overtaken 100% of GDP. Aversion to risk, particularly to euro denominated assets, and the weak economic perspectives with controlled inflation, were additionally relevant factors.

The movement in the main exchange rates continued reflecting investors' perception as to developments in Europe with respect to the sovereign debt crisis.

The euro, during the summer, when uncertainty reached its highest point, fell to approximately 1.20 dollars, replicating the 2010 minimums (as well as the 2006 levels). In spite of Mario Draghi's statements, investors continued attributing a not unimportant probability as to Greece abandoning the euro zone. The focus placed by ECB on OMT, in addition to the EU decisions as to the Banking Union, allowed a recovery of the euro.

Movement in respect of other currencies was very similar, with the pound sterling being quoted at the highest level since 2008 (at 0.77 pounds per euro), whilst in relation to the yen the euro was quoted at absolute minimums, at 80 yens per euro. This movement would also be reversed at year end. Relative to the Swiss franc, the quotation was kept around 1.2 francs, after the decision of the Swiss National Bank to set a reference in order to avoid a greater appreciation of the currency.

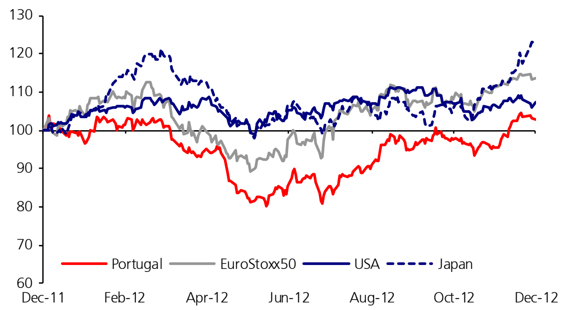
In terms of the effective exchange rate (considering the currencies of the twelve main trading partners of the euro zone), the resulting depreciation set it at the weakest level since 2002.

Global equity markets recorded a differentiated trend, with Europe showing manifest devaluations, in line with the deterioration of the sovereign debt, whilst the remaining markets systematically recorded gains at the end of 2011.

At year end, and within the aversion to risk environment, equity markets closed in positive grounds. In Europe, and in the remaining financial markets, the inversion occurred after the commitment assumed by the Chairman of the ECB in defence of the European Economic and Monetary Union.

In Portugal, markets recovered at year end as the result of the combination of several factors, singled out as follows: (i) the completion of the recapitalization procedure of the main banks in the system; (ii) the reduction in the prospects concerning the extension or renegotiation of the Adjustment Programme; (iii) the debt conversion operation carried out by the Portuguese Treasury. Within this environment, the banking sector recovered from the minima recorded during the second quarter of the year.

Equity Markets
(Dec-2011 = 100)



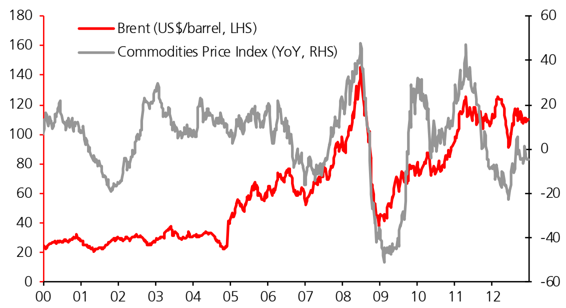
Source: Bloomberg

The weakness in demand, in the context of the slowing down of the world economy, resulted in a decrease in raw material prices, relative to the maximums recorded in the previous year. Oil was quoted at less than $100 per barrel, which had not occurred since 2010, recovering later to the interval between $100 and $110, maintained until year end.

Base metals recorded similar movements, decreasing with the prospects of lower demand, particularly from China, which was slowing down at a faster rate in the first half of the year.

Cereal prices reflected a different movement, with an increase that, in the case of maize, resulted in prices reaching new historical maximums, since a more severe drought in 2012 affected production in some of the main growers. Remaining cereals increased in price but did not attain the 2008 maximums.

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



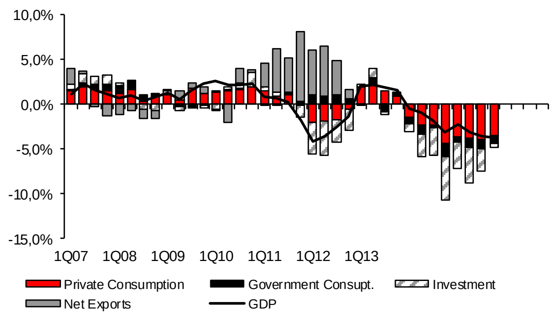
Source: Bloomberg

Gold continued reflecting its role as the main safeguard within an environment of high aversion to risk, and reached the annual maximum, in the summer, close to $1,800/oz, when the uncertainty on the euro zone was at its maximum point.

Portuguese Economy

Economic activity worsened the recessive environment in 2012, with GDP reducing by 3%, in the whole of the year. This evolution was in line with consensual estimates made in the beginning of the year, although the contributions of the different components of the aggregate demand were in the end substantially different: reduction in internal demand was more pronounced, particularly in the case of private consumption; net exports recorded a greater contribution to economic growth, as a result of a faster growth in exports to markets outside the EU.

Contributions to GDP Growth (YoY)



Source: INE

The more pronounced reduction in private consumption reflects the combining of three relevant factors. On the one hand, the increase in unemployment, which has risen above 16% at year end, an absolute historical maximum. Secondly, a change in consumer standards, deriving from the increase in VAT, with families focusing their consumer expenditure in cheaper goods (such as, for instance, in private labels) and reducing the volume of expenditure in non-essential services (eating out, for example). The demand for consumer durables, particularly motor vehicles, recorded a pronounced shrinkage. Lastly, families increased savings as a precautionary motive, even in a context of a reduction in available income. Increase in unemployment and fears that a more difficult budget balancing could demand a new surtax on one of the subsidies explain consumer moderation.

Macroeconomic Data

	2010	2011	2012 E
GDP	1.9	-1.6	-3,0
Private Consumption	2.5	-3.8	-5.5
Public Consumption	0.1	-4.3	-4.5
Investment	1.4	-13.8	-14.4
Exports	10.2	7.2	4.1
Imports	8,0	-5.9	-6.9
Inflation (average)	1.4	3.6	2.8
Unemployment	9.5	12.8	15.5
Fiscal Balance (% GDP)	10.1	4.2	5,0
Public Debt (% GDP)	93.3	108.1	120,0
Current Account Balance (% GDP)	-9.4	-5.8	-0.1

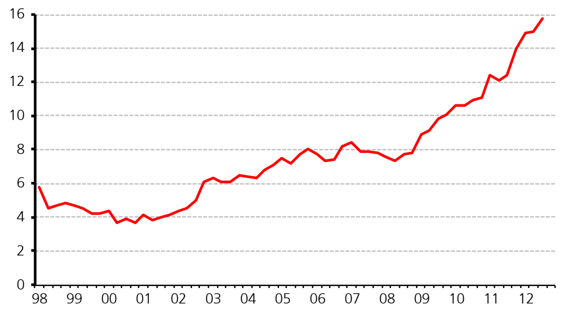
Source: INE, Banco de Portugal, Ministério das Finanças

Investment, in its turn, continued shrinking, even if in diverse ways amongst sectors. Capital expenditure in construction continued shrinking pronouncedly, either through the cancelling of large public works projects (for example, within the renegotiation of several PPP contracts by the company Estradas de Portugal), or through the reduction in house building activity.

Investment outside the construction area, although with continued shrinkage, is, at year end, moderating its rate of reduction.

The stresses in the credit markets, both international and domestic, and the worsening of the crisis in the euro zone debt market, and subsequent increase in uncertainty as to demand prospects, are the main factors that explain the postponement of decisions to expand installed capacity.

Unemployment Rate

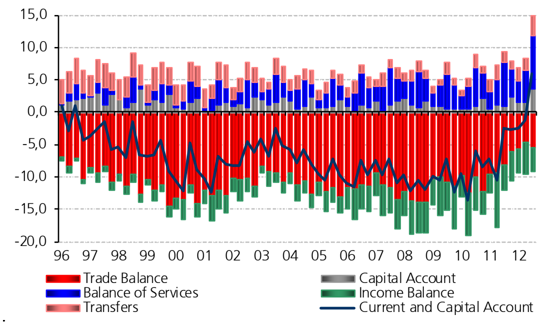


Source: INE

Net exports continued to be the driver of the economy, although in progressive deceleration throughout the year. The already referred worsening of the crisis in the euro zone is resulting in a deterioration of the economic environment, with the consequent moderation in external demand. Portuguese exports are decelerating, particularly those targeted for Europe. For instance, sales to Spain decreased by approximately 5%, in the 10 months to October, but total exports grew by 7.1%. This reflects the capability of national enterprises in procuring alternative export markets, with particular success in extra community markets such as Angola, China, Brazil and Russia.

In line with recent trends, the trade deficit has been experiencing a sustained reduction. The Bank of Portugal, in its Winter Economic Bulletin, estimates that the balance of goods and services will have recorded a surplus of 0.3% of GDP in 2012. This balance had already been positive in the third quarter of 2012, occurring for the first time since 1996, and shows that the adjustment of external imbalance is occurring much faster than was assumed by the IMF, in the basic scenario of the adjustment programme. And this adjustment is yet more substantial when taking place without exchange rate devaluation, either direct or fiscally ruled.

Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

The first quarter of the year witnessed the workstream #3 of the *Special on-site Inspection Programme* to the national banking system conducted by the Bank of Portugal jointly with external auditors. This workstream analysed the *stress test* systems used by the national banks, and arrived at the conclusion that two of the institutions (amongst which Santander Totta SGPS) received maximum assessment, with clearly appropriate methodologies.

The programme of the recapitalization of the banking sector was concluded at the end of January2013. The aim of this programme is the compliance with the minimum objectives for a 9% Core Tier Ratio 1, as demanded by the European Banking Authority (at 30 June), as well as a 10% ratio at year end.

The share capital increase by the involved institutions amounted to 9.3 billion euros. One of the institutions only recurred to its shareholders, whilst three accessed the 12 billion euro recapitalization line established within the scope of the Programme for Economic and Financial Adjustment. One of the institutions is required to present a complete plan for the restructuring of its activity that will ensure its feasibility.

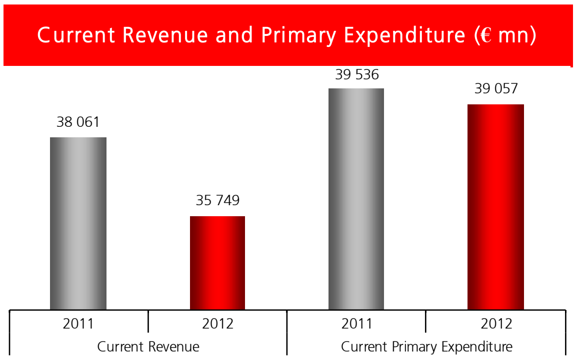
After the completion of the sixth assessment of the Programme for Economic and Financial Adjustment by the three international institutions IMF/EU/ECB, the previous conclusion was reasserted, that the Programme is on course and in line with expectations.

The assessment concluded that "While downside risks to growth are significant, the program's macroeconomic framework remains appropriate. (…) Fiscal consolidation efforts are in line with the revised deficit targets for 2012 and 2013. (…) Adequate capital and liquidity buffers have reduced financial stability risks. (…) **Following a successful bond exchange, the authorities have intensified their work on preparing the expected return to market financing during 2013. Provided the authorities persevere with strict programme implementation, euro area Member States have declared they stand ready to support**

Portugal until full market access is regained." (our enhancement).

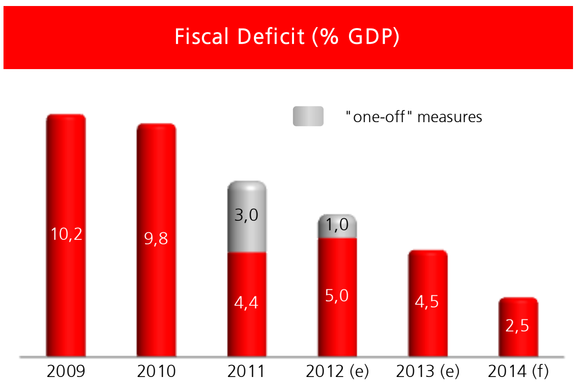
Due to existing challenges, the assessments by the international institutions concluded that the budgetary target of 4.5% of GDP for 2012 would demand additional measures that could worsen even more the recessive environment.

In effect, the data of budgetary execution throughout the year revealed lower fiscal revenue, particularly with respect to VAT, reflecting families' lower consumer expenditure, as well as changes in consumer habits. The large increase in unemployment (that reached the historical maximum of 15.8% in the third quarter of 2012) is being reflected in higher public expenditure in social benefits to families. Even so, primary current expenditure is falling in line with or even above estimates.



Source: Ministério das Finanças

In this context, budgetary targets were revised at a higher level, with the new deficit objective for 2012 being set at 5.0% of GDP (but dependent upon extraordinary measures in expenditure, with the concession of airport services to ANA, amounting to 1pp of GDP). For 2013, the budgetary target will now be 4.5% of GDP (an increase of 2pp of GDP) and the 2.5% target to be reached in 2014.



Source: Ministério das Finanças

The Government assumed the commitment with the international institutions to submit a plan for the permanent reduction of the State's current expenditure amounting to approximately 4 billion euros, which would significantly contribute to ensure a primary balance surplus.

Regarding the acceptance criteria of collateral in the refinancing operations with the ECB, the Bank of Portugal took two decisions: (i) at the level of individual credits, to lower the minimum amount to 100,000 euros (previously 500,000 euros) and the associated probability of default (PD) to 1.5% (from 0.4%); and (ii) accept homogeneous credit pools, without a need for rating (through creating synthetic securitizations).

These measures were very important in the midst of the environment in which the Republic viewed its rating revised to the level of "speculative grade" (also affecting the banks), since it separates financing capacity with the ECB from the actions of the rating agencies. Should this measure not have been adopted, the risk would subsist that several securitizations would lose eligibility, and thus compromise the financing of the Portuguese economy.

The credit spreads narrowed pronouncedly throughout the whole year, but especially from Spring onwards. This development reflected the larger reduction in the Portuguese long term interest rates, since the German yields had also decreased to historical minimums. In 10 year maturities, the yield of Portuguese Treasury Bonds fell, already in the beginning of 2013, to below 6%, the lowest level since the end of 2010, even before the request for economic and financial aid (May 2011).

Throughout the year, the Portuguese Treasury maintained its presence in the short term credit markets, through the issue of Treasury Bills, whose maximum maturity was expanded to 18 months. Demand, even if chiefly originating from national investors, was kept supported, and offering decreased interest rates, to 2.2% at 6 months and to 2.99% at 18 months.

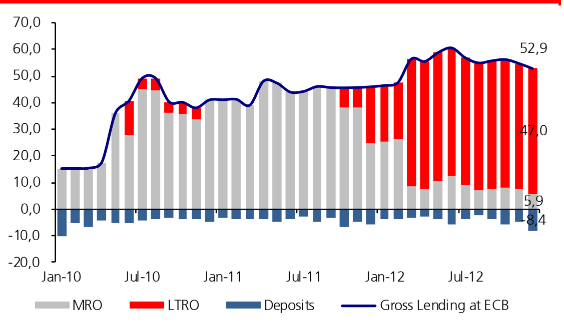
The Treasury carried out, in October, a public debt exchange operation, through which it exchanged 3.8 billion euros of the OT September 2013 for an equal amount of OT October 2015. This operation showed that there are investors available to maintain their portfolio of Portuguese public debt and additionally, to extend the respective maturities.

Already in January 2013, the Republic carried out a return to the financial markets, with the issue of 2.5 billion euros, at 5 years, with a 4.891% interest rate. This was a successful operation, that occurred earlier than estimated by consensus and that, contrary to the view of several investors shows that, as a result of the already carried out adjustment, including the level of external imbalance, the perception of the Republic's risk is lower.

This occurs in spite of, at the beginning of 2012, Moody's notation credit agency having revised at a lower level the Republic's rating to Ba3, at the "high yield" level, and Standard and Poor's having revised the rating to BB, within the rating revisions of the European sovereigns.

The measures adopted by the ECB and by the Bank of Portugal, in terms of the new collateral rules, minimized the impact of these revisions to lower levels of the Republic's and the banks' ratings in the financing capacity with the ECB.

Funding at the ECB (€ bn)



Source: ECB

Financing obtained by the Portuguese financial system with the ECB amounted to 53 billion euros at year end, after a peak of 60 billion euros in the second quarter (occurred during the second liquidity provision operation at 3 years, in February, and was carried out by several non-domestic institutions, that replaced the existing lines with the respective mother companies). Correcting the deposits with the ECB, net financing at the end of 2012 amounted to 44.5 billion euros, which compared with 40.2 billion euros at the end of 2011.

The degenerating rate of the banking sector slowed down in the first half year of 2012, after a major reduction in the loans to deposits ratio occurred in the second half of 2011. The changes in the collateral rules and easing of the ratio, which became indicative, contributed towards this moderation.

There was a sustained growth in deposits, although the banks altered the moulds in managing the rates of capturing, in order to protect net interest income. The Bank of Portugal's new rules as to the maximum spreads practicable in deposits, and that led to a lowering in interest rates, also contributed to this change.

Credit continued contracting, particularly in the levels of credit to companies, but also connected to a reduction in companies' deposits which may signify, at this level, the payment of credits within an environment of high credit spreads. New production of mortgage credits fell to historical minimums, close to 150 million euros per month, insufficient to replace the credit that is regularly repaid.

Main risks and uncertainties for 2013

The risks and uncertainties that may affect the activity in 2013 are twofold, one international, the other domestic.

Internationally, the continuing risk factors are the growth prospects in the euro zone, more negative and penalized due to the contamination of the sovereign debt crisis to other larger economies, such as Spain and Italy, and by the impact on the activities of the more important countries, until now relatively immune. Since the euro zone is the destination of more than 60% of Portuguese exports, a deeper recession could cancel what has been the driving force of the Portuguese economy: exports.

In spite of the reduction in risks connected to the existing doubts on the sustainability of the euro zone, in its current format, uncertainty continues high, in a year marked by several electoral processes, with particular regard to Italy (in February) and Germany (in September). Equally, some of the institutional changes that were adopted by the European Union in 2012, related to the setting up of the Banking Union, should commence being implemented, even if functionally these will only become fully operational from 2014 onwards. Such factors continue conditioning the capacity of the Republic and/or banks to access the international financial markets, in spite of the recent improvement, that allowed the placing of medium and long term debt by several national issuers.

Domestically, the main uncertainties continue related with the development of economic activity, the main risk in 2013 being the unemployment dynamics. Apart from social stability that could be affected by high levels of unemployment, this variable is relevant due to the fact that a sizeable portion of the reduction of the budgetary deficit in 2013 being related to the increase in personal income taxation – IRS – (through the reduction in the number of tax brackets, the increase in marginal rates for the higher tax brackets, an also the extraordinary 3.5% surtax).

Additionally, a larger increase in unemployment is already affecting the balances of Social Security, with lower revenues and higher expenses in unemployment payments. These features worsen the risk of non compliance with the targets and for the need of new austerity measures, which may affect the recession even more.

In the financial sector the risks were partially mitigated by the completion of the recapitalization programmes, through which the State injected approximately 7.2 billion euros in some of the main banking institutions, allowing the compliance with the 10% requisite for the *Core Tier* 1 ration, as well as, in 4 of the institutions, of the sovereign buffer demanded by the EBA (European Banking Authority). However, in 2013, the banks that benefited from public support will have to adopt restructuring measures, currently under negotiation with the European authorities.

The adverse economic environment maintains a significant pressure on the quality of the credit portfolios, in spite of the measures adopted in 2012, either discretely by the banks, or by legal edict, in the sense of endeavouring to mitigate the risks of non compliance.

Additionally, in spite of the easing of the objectives relative to the transformation ratio, the banks have to continue increasing their deposit basis, within the framework of a reduced capacity to create family savings and of the uncertainty over the fundamental situation of the sector.

The achievement of objectives by the State and by the banking sector is fundamental to recover the confidence of international investors, and to allow that the current level of financing in the global markets (which is anyway reduced) may be maintained and, in time, expanded.

Commercial Banking

Private and Business

2012 was featured by the sharpening of the recessive environment caused by the economic and financial international crisis. The commercial management model was decisive to minimize the current context of difficulties.

The strategy kept was focused essentially on the capture and retention of resources and value added products, in the capture of new domiciled salaries, on the sale of protection products (insurance) and on the control of non performing loans.

Considering the market conditions, with the lowering of the Euribor rates and the limits imposed by the Bank of Portugal, a fall was recorded in rates for the capturing of deposits, with the focus being however kept on traditional savings products, programmed savings and products with controlled margins.

In this heavily competitive environment with respect to capturing deposits, Santander Totta launched a set of diversified products and solutions, materialized in structured deposits with guaranteed capital and minimum yields. Nine issues comprised the placing of 857 million euros, and 91 million dollars in foreign currency were placed with 6 issues made throughout the year.

Concerning capitalization insurance seven issues were placed amounting to 371 million euros.

With reference to campaigns and actions to capture and bind customers, a campaign was launched in February that continued until year end, for the capture of salaries/pensions, based upon the exemption of commissions on the main day-to-day services and in gift offerings. A growth was recorded of approximately 50,000 global accounts (accounts that represent numerous benefits for the customer, third party insurance, through the payment of a small monthly commission), representing a 39% annual growth.

As a means of preventing the increase in non performing and doubtful loans and to maintain total commitment with the customers, a policy was followed to implement new solutions for regularizing and renegotiating overdue debts adapted to the level of non performance of each customer. In this context, the bank launched a programme with the objective to structurally support and settle non performing situations, which was very well accepted by the customers. More than 9,000 agreements were formalized, not just in the control of non performing loans, but creating above all conditions for customers to again comply with servicing the debt.

Several campaigns were launched for the capturing and binding of customers in the segments Youth and University, specifically a registration campaign that recorded a growth of 16,000 new customers.

In the University segment an increase was recorded of 7,822 active customers and a growth in business volume amounting to 63 million euros.

In the Premium segment, 2012 was singled out by the success obtained in the campaigns to enlist customers with relevant incomes, based upon values such as the Bank’s soundness, innovation, trust and quality of service allied to the Santander Totta Premium label, which allowed an important gain in the share of this very competitive market.

The advance towards the establishment of partnerships with bodies able to aggregate potential customers in this segment was also revealing of an important source in the capture of new customers.

In parallel, the investment in greater proximity to customers with the presentation of offers adequate to satisfy each one’s needs, based upon the above referred values, ensured a relevant growth in this segment, in 2012, of resources under management.

The media campaign of “Credit Activation”, launched in the last quarter, jointly with the internal campaign “Autumn Credit” generated a flow of demand for personal credit that resulted in the best quarter of the latter years, amounting to 149 million euros.

In the Business segment, a strategy was maintained to focus greatly on the sustained capture of new customers, on the binding of current customers, on the increase in means of transaction, on the placing of POS and in *Business* cards.

Singled out as well is the leadership position of Santander Totta in the SME Growth credit lines with a 20% share in volume.

In this business segment and considering the context of the difficulties that the economy is facing the bank also set up devices to prevent and minimize the risks of non performance in this segment.

In the Private Banking segment, the European sovereign debt crisis was the dominant theme in 2012 which was reflected, in differing tones, in all of the world's geographies. The actions of the ECB in particular, of other Central Banks, and also the decisions taken by the European Community in the sense of deepening the procedures of economic, banking and fiscal integration, resulted in the attenuation, throughout the year, of the perception of the risk attributed to sovereign debts.

As a consequence of this environment, Private customers have kept a relevant requirement for low risk and high liquidity assets, but with a trend towards a gradual increase of exposure to assets that provide higher yields.

Santander Totta Private responded to these challenges, enabling the availability of a wide choice of products, which endeavoured to preserve the assets and a service based upon proximity, trust and confidentiality.

BST's image of soundness, the Euromoney prize for "Best Private Banking in Portugal", the Private events and the commercial actions developed, allowed the growth of the equity resources, the maintenance of the assets under management discounting the liquidation of counterbalanced transactions, the increase in customer numbers and the maintenance of business profitability.

The commitment of Santander Totta to provide a consistent quality service implied the improvement of the operational functioning model, in the technology of customer consultancy and the training of managers in the Private segment.

The soundness of Santander Totta and of the Santander Group, the prizes for "Best Private Banking in 2012", and now 2013, the value of the team of Private managers and the strengths of the consultancy model provide confidence for the near future, when the enlisting of new Private customers will become a central axis of performance.

Companies

The commercial strategy of the Companies area was based on a balanced management between the volumes of the credit portfolio and resources, guaranteeing a sustained growth in the profitability of the commercial network.

The launching of the campaign "Credit Activation", at a time when access to credit is the order of the day and in a context of deleveraging of the banking sector, materialized the intention to support worthy projects, support company businesses and the Portuguese economy. Santander Totta was the first Bank to launch a publicity campaign to provide credit to Companies, a fact that is only possible due to the soundness of its accounts and to the unique liquidity situation that the Bank currently enjoys.

It should also be referred that the Bank continues betting on a growth in new customers that more than ever value a partnership with a bank with the soundness, the geographical dispersal, the quality of service, the products and the commercial capability of Santander Totta.

In the "SME Invest Lines", which have assumed, in the latter years, a growing importance as a result of the world economic crisis and of the banks' heavy credit restrictions, Santander Totta has kept to a policy of support for the Portuguese entrepreneurial sector, which shows up in the market share of the concession of such lines, of 17% on 31 December 2012, and on the placing of more than 16,000 operations amounting to 1.7 billion euros. Bank Santander Totta is the 1st Bank in the SME Growth line, launched in January 2012, with 20% market share of total operations showing our commitment in the support to companies and to the Portuguese economy in general.

Bank Santander Totta is also placed as the leader of the SME Expansion line, with a 27% adherence rate, providing the expansion in the maturities of all the operations contracted under the Invest Lines and the introduction of a 1 year interest free period which, considering the credit restrictions that companies are currently experiencing, allows the improvement of their liquidity positions.

The Bank is equally the leader in factoring and confirming, with a market share of 20.3% (November 2012), which is proof of the commitment and availability of the Bank in the support for the treasuries of SME's, an entrepreneurial structure vital for the growth of the Portuguese economy.

A strong commercial focus is kept in the support of exporting and internationalized companies, in which a large increase in activity is recorded this year, related with international business. The Top Exporta 2012 Conference was held in the second quarter of the year, subject to the topic "Exports - Experiences and Opportunities" where the distinction TOP Exporta was awarded to exporting customers, with Santander Totta becoming more than ever a reference in this market.

Promoters and Brokers

In the 2nd half of 2012 the Real Estate Promoters and Brokers area, considering the main strategic priorities of the Bank, continued accompanying and energizing the channel of external promoters and in the promoting shops, with the objective to ensure a close proximity and increase the levels of commitment with our business partners and with the respective branches supporting the network.

As such, quarterly road-shows were carried out as well as welcoming actions in the new promoting shops with ever greater levels of participation. All these initiatives have received a good response from the external promoters, since in these "working meetings" there is the opportunity to personally advise the promoters on the priorities, objectives, campaigns, products and incentives in each quarter.

The usual campaigns for capturing salary accounts and credit card accounts were carried out in the 2nd half of 2012, and the campaign reinforced of recurring to products such as structured instruments, SRS's and FEI's. As a replacement of the quarterly incentive plans, a competition was launched that rewarded the 100 promoters and promoting shops with better performances.

With respect to the broker channel, and notwithstanding the difficult situation this sector is going through, advantage has been given to the maintenance of institutional relationships with the main real estate brokerage franchising networks and with APEMIP – Association of the Professional Operators and Brokerage Real Estate Companies in Portugal.

In this perspective, Santander Totta attended one further edition of SIL – Portuguese Real Estate Exhibition that, for the second time has taken place simultaneously with Intercasa (Interhouse), an event that due to its wide cover also allowed involving external brokers.

As to promoting shops the maintenance of commercial network as a complement to the branch network with 250 shops was ensured.

Cards and POS

2012 stood out due to the optimum management of the product portfolio. At the critical moment the Portuguese economy is going through, the permanent concern was to enable the counteracting of the market's diminishing trend, always supported by capturing customers, in their continued binding and in the excellence of the services supplied.

Several initiatives were taken throughout the year to improve the profitability of the portfolio and to promote the use of cards. Through the monthly invoicing and revolving campaigns, customers benefited from gifts and discounts, thus rewarding the regular use of cards, instances of which are the Summer *Light* campaign, associated to the Vila Galé hotel network, or the launching of the Discount Programme that has already enlisted more than 120 partners.

In parallel, all these measures have always been accompanied by several functional and procedural initiatives. 2012 was the year when the cards' operational area was included in the Bank's operational area, aiming to take advantage of synergies, and thus allowing improvements in service levels and speed of customer response.

It was equally the year in which several commercial support actions were established, through the setting up of new network support devices, such as new swift adhesion leaflets, sales guides and a constantly updated card panel with all the relevant actions taking place. Also carried out were several internal *focus groups,* which were materialized in new initiatives for setting, systemizing and following up of objectives, in the optimization of selling procedures, in the creation of regular and exclusive action plans for the network channel and on more extensive e-learning technical and development training.

The implementation of the *PIN Block*, the forwarding of the *PIN* after activation or the dynamic management of limits, were other solutions developed to allow greater flexibility in services rendered to the customers. On another hand, close monitoring and relationship took place with *SIBS* and *Paywatch*, in the development of internal procedures that allowed a strong reduction in fraud costs for the Bank and without any negative impact where the customers are concerned.

In terms of commercial strategy the stake was maintained on a very competitive and differentiated offer, bringing value to the customer. Singled out is the protocol concluded with the Society of Physicians, with innovative cards that allow a qualified digital signature designed for this specific customer profile. Also continued was the development of applications for smart phones, projects of contactless payments and mobile payments, thus anticipating market trends.

Effectively, the combining of these measures allowed the increase of the total volume of cards and to maintain their percentage use. Notwithstanding the invoice levels being lower than in the homologous period, resulting from the recessive year in which we lived, the behaviour of this indicator was better than that recorded for the market, thus reflecting the customers' preference for the Banks' cards and allowing a sustained growth in market share, in excess of 10.4%.

In spite of the heavy pressure exerted by the regulator in April 2012, to abolish several commissions and to significantly reduce the interchange fees, the strategy to increase the portfolio's profitability allowed achieving an operating income 1.8% above the homologous value, largely obtained through the good management of spreads and commissions, and through new agreements concluded with business partners.

Regarding acceptances, Santander Totta continues being the reference Bank with the main large traders, with a strong presence in the State sector, in the main distribution networks – food, clothing, transport and fuel – as well as a very diversified presence in different sectors of activity, which enabled a 7.2% increase over the homologous period in terms of POS commissions.

Market share reached 17.4%, much above the Bank's natural share, as a result of work carried out in enlistment and of the strengthening of the position with large sized customers and their greater loyalty.

Globally, issue and acceptance business in 2012 accessed an amount in excess of 98 million euros.

Transaction Banking

International Business and Correspondent Banks

At the beginning of 2012, plans for the energizing of products for companies and businesses were implemented, jointly with the commercial area that from then on had at its disposal specialist teams that, together with product and customer managers, developed specific programmes directed towards capturing customers and energizing businesses. Campaigns and competitions were aligned to accompany and control commercial activity.

Considering that Portuguese exports have assumed the role of drivers of the economy, the "Export Solution" was launched, jointly with several partners. Apart from containing packages of products intended to optimize collections, specific financing solutions were devised for the export sector with advantages for partner companies in the transport, credit and transport insurance, training, and consultancy sectors, amongst others. Within this environment Bank Santander Totta, in partnership with the Diário Económico newspaper and Informa DB, launched the "Top Exporta Seal", thus distinguishing the best export companies, through the disclosure of useful opportunities in the markets where it operates and the sharing of experiences in company internationalization. Concurrently, companies carrying this seal will have their access eased to the markets where Santander operates.

In partnership with Santander Spain, Santander Hong Kong and with Bank Caixa Geral Totta de Angola several measures were taken in order to enlist customers that conduct their businesses in those countries. Joint visits were held in order to provide customers with the best solutions to support their business.

The Santander network in Europe (Spain and United Kingdom) and in other continents, namely Africa and America, were also used to promote these types of agreements and commercial actions, maximizing the competitive advantages of Bank Santander Totta as part of a Group with a relevant international positioning and global dimension.

With the objective to promote or renew agreements and partnerships with other international banks, the Correspondent Banks and International Business areas carry out several commercial actions with an international banking network, which resulted in obtaining the best tools to support companies' international activity.

Bank Santander Totta is nowadays recognized as one of the main International Business service providers in Portugal, and has consolidated its presence with companies, namely with the expansion of the line for the confirmation of documentary credits originating in Angola.

An ambitious strategy was continued in terms of internal training, with the setting up of a wide programme for international business training, in house, with the direct cooperation of both the foreign business operational areas, and the commercial and credit analysis areas.

Cash Management

Bank Santander Totta is nowadays recognized as one of the main providers of cash management services in Portugal, and has consolidated its presence with companies.

During 2012, plans for the energizing of products for companies and businesses were implemented, jointly designed with the commercial area. These plans involved teams of specialists/energizers who, jointly with customer and product managers, developed specific plans intended for customer capture and energizing businesses.

Aiming towards an efficient and timely migration to SEPA, the Bank promoted meetings with some of the main customers proving information and technical support, ensuring internally that its information systems are duly prepared and in line with regulations.

In 2012, Santander Totta continued offering differentiating products and consolidated the launching of GPC-Payments and Collections Manager, including it in the Netbank Companies and in the Home Deposit platform. Both tools are intended for company treasury management.

Customer Service

The commercial feature of the after sales area was consolidated, endeavouring to interpret customers' exact requirements, to assess all the implications of such requirements, measure its costs, design "bespoke" solutions, obtain internal consensus and, finally, submit the possibilities to the customers.

A large focus was kept up on new means of following up and control of incident resolution, improving answering delays and complying with companies' requirements.

Complementary Channels

Self banking

In 2012, Self Banking kept its strategy at the level of transactional optimization of the current number of ATM's – "Multibanco" Network, thus providing continuity to the displacement of these devices to locations with a better transactional potential. As a consequence, market shares amounted to 12.1%, in ATM numbers, and to 12.6% in number of movements. The pilot-project of the new system of inking notes was successfully concluded, showing this as a valid system to prevent and protect from attempts to ATM's, and thus the Bank has invested in this area of security by implementing it in especially selected high risk locations.

Concerning the deposit automation solution, currently covering more than 70% of the number of branches, the continuity of the strategy of adjustment of the number of these devices is singled out, since it has contributed to supply the customer with a better service and greater transaction possibilities for the Bank.

Netbank

Internet channels have singled out the improvements carried out in the Netbank Companies through the launching of new functionalities in payments, collections, factoring and confirming. Security levels for customer transactions in Netbank Private have been increased.

Improvements in the availability and performance of the websites and a growth in traffic have been recorded, with the number of individual visitors increasing by 9%. The number of frequent users of Netbank Private recorded a 9% growth in 2012. Also recorded was an increase in the number of customers that carry out transactions.

A new version of Mobile Banking was launched, with more than ever functionalities, and optimized for the main types of mobile devices, iPhone, iPad, Android and Blackberry.

Telephone Banking

Santander Totta's Contact Centre was considered, for the 4th consecutive year, as the Best Contact Centre in Portugal in the financial sector, a prize attributed by the Portuguese Association of Contact Centres. The total number of Customer contacts in 2012 with Contact Centre operators was slightly in excess of those recorded in the previous year.

Customer attendance through *chat* was strengthened, and there are currently many more spots to request contacts in the Bank's site.

Measures were implemented that aim to raise the number of calls resolved in the 1st contact and the increase in the Contact Centre resolution capacity. The Contact Centre implemented the telephone validation of several operations carried out via Netbank with the objective to increase security when these take place. New functionalities were introduced in the Premium Line with the objective to increase the level of satisfaction and fidelity in this segment.

The launching was carried out in 2012 of new initiatives in the *Facebook* pages and the management of the social networks was improved and systematized.

International Activity

Economic environment in 2012 was characterized by the austerity climate, transversal to several countries in the European Community, and by a large measure control of indebtedness levels, and slight improvements in liquidity levels as compared to 2011.

Economic activity in Portugal again recorded negative growth, and a pronounced worsening of employment levels that led to the decision of many citizens to leave the country to find works and means of subsistence abroad.

Along with these circumstances, the strategy followed in the international area maintained reinforced the proximity to customers residing abroad, aiming to support, through external units, those that commence their working lives away from Portugal. The soundness of Santander Totta and of the Group it comprises was made evident, energizing the offer of services and of solutions in close connection with the commercial network in Portugal.

In order to guarantee adequate conditions for customers the offer of the "Super Account Residents Abroad" was maintained together with diversified savings products. Greater growth in deposits was recorded in lieu of more complex products.

Also successfully made available were products that intended to associate yield to the strengthening of the fidelity and binding of customers as was the case with plans of programmed savings.

In line with Santander Totta's practice and intending to support the communities in the countries where the Bank is represented, meetings were carried out with customers as well as frequent presentations, in which it was intended to bring out the values of the Group and the Bank Visits were promoted in addition to these meetings, within the established strategic planning, which aimed to reinforce the links between customers, representative offices and branches in Portugal.

Within the scope of the more specific support for the segment, the Summer campaign took place with a set of initiatives whose aim was to provide the best possible welcome to customers that live and work abroad, and a structure guaranteed of communication and means with "assistants" particularly focused on providing attendance and support for customers. This campaign was promoted in the main communities, with local means of communication, guaranteeing a significant knowledge of the available offer and support.

The London branch scheduled its activity by the increase in the commercial relationship with Portuguese residents in the United Kingdom, with particular regard attributed to the following up and recovery of the credit portfolio where the means of control were reinforced control means.

The Porto Rico subsidiary developed its activity in a "Distant Banking" business model, offering through specific channels much diversified applications exclusively intended for non residents.

Also carried out was the reassessment of several units that support external activity and which resulted in the closing down of SFE – External Financial Branch in the Madeira Free Zone.

Business volume in the area of foreign residents was almost unaltered, it having been however possible to increase the number of customers in countries outside the European Community.

With respect to transfers from residents abroad, channelled through Santander Totta, promotion and energizing actions continued in the more relevant countries for the segment, with the easier and more flexible means standing out for customers to carry out transfers of funds to Portugal.

Two competitions were organized that intended to reward customers that opted for the Bank, resulting in an approximately 13% increase in the volume of transfers.

Global Banking and Markets

In the area of Corporate Finance, the following financial consultancies were successfully concluded: (1) consultancy to Mercapital in the disposal to Sogrape of Bodegas LAN in Spain; (2) consultancy to Cimpor within the scope of the Public Purchase Offer launched by the Camargo Corrêa Group; (3) consultancy to Secil in the financing and acquisition of Supremo Cimento in Brazil; and (4) consultancy to Amorim Energia in the acquisition of an additional 5% shareholding in Galp Energia, deriving from the agreement signed with ENI and with the Caixa Geral de Depósitos Bank.

In the area of Credit Markets, the maintenance of a restrictive economic environment continued stressing the economy, with significant impact in private and public investment decisions. In spite of this context, the Bank continues as one of the few Institutions keeping a constant presence in the analysis of the existing opportunities and in the support provided to small promoters in materializing their projects, and supported several customers in restructuring financial arrangements that, due to the current environment, require being renegotiated, with the objective to conform to the performance and capacity to free companies' cash flow.

In Asset & Capital Structuring, Santander Totta continues developing relevant activity in the area of renewable energies in Portugal, as well as analysing possible opportunities that may appear as a result of the environment.

The structured products area kept, in 2012, a fair performance in the marketing of liability products, with the issue of 16 structured products, of which 10 are euro denominated and 6 US Dollar denominated issues. The issues that were placed in this period are indexed to different classes of assets transacted in shareholder, exchange rate and bond markets.

In September 2012, Bank Santander Totta was distinguished by *Euromoney Structured Retail Products* as the best distributor of structured products in Portugal. This prize is awarded considering two components: the performance of the products and the marketed volumes.

In the area of Institutional Custody the business volumes kept stable and the Bank maintained its 2nd place in the ranking of national Custodians, with approximately 21.2% market share in the volume of assets under custody, an increase of 5.7% relative to the previous quarter, in accordance with the more recent data made available by CMVM (Securities' Market Regulator). Resident and non resident institutional customers had the opportunity to assess the custody services provided by the

Bank through the specialist publication *Global Custodian*, with the award of the *Commended* prize in the 3 categories – *Leading Clients, Cross-Border and Domestic* being singled out.

Asset Management

Investment Funds

In a very difficult context, Santander Asset Management (SAM) endeavoured to manage its products with a controlled risk level, focused on maintaining high and adequate liquidity levels, and taking advantage of the opportunities that the market has provided. Standing out during the course of the year was the fund merger operation, carried out to simplify and provide transparency to the range of funds offered by SAM, as well as improving the level of efficiency in terms of management.

At year end, all securities investment funds actively managed by Santander Asset Management, evinced positive profitability, namely Santander Multitreasury (3.5% net profitability), Santander Global (7.1% net profitability) and the shareholder funds: Portugal Shares (9% net profitability), Europe Shares (13.6% net profitability) and America Shares (9.6% net profitability). Also singled out was the launching of two new FEI's: FEI Iberian Premium (48.8 million euros) and FEI Premium July 2012 (47 million euros). Two FEI's attained maturity: FEI Europa Invest and FEI Luso Invest.

At year end security investment funds managed by Santander Asset Management held an 11.6% market share.

Real estate investment funds managed by Santander Asset Management amounted to a total of 581.5 million euros, at the end of 2012, a 5.1% market share.

Outlook for 2013

The recessive environment will be maintained in Portugal in 2013, with GDP contracting by -1.9%, as well as in the Euro Zone, where GDP may contract by approximately 0.5%, as a result of the budgetary consolidation measure in the "peripheral economies". Germany and France should witness a significant slowdown in the rate of growth as compared to 2012.

Increase in unemployment, the continuing deleveraging process in the private sector, with a heavy contraction in consumption and a major fall in investment, together with the decrease in families' available income will continue being stressing factors in the Portuguese banking system, specifically in business volumes, revenue generation and quality of the credit portfolios.

As already referred, the risk management of the credit portfolio is a fundamental objective of Santander Totta, allowing it to protect profitability and capital employed, crucial in a more adverse economic environment. With this end in view, the Bank will continue casting special attention on the prevention of non performing loans, with actions to follow up selective customers, anticipating risk situations through providing conditions that may allow a payments profile adequate to the economic and financial situations of the families.

Simultaneously, the Bank will maintain an important focus on the recoveries area, through the strengthening of a negotiation policy that avoids the resolution of processes through the courts of justice.

On another hand, the Bank will continue the strategy of the gradual deleveraging of its accounts in order to reduce the ratio between credit and deposits to 120% by 2014, and will thus be largely focusing deposit capturing. Additionally, the comfortable position in terms of capital and liquidity presented by the Bank, allows it to provide support to families and to the Portuguese entrepreneurial sector, already materialized through the launching of the "Credit Activation" campaign at the end of 2012, considering the increase in the weight of the Companies' segment in the total credit portfolio and the respective market share as well as the increase in the transaction levels.

In 2013, the management of net interest income will be a critical factor in the Bank's revenue, particularly the management of the Bank's liabilities, in a scenario of extremely low interest rates.

Human Resources

People and their contribution towards the business were the main axes of activity in the area of Human Resources in 2012, in an unfavourable economic and social environment.

In the field of proximity to business areas, a strengthening was carried out of measures conducive to consolidating the presence and the contribution of the Human Resources (HR) department to the management areas and to the achievement of the business objectives.

The HR managers acted as aggregators of the required mobility – geographic and career oriented – in each area and acted as a team to generate internally the adequate response. As such, the effectiveness of HR actions improved both in response timing as in the definition of long term solutions.

In the context in which we live, it was very important to count upon an active communication with regard to the disclosure of opportunities for internal development. 60 disclosures were carried out for the whole organization that mustered approximately 600 candidates towards new professional challenges. Such measures were important to guarantee motivated teams and, consequently, reflecting on the quality of service provided to customers.

As a decisive contribution to optimize the branch network, HR managers carried out 450 visits to branches and managed approximately 1,000 movements that involved all the levels in the structure.

In the 2nd half year, HR's activity was also guided towards providing support to branches that required improving quality of service indicators. The "BeUp Programme" was an initiative of behavioural intervention with the branch teams based upon coaching techniques and with the objective to improve attendance quality in the branches identified in the "response timing" indicator. 107 branches were followed up and approximately 230 meetings held for branch accompaniment. As such, the referred programme was a clear strengthening of HR's action to achieve the business objectives, by qualifying the branch teams with competences in customer relationship.

The importance given to merit recognition and individual contribution of employees towards the Bank's success is expressed by the 367 new salary levels attributed and to the fact that 95% of the employees received variable remuneration, with the adjustments recommended by the results.

Focus was placed on the E-Learning platform, as a training component, with the inclusion of 20 new courses, increasing the offer to 46 courses and thus allowing a wider choice in line with individual needs. To stimulate knowledge enrichment and development of skills of the central services employees, a campaign was carried out during the summer months that involved 22,259 training hours and 60% of the identified employees. The category "Commercial Skills and Products" was singled out with the carrying out of 102,404 hours and 20,800 assistants in training actions.

The feature Management and Managing Skills comprised approximately 3,331 training hours with the presence of 426 individuals.

In the development field, Executive Coaching programmes were carried out involving 23 individuals and Mentoring was introduced in several programmes, with the participation of the senior management team as mentor.

In the Operations area, a development programme was implemented, focused on 3 axes: adapting to change in structure/team and duties, alignment in attitude and cooperation and facing new functional challenges such as the direct relationship with customers. This programme involved 284 employees in this area.

In the matter of cooperation with Universities, Santander Totta took part in Jobpartys employment fairs. A Mentoring programme was also carried out involving 19 post-graduate students from several universities.

As a "Family Responsible Company" and in line with the established in the certification procedure, actions were carried out and procedures developed, that allow monitoring the use of the existing measures, which aim to reconcile professional and personal life. As such, in 2012, 66% of employees with children aged up to 12 enjoyed the afternoon off on their offspring's birthdays (22% in 2011) and 64% of employees were given leave to spend the 1st school day of the 1st school year (34% in 2011) with theirs.

To promote the advantages of working with Santander Totta, to develop dialogue between managers and their teams and to recognize everyone's effort and dedication, are the objectives of the Programme "You Are Santander". This programme is alive, showing it is up to date as a structuring programme of the positioning the Bank intends to keep as an employer of reference in the banking sector.

The widening of the maximum repayment period for ACT (employee) loans from 35 to 40 years, limited to 70 years of age of the employee, the salary adjustment provided to employees with earnings equal to or less than 1,350 euros per month and the contribution of 310 euros to all employees with offspring taking higher education (245 students) with a monthly salary equal to or less than 2,090 euros, are extraordinary measures that were implemented to lessen the effects deriving from the economic environment.

Considering the described circumstances "We Facilitate" was implemented, a platform of services supply and demand where employees may search for services they require and place offers for services from family members or friends who are unemployed. The platform contains more than 300 offers for services from employee family members.

The "You Are Santander Week" is an initiative that enjoys the approval of employees and raises high expectations, since it is an opportunity to reinforce the spirit associated to the Programme "You Are Santander". The activities programme was developed along the topic "We Constitute a Great Team" and comprises three main initiatives:

- The "Day of the Employee" was celebrated in all branches and central buildings throughout the country, within a party scenario, recreating the environment of a traditional "Popular Saints" festivity;
- The "Direct Contact", with the visit of Directors to branches and central services in the country's several districts. in a symbolic gesture over the proximity of employees and of direct recognition of those who have achieved 30 years of employment in the Bank;
- The fraternal cause "Ritinha's Home", that allowed collecting approximately 23,000 euros and the beginning of the building of Ritinha's new home.

"Rethink the Business" was the theme of the 5th edition of the Feminine Management Conference, an area of reflection that has the objective to discuss currently business related topics, with the participation of women with management responsibilities in several areas of the Bank. Apart from reinforcing the role of women in the bank's activity, which represent 45.7% of the total employee complement, and to strengthen the skills of the management teams in business issues and in current topics, this initiative indicates the notice taken of the policy on gender diversity.

For the 6th consecutive year prizes were awarded to the offspring of employees who were distinguished by their academic performance at the conclusion of secondary education. In the six editions of this initiative, the objective of which is to value the merit evinced by an academic achievement of excellence, 103 children were rewarded.

The youngest have also continued receiving particular notice, with the carrying out of the already usual occupational programmes in the Easter and Christmas holidays for employee's offspring, in which 60 children aged between 6 and 10 years participated.

Once again Santander Totta decided to favourably consider requests submitted within the scope of the competition for house purchasing credit at the ACT rate, having made available for the purpose a total value amounting to 41 million euros, thus allowing ease of access to better family living conditions.

As previously referred, solidarity activities occupied a primary place in 2012, with the setting up of the "Solidarity Corner" in Totta Centre, an area for institutions of social characteristics to promote their initiatives, for the participation of volunteer workers in the BIPP fairs (Information Bank from Parents to Parents) and in "Everyone's Bread", "Christmas in a Shoebox" and the solidarity cause "Ritinha's Home".

Technology and Business Systems

Included in the means area of Santander Totta and in the Division of Corporate Technology and Operations, the area of Technology and Business Systems is responsible for the availability and management of the Santander Totta infrastructure of technology and processes, permanently guaranteeing the adequateness of the technological platforms (hardware, software, communications, amongst others), and of business processes and operating control to efficiently support the bank's activity, with controlled levels of operating and technological risks.

Focus was kept, in 2012, on the management of the quality of the technology services, on the reduction of technological risk and application support to the business, as well as in the observance of compliance in the control activities, established in the Bank's Guide of Internal Control, in the technology issue. Several projects were developed for incidence reduction, optimization of the exploit of technological resources, management and reduction of technological risk and increase in the online availability window of the platform.

Singled out in terms of business support is the very relevant investment in the strengthening of the support applications to the management of non performing loans and legal department, with the development of new applications and functionalities to support this activity. Also singled out are the support tools for the programme that allowed an improved proactive follow up by the bank in the management of non performing loans and a more adequate offer of solutions for non performing customers.

Also particularly relevant was the investment carried out in projects to comply with new legislation and regulation, among which stand out the adapting of the systems to SEPA payments, FACTA, reformulation of statistics covering external operations and positions and of monetary and financial statistics for the Bank of Portugal and, already at year end to implement, in a reduced time period, legislation relative to non performance and the new legislative environment of complex financial products.

The new site of Netbank Private was launched in 2012, guided towards mobile devices. The graphic reformulation of Netbank Companies was also carried out as well as that of several tools and functionalities with the objective to increase security in internet transactions. New tools for the support of commercial activity were launched, such as the new Customer Site and the support platform for the Private Banking activity.

The migration procedure towards the Windows 7 operating system was initiated, a project that has been scheduled to take 9 months and several technical projects carried out in order to reduce incidences and to maintain technological risks at adequate levels. Several projects were implemented to adequate the physical infrastructure aiming towards its renewal and to the setting up of redundant technological infrastructures based upon two discrete data processing centres with high availability, that ensure operational continuity in case of an accident occurring in one of the centres, with Disaster Recovery Plan tests carried out that prove the implemented solution.

Several projects were launched in the area of Business Processes, aiming to improve processes and to increase efficiency. All the transformation operated in the Credit Recoveries area was supported by this area, based upon the reformulation and definition of the new operative and functional model and design of the activity support technological tools. The project for the operational and functional optimization of the Companies Network and for the implementation of the North American FACTA regulation continued at a good rate.

The Network area continued with the programme of visits to branches with the objective to identify weaknesses in control and operational functioning of the Private, Businesses and Companies branches, and to establish with the latter a training and operational improvement programme, in parallel with the launching of improvement initiatives in the current operational and control processes. All branches have already been visited by this team, following which several training, support and improvement initiatives have been launched. Also implemented were several branch control projects, these being incorporated in the follow up processes.

Quality

Quality of service is one of the pillars of Santander Totta’s management model.

In a world in permanent change and in such a competitive market as the banking market where all the players search for improvement and quality of service in the past few years, Santander Totta assumed as objective the improvement of the Santander Totta Customer Experience, in which quality of service has a Santander label, an own style that differentiates the Bank from the remainder.

Customer Experience

In 2012, this action area accompanied several improvement processes, presented in a specific working group to study the topic of customer attendance, both in terms of attitude and in waiting times in the branches, and also in telephone attendance. The motto of placing your bet on the “maximum value of the relationship” led to the involvement of the whole Bank in the common objective to become the customers’ # 1 Bank.

The correlation of the Meta 100 indicator (that measures customer satisfaction with his branch) with the CEM indicator (that measures customer satisfaction with the Bank) was used as the classification, in stars, of the Bank’s branches.

After the introduction of this new classification, work has been carried out to reduce the number of 2 star branches and increase that of the 5 star branches, through the development of a programme for behavioural improvement named “BeUp”, which works on a cluster of 2 and 3 star branches, with an “in loco” follow up plan and clear improvement objectives.

The Quality site (redecem) that may be accessed by all employees was substantially developed, allowing, very simply, to consult quality metrics, the knowledge, the status of complaints received and supports the disclosure of the measures taken for the continuous improvement in service quality.

Quality Certification

Santander Totta continues reinforcing the devices foreseen in standard ISO 9001-2008 and to continually improving its management practices always guided by the need for customer satisfaction through improvement in process management.

Following this line, the bank has more than ever reached for the requisites of excellence, specifically with the implementation of a new model of Quality Governance that will allow greater focus on customer guidance through the entire Bank's structure and to strengthen the commitment of this same structure with the Santander Group.

Complaints

Concerning customer's complaints a significant reduction was recorded in 2012 as compared with 2011. This change mirrors the Bank's drive in the improvement of its actions, processes and attitudes, overcoming the situations that may have caused some displeasure.

The Bank has the objective not just to enable the swift correction and response to customers, but also the analysis of the cause at the base of the formal complaints received.

Quality Tables were set up where the improvement of processes was analysed with the various areas of the Bank, as well as the answering levels, attitudes and the possible solutions to be implemented concerning the complaints where the customer was considered to be in the right.

It was a year of consolidation of the measures initiated in 2011, aiming to improve the time for response to formal complaints, guarantee compliance with the legal delays to answer the regulators, providing answers to customers with clear and objective information, and, in parallel accompany the business units in the swift correction of detected incidences and the necessary interlocution with the respective central services, in order to avoid erosion in the commercial relationship and consequent future formal complaint.

Metrics and Management indicators

Throughout the years Santander Totta brought together a system of quality metrics that, once combined, allow a very clear vision of the "customer's voice", thus enabling very focused improvement measures directed towards customers and their requirements, either through data from the Bank's system, or through customer enquiries (more than 90,000 this year), or even through Mystery Customers, which aid the measurement of the quality effectively provided.

With regard to commercial networks, Private and Business and Company Networks, the functioning of META 100 is fully maintained, since this indicator comprises different assessments (metric, operative and customer satisfaction), and continues showing a very positive evolution.

The Meta 100 index recorded significant improvements in the several indicators enabling 32% of the branch network to obtain the superior classification, an increase of 7% relative to 2011, a year in which the qualitative and quantitative assessment attributes kept to the same structure but with even more ambitious objectives per attribute.

The Meta 100 model for central services was consolidated in 2012 and will allow, in 2013, very strong actions with them. With this objective it is intended that the work rendered by these services enable a more adequate service to the branches.

On another hand, the proportion of customers that recommend the Bank was kept at the same level as that reached in 2011, of approximately 90%, having recorded an improvement in the remaining indicators of perceived quality.

Positioning versus the competition

The study of the positioning in the market is supported by a methodology established at Santander Group level, for the global satisfaction of the main Banks in the Portuguese system and is carried out by an independent company accredited in market surveys. The study, initiated in 2010, consolidated in 2012 the evolution of the growth of Bank Santander Totta versus the competition, which it had already evinced in 2011.

In the assessment carried out in the 2nd quarter of 2012, Santander Totta obtained the first place in its positioning amongst the Banks comprised in the referred study, jointly with another competitor.

Economic and Financial Information

Consolidated Activity

Introduction

Developing its activity in a macroeconomic recessive scenario that has penalized results in the banking sector, Bank Santander Totta chose a strategy based on the strict control of non performing loans and on the soundness of its operational structure and accounts, with adequate capital and liquidity positions solely reached with recourse to internal income generation, without requiring access to the public lines of support to the banking sector.

Within the scope of a policy of rebalancing the accounts, a significant improvement is recorded in the commercial *gap*, with the Loan-to-Deposit ratio that relates net credit with deposits having reached 126.6% at the end of 2012, an improvement of 12.2 p.p. relative to the homologous period and reflecting an 8.3% annual increase in customers' deposits and a 4.9% slowdown in net credit.

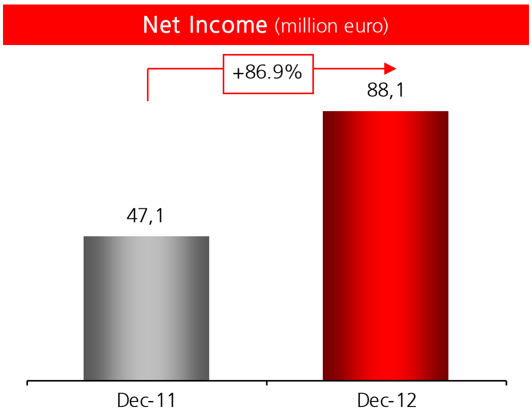
The Tier I ratio was set at 11.4% and the Core Capital ratio set at 9.9% in 2012.

Credit at risk reached 4.32%, in line with the worsening in credit quality, in a recessive economic environment, although below the average of the banking sector, benefiting from a support programme for situations of non performing customers, which led to a decrease in the number of non performing loans, as anyway previously referred.

The Bank has available a portfolio of assets accepted as guarantees in financing operations with the Eurosystem, which at the end of 2012 amounted to 11.7 billion euros. In turn, net resources of applications obtained from the European central bank amounted to 4.9 billion euros.

Bank Santander Totta recorded a consolidated net income of 88.1 million euros, which compares with 47.1 million euros in the homologous period, with the favourable contribution of revenue and operational costs standing out, although diminished by reinforcement of imparity and net provisions, framed within the Bank's prudent and conservative risk assessment policy.

Operating income increased by 22.7%, influenced by added values obtained from the repurchase of securities issued within the scope of credit securitization operations, reflected in gains on financial transactions, partially cancelled by the reinforcement of provisions, as a measure of prudence. Operating expenses decreased by 9.4% relative to the value recorded in 2011 and impairment and net provisions recorded a homologous 59.2% increase.



Profit & Loss Account

million euro	Dec-12	Dec-11	Var.
Net Interest Income (without Dividends)	541.5	543.5	-0.4%
Dividends	1.7	1.3	+32.8%
Net Interest Income	**543.2**	**544.8**	**-0.3%**
Fees and Other Income	318.0	328.8	-3.3%
Commercial Revenue	**861.3**	**873.6**	**-1.4%**
Gain/Losses on Financial Transactions	125.8	(69.0)	<-200%
Operating Income	**987.1**	**804.6**	**+22.7%**
Operating Costs	(459.0)	(506.9)	-9.4%
Net Operating Income	**528.1**	**297.7**	**+77.4%**
Impairment and Other Provisions	(466.6)	(293.0)	+59.2%
Equity	11.9	12.9	-8.0%
Income Before Taxes and MI	**73.4**	**17.6**	**>200%**
Taxes	14.7	29.5	-50.1%
Resultado Após Impostos	**88.1**	**47.1**	**+87.1%**
Minority Interests	0.0	0.1	-100.0%
Net Income	**88.1**	**47.1**	**+86.9%**

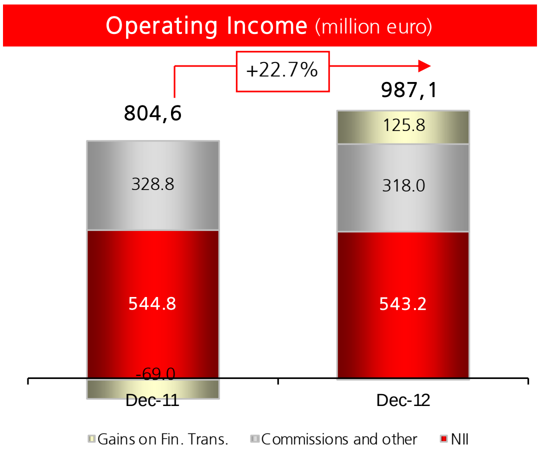
At the end of 2012 Bank Santander Totta recorded a net income of 88.1 million euros, which compares with 47.1 million euros in the previous year. Revenues increased by 22.7%, operating expenses decreased by 9.4% and impairment and net provisions recorded a 59.2% homologous increase.

Strict net interest income amounted to 541.5 million euros, with a -0.4% variation relative to 2011. This development reflected the decrease in the credit portfolio, required within the deleveraging process of the accounts, as well as the maturity of the public debt occurring in the last quarter. In turn, the pronounced downturn of the Euribor market rates was reflected in a more pronounced credit re-pricing than that of deposits. However, emphasis should be placed on a prudent management of asset and liability spreads, with an adequate segmentation of the commercial supply.

Net commissions and other income amounted to 318.0 million euros, evincing a variation of -3.3% relative to 2011 values, attributable to the performance of commissions from investment funds and insurance, However, the increase in commissions related to basic banking services (such as cash deposits) should be pointed out.

Gains on financial transactions amounted to 125.8 million euros and include the added value obtain in the repurchase of securities issued within the scope of credit securitization operations. It should be recalled that, in the homologous period, losses were recorded deriving from the sale of credit portfolios and securities.

The above referred revenue variations resulted in operating income amounting to 987.1 million euros, an increase of 22.7% relative to 2011.



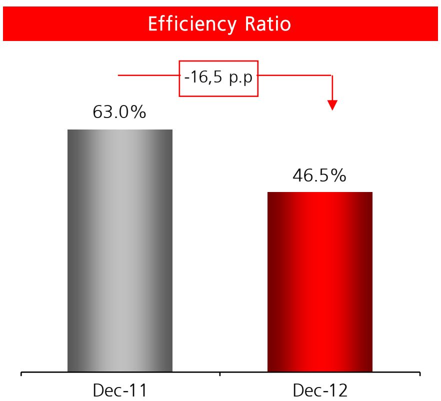
Operating expenses amounted to 459.0 million euros, with a -9.4% favourable homologous variation. Personnel expenses decreased by 13.1%, reflecting the reduction in the average number of employees and variable remunerations, as well as the legislative change in the calculation of the death subsidy. Excluding this effect, personnel expenses would have decreased by 8.5% and operating expenses by 6.7%.

General expenses decreased by 6.4% and depreciation increase 0.8%, consequent upon investments carried out in information technology, as well as anticipated depreciation deriving from the closing down of branches.

million euro	Dec-12	Dec-11	Var.
Personnel Expenses	(257.6)	(296.6)	-13.1%
Other Administrative Expenses	(137.5)	(146.9)	-6.4%
Operating Costs	**(395.1)**	**(443.5)**	**-10.9%**
Depreciation	(63.9)	(63.4)	+0.8%
Total Operating Costs	**(459.0)**	**(506.9)**	**-9.4%**
Efficiency Ratio (excludes depreciation)	**40.0%**	**55.1%**	**-15.1 p.p.**
Efficiency Ratio (includes depreciation)	**46.5%**	**63.0%**	**-16.5 p.p.**

The efficiency ratio, that shows operating expenses as a percentage of operating income, improved from 63.0% in 2011 to 46.5% in 2012 (-16.5 p.p.), resulting from the combination of the 22.7% increase in revenue and the 9.4% decrease in operating expenses.

Net operating income amounted to 528.1 million euros, compared to 297.7 million euros recorded at the end of 2011.



As to productivity indicators, following is the variation of resources per branch.

million euro	Dec-12	Dec-11	Var.
Loans[(1)] per Employee	5.2	5.3	-2.6%
Resources per Employee	5.1	4.8	+5.5%
Loans[(1)] per Branch[(2)]	43.7	42.7	+2.4%
Resources per Branch[(2)]	43.3	39.1	+10.9%

(1) Includes guarantees
(2) Includes branches, corporate centers and representative

Total impairment and net provisions amounted to 466.6 million euros as compared to 293.0 million euros recorded in the homologous period, a 59.2% increase, reflecting the worsening of current and foreseeable risks deriving from the economic recession, which occur in several sectors of activity. Santander Totta kept to a prudent policy in risk management, when perfecting and reinforcing the prevention and control mechanisms. In the last revision carried out in 2012 by the Bank of Portugal and the Troika, within the scope of the *Special Inspection Programme*, with the objective to assess the level of impairment in the construction and real estate promotion portfolio, it was concluded that the Bank has sufficient provisions available and uses adequate methodologies.

Results from subsidiaries recognized by the equity method, amounting to 11.9 million euros, comprised the appropriation of results in the shareholdings in B.C.G.T.Angola, in Unicre-Instituição Financeira de Crédito and in Benim-Sociedade Imobiliária (a company held indirectly by the Bank through TottaUrbe-Empresa de Admnistração e Construções).

Income before taxes amounting to 73.4 million euros was greater than the 17.6 million euros recorded in 2011. Consolidated net income, at the end of 2012, amounted to 88.1 million euros, greater than the 47.1 million euros recorded in 2011.

Accounts and Activity

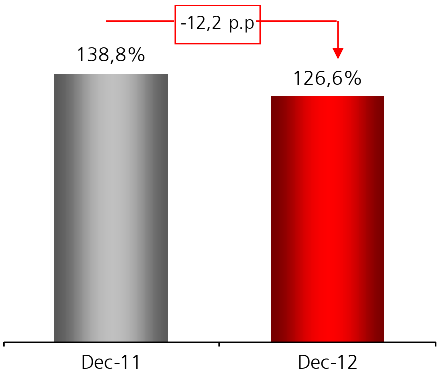
In 2012, the reinforcement of soundness and of the deleveraging of the accounts, with a significant improvement in the commercial *gap*, in parallel with comfortable position in liquidity and equity were fundamental priorities for Bank Santander Totta.

Credit (including guarantees) decreased by 4.5%, amounted to 29.2 billion euros in 2012 and customers' resources amounted to 28.9 billion euros (annual variation of +3.5%) through a 7.6% growth in balance sheet resources and a 7.5% decrease in off balance sheet resources. This movement led to a homologous variation of -0.7% in business volume which, at the end of 2012 amounted to 58.1 billion euros.

million euro	Dec-12	Dec-11	Var.
Business Volume	**58,057**	**58,455**	**-0.7%**
Total Gross Loans (includes guarantees)	29,165	30,532	-4.5%
Customers' Resources	28,892	27,922	+3.5%

The gradual rebalancing of the Bank's accounts is expressed in the loan-to-deposit ratio which, at the end of 2012, was set at 126.6%, evincing a 12.2 p.p. improvement, relative to the 138.8% recorded in 2011 (ratios calculated in line with the definition established in the Memorandum of Understanding).

Loan-to-Deposit Ratio



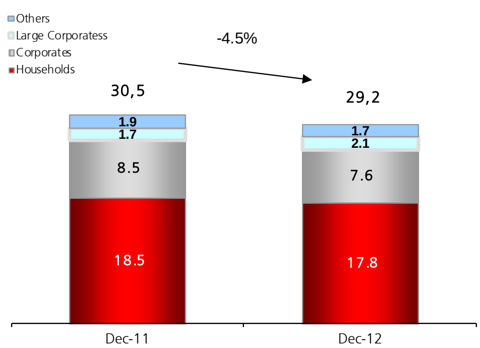
The reduction occurred in credit concession, in line with market trends, both in private customers and in companies, evinces the lower demand and the restrictions imposed by the ongoing deleveraging process. However, the comfortable liquidity position of Bank Santander Totta allowed continuing a policy of support to economically viable companies, which is shown in the notable position reached in the SME Invest/Growth Lines and in the launching of the "Santander Totta Activation Plan Campaign", in which it has made available a financing line amounting to 1.5 billion euros for companies that submit viable projects.

million euro	Dec-12	Dec-11	Var.
Total Gross Loans (includes guarantees)	29,165	30,532	-4.5%
Gross Loans	27,945	29,044	-3.8%
of which			
Commercial Banking	25,415	26,965	-5.7%
Loans to Corporates	7,633	8,493	-10.1%
SME/Small Business	3,046	3,667	-16.9%
Corporates	4,587	4,826	-4.9%
Loans to Individuals	17,782	18,473	-3.7%
of which			
Mortgage Loans (including securitization)	15,783	16,262	-2.9%
Consumer Loans	1,414	1,573	-10.1%
Large Corporates and Institutionals	2,097	1,672	+25.4%

Credit provided to private customers amounted to 17.8 billion euros, a 3.7% homologous decrease, with variations of -2.9% in mortgage loans, which represents 54.1% of the total credit portfolio, and of -10.1% in consumer credit.

Credit to large companies and institutional customers increased by 25.4%.

Loans* (billion euro)



* Includes securitization and guarantees

In spite of the worsening of the credit quality indicators, the ratios presented by Bank Santander Totta compare favourably with the average of the national banking system. In order to face the growing financial difficulties occurring with families, the Bank implemented a set of solutions directed to those customers where the first signs of lack of capacity to effect reimbursement become apparent, in order to avoid a degradation of levels of non performance and to ensure, through a close follow up of each situation, the negotiation of new payment conditions more adequate to their current financial capacity. This allowed the restructuring of credits, reducing the number of private customers with overdue credit instalments, to 14% below the values recorded in 2011. At the end of 2012, the ratio of non performing loans in excess of 90 days was set at 3.51% (+1.4 p.p. relative to the homologous period). The respective coverage ratio through provisions reached 98.4% (107.1% in 2011). The ratio of non performing and doubtful loans amounted to 3.54% at the end of 2012, above the 2.21% in 2011, with 97.4% provision coverage (104.5% in the homologous period). In its turn, credit at risk (comprising non performing loans, credit yet to mature and restructured credit) represented 4.32% of total credit, worsening by +1,5 p.p. relative to the 2.84% in the same month of the previous year, with 79.7% provision coverage (80.5% in 2011).

	Dec-12	Dec-11	Var.
Non Performing Loans Ratio	3.67%	2.35%	+1.3 p.p.
Non Performing Loans Ratio (+90 days)	3.51%	2.16%	+1.4 p.p.
Non Performing Loans and Doubtful Loans Ratio	3.54%	2.21%	+1.3 p.p.
Credit at Risk Ratio	4.32%	2.84%	+1.5 p.p.
Non Performing Loans Coverage Ratio	93.9%	98.6%	-4.7 p.p.
Non Performing Loans Coverage Ratio (+90 days)	98.4%	107.1%	-8.7 p.p.
NPL and Doubtful Loans Coverage Ratio	97.4%	104.5%	-7.1 p.p.
Credit at Risk Coverage Ratio	79.7%	80.5%	-0.8 p.p.

Total customers' resources at the end of 2012 amounted to 28.9 billion euros, a 3.5% increase relative to the amount recorded in 2011.

Standing out are customers' deposits, representative of 74.4% of total customers' resources, an 8.3% favourable variation in 2012, relative to that recorded one year earlier.

million euro	Dec-12	Dec-11	Var.
Customers' Resources	**28,892**	**27,922**	**+3.5%**
On-Balance Sheet Resources	21,853	20,315	+7.6%
Deposits	21,497	19,844	+8.3%
Securities issued	356	471	-24.4%
Off-Balance Sheet Resources	7,039	7,607	-7.5%
Investment Funds	2,717	2,807	-3.2%
Insurance and Other Resources	4,322	4,800	-10.0%
By segment:			
Commercial Banking	**23,430**	**24,141**	**-2.9%**
Households and Small Businesses	22,095	22,240	-0.7%
Deposits	16,284	15,644	+4.1%
Securities placed in clients, inv. funds, insurance and other	5,811	6,596	-11.9%
Corporates	1,335	1,900	-29.7%
Large Corporates, Institutionals and Other	**5,462**	**3,782**	**+44.4%**

In 2012, customers continued showing greater preference for bank deposits, rather than higher risk products. Deposits from households and small business segments recorded a 4.1% increase relative to the homologous period in 2011, an inverse situation to that recorded with off balance sheet recourses, such as investment funds and financial insurance that, in the same period recorded a -11.9% variation.

Balance sheet resources amounted to a total of 21.9 billion euros, representing 75.6% of total resources captured from customers, and increased by 7.6% in homologous terms, while off balance sheet resources amounted to 7.0 billion euros, decreasing by 7.5% relative to the value recorded in 2011. Investment funds decreased by 3.2%, amounting to 2.7 billion euros. Insurance and other resources amounted to 4.3 billion euros, a variation of -10.0% relative to the value recorded in the previous year.

Solvency ratios

At the end of 2012, Bank Santander Totta presented capitalization values solely reached with recourse to the internal generation of results, in parallel with the decrease in risk weighted assets. The Tier I ratio was set at 11.4% and the Core Capital ratio reached 9.9%, including net income (10.3% and 9.1% in 2011). Excluding the generated results Tier I and Core Capital ratios reached 11.4% and 9.8%, respectively.

million euro	Dec-12	Dec-11	Var.
Total capital	2,062	2,135	-3.4%
Tier I Capital	2,069	2,141	-3.4%
Tier II capital	-7	-6	+13.5%
Risk weighted assets	18,127	20,783	-12.8%
Core Capital	**9.9%**	**9.1%**	**+0.8 p.p.**
Tier I	**11.4%**	**10.3%**	**+1.1 p.p.**
Solvency Ratio	**11.4%**	**10.3%**	**+1.1 p.p.**

Individual Activity

Profit & Loss Account

Bank Santander Totta recorded net income, in terms of individual accounts, amounting to -9.2 million euros at the end of 2012, compared to 22.3 million euros recorded in 2011.

The Bank's operating income amounted to 879.5 million euros in 2012, an increase of 12.9% relative to the 779.1 million euros recorded in 2011, with favourable contributions derived from net interest income and from gains/losses in financial transactions.

Operational expenses amounted to 455.6 million euros, decreasing by 9.0% relative to the homologous period. Excluding the effect of the legislative change in the calculation of the death subsidy, the decrease would have amounted to 6.3%. The efficiency ratio decreased by 12.5 p.p. moving from 64.3% in 2011 to 51.8% in 2012.

The combined movement of revenues and expenses resulted in a net operating income amounting to 423.9 million euros, 52.3% greater than the amount obtained in the previous year.

Impairment and net provisions evinced a 52.2% increase, with a net appropriation of 443.4 million euros in 2012.

Accounts and Activity

Business volume at the end of 2012, amounted to 53.8 billion euros, a -2,3% variation relative to the homologous period, with a -6.6% credit contribution (including guarantees), amounting to 25.9 billion euros, and a 2.0% increase in customers' resources amounting to 27.9 billion euros.

million euro	Dec-12	Dec-11	Var.
Business Volume	53,751	55,033	-2.3%
Total Gross Loans (includes guarantees)	25,865	27,694	-6.6%
Gross Loans	24,645	26,205	-6.0%
Customers' Resources	27,886	27,339	+2.0%
On-Balance Sheet Resources	21,751	20,569	+5.7%
Deposits	21,395	20,099	+6.5%
Securities issued	356	471	-24.4%
Off-Balance Sheet Resources	6,135	6,770	-9.4%
Investment Funds	1,903	2,029	-6.2%
Insurance and Other Resources	4,231	4,741	-10.8%
By segment:			
Commercial Banking	23,430	24,141	-2.9%
Households and Small Businesses	22,095	22,240	-0.7%
Deposits	16,284	15,644	+4.1%
Securities placed in clients, inv. funds, insurance and other	5,811	6,596	-11.9%
Corporates	1,335	1,900	-29.7%
Large Corporates, Institutionals and Other	4,456	3,198	+39.3%

The 2.0% homologous growth in customers' resources includes the +5.7% increase in balance sheet resources, with special reference to 6.5% increase in deposits, which represent 76.7% of total resources, whilst the off balance sheet resources decreased by 9.4%.

Solvency Ratio

In 2012, Tier I and Core Capital ratios were set at 10.2% and 8.6% respectively.

million euro	Dec-12	Dec-11	Var.
Total capital	2,305	2,340	-1.5%
Tier I Capital	1,865	1,935	-3.6%
Tier II capital	440	405	+8.5%
Risk weighted assets	18,240	20,485	-11.0%
Core Capital	8.6%	8.0%	+0.6 p.p.
Tier I	10.2%	9.4%	+0.8 p.p.
Solvency Ratio	12.6%	11.4%	+1.2 p.p.

Risk 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 has been a decisive factor, particularly in an environment of great uncertainty in the financial markets.

Credit Risk

Main vectors of activity

In 2012, the activity of area of Credit Risks 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 customers' and products' features;
- Reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
- Concerning the risks included in the portfolio proximity with the customers was intensified in order to anticipate their credit requirements, revise their lines and the eventual issues arising considering their payment capabilities;
- This action and the level of the customers' credit quality allowed continuing to maintain ratios of non performing loans and credit at risk significantly below the average for the sector. On another hand, the business support levels were intensified in order to capture new operations and new low risk customers, and improvements were implemented in the processes with the objective to provide customers requests with swifter and more effective answers;
- Concerning the following up function of portfolios and customers, a permanent focus was kept in the checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment with the objective of mitigating the ratios of non performing loans and moroseness. A revision was carried out of a significant portion of the customer portfolio and the conclusion arrived at that the portfolio is being analysed with adequate criteria and that the level of estimated imparity is equally adequate.
- Concerning standardized risks, and considering the current difficult macroeconomic context, the main focus was kept on the maintenance of the portfolio's quality level, with action taken on management moroseness and non performing loans, by making available a set of products and solutions for debt restructuring that allow adapting customers' expenditure to their reimbursement capacity and current and future available income;
- Following this, the adequacy of the acceptance strategies on the Bank's decision systems and on the use of behavioural systems for the identification of prevention and renewal to place before customers was progressed;
- Still on the issue of standardized risks, the Bank continued to be selective in the acceptance of new operations, in terms of risk and profitability, making use of the model of automatic decision in force, specifically *scoring* and behavioural systems;
- In an adverse macroeconomic scenario, with a consequent increase in non performing loans, a strong focus was placed on the recoveries activity level, strengthening the intervention agility. To be emphasized is the activity carried out in the massive management recoveries whilst keeping, at the same time, a permanent follow up of special cases and judicial or extra judicial procedures;
- A policy was also maintained for the strengthening of negotiation procedures, aiming to obtain donations in lieu of payment as an alternative to judicial court actions;
- Emphasis, as well, on the modernization of the recoveries area, based, on the one hand, in computer developments surgically indicated by the users as necessary and that aim to control the process from entering recoveries, relations with attorneys and executive actions and, on the other, in a change in working methodology with the optimization of the several processes. The objective is to stress the model, increasing the efficiency of recourses and the effectiveness of the actions that will allow anticipating the recovery of the credit;
- At solvency and credit control level, permanent attention was kept on knowledge of the portfolio, aiming towards a strict control of the inherent risk, endeavouring to provide adequate and timely management information, in order to allow that measures are taken to avoid operations to become non performing and to resolve non performing loans;

- Focus was equally maintained on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB), for the purpose of calculation of equity fund requirements, as well as in their more than ever inclusion in management.

Risk model

Introduction to the treatment of credit risk

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 customers in portfolio and standardized customers (not in portfolio):

- Customers within the portfolio are those that, fundamentally due to the risk assumed, 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 risk 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, subsidiarily complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Rating/scoring tools

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

Global classification tools are applied to risk segments, country, 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, the ascribing of 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 revision of the rating attributed.

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

For the portfolios of standardized risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented that automatically attribute an evaluation/decision of the operations submitted. These decision tools are complemented with a behavioural scoring model, a device that allows a 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. As such what is taken into account is not just the probability that the customer may not comply with his contractual obligations (PD) but the exposure at default (EAD) 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 of the unexpected loss.

Their combining allows estimating the expected loss (or probable loss), which is considered as a further activity cost (reflecting the risk premium), with this cost duly included in the price of the operations.

It also allows estimating the unexpected loss, which is the basis for estimating the regulatory capital in line with the standards of the Basle capital agreements (BIS II). This unexpected loss is related to a very high loss level, although not very probable, and which, attending to its nature, cannot be considered as recurrent and should thus be covered by equity values.

In the small and medium sized enterprises, the information obtained from their accounts is used not just to ascribe a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into delay, correlating these with the scoring attributed to the operations. 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 made by agencies with recognized experience and skill, with a portfolio containing a sufficient number of bodies (these portfolios are known as low default portfolio).

LGD estimates are based on the observation of the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the time 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 consumption of the lines at the time of default.

The 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 tendency to risk: These risks are analysed and decided in special committees, which act through remits delegated by the Executive Committee of the Higher Credit Council (CSC). The CSC 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 on an individual limitation, usually named as pre-classification, through a simpler system and normally 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 programmes for credit management (PGC) 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 operations, follow up and control

Risk assessment is a requisite prior to authority being given for any credit operation in Santander Totta. This assessment consists in analysing the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its solvency and its profitability. Additionally, an assessment and revision of the 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, the specific follow up function, made up by 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 observation 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 the following:

- Ensure the collection or regularize values 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, recovery of credits will then be processed through the courts of law;
- 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 and with specific management models, and is composed of several stages: preventive management, management of irregular situations and management of delays and bankruptcies. All this 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 (REC), is the sum total of the Present Value of each contract (or Current Replacement Cost) and the respective Risk Potential, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

In 2012, the movement in the Euro interest rates determined an increase in the present value of the operations contracted with the same indexing factors, whilst the volume of new operations was kept in line with what was recorded in the previous year (2011). Relative to the exposure with Financial Groups, a reduction trend was maintained, as well as risk coverage through collateral providing agreements (ISDA Master Agreements/Credit Support Annex).

Derivatives - Credit Risk Equivalent as of 31/12/2012 (10^3 Euros)

	Total Consolidated				
	<1 Year	1-5 Years	5-10 Years	>10 Years	Total
Interest Rate Derivatives	130,369	112,299	961,615	1,153,976	2,358,258
Foreign Exchange Derivatives	5,576	0	68,016	0	73,593
Equity Derivatives	1,579	0	0	0	1,579
Total	**137,524**	**112,299**	**1,029,631**	**1,153,976**	**2,433,430**

Market Risks

Activities subject to market risk

The segment of measurement, control and follow up of financial risks comprises operations where asset risks are assumed. The 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 (banking activity).

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

- Negotiation: This heading includes the activity of financial service to customers;
- Balance Sheet Management: Interest rate and liquidity risk arises as a result from the timing differentials existing in maturities and re-pricing of assets and liabilities. Additionally, the active management of the credit risk inherent to Santander Totta's banking activity.
- Structural Risks:
  - Structural exchange rate risk: exchange rate risk resulting from the currencies in which investments are carried out in companies that may or may not be consolidated;
  - Structural Variable Income: comprised under this heading are investments in shareholdings in companies that may not be consolidated, financial or non financial, generating a variable income risk.

Negotiation Activity

The methodology applied in 2012, for the 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 in the definition of behavioural scenarios of differing financial variables and obtaining the respective impact on results when applying them on the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

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

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

Calibrations and contras measure (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 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 spot/sporadic variances of the recorded results compared to the estimated measures are analysed.

The backtesting analyses carried out in 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, back-testing includes hypothetical tests: excess tests, normality tests, measures of average excess, etc.

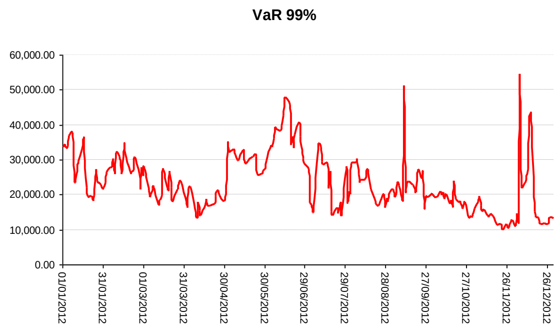
Limits

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

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

Quantitative analysis of VaR during the year

The evolution of the risk relative to negotiation activity during 2012, quantified through VaR was that described in the following chart:



VaR was kept at reduced levels, varying between 10,000 and 55,000 euros.

Balance Sheet Risk

The management of structural risk is ensured by a body in the first level of the Bank's organization and the decisions are taken by the Assets and Liabilities Committee (ALCO), presided over by the Chairman of the Executive Committee, and which comprises the directors responsible for the Financial, Risks, Commercial and Marketing areas. This Committee meets on a monthly basis.

Interest rate risk

The interest rate risk in the consolidated balance sheet is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variations of risk factors and the Bank's positions over assets and liabilities sensitive to interest rate variations. The model in use allows measuring and controlling the risk factors associated to the balance sheet market risks, namely the risks 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.

Considering the uncertainty in the variation of interest rate levels in 2012, the policy followed was to keep sensitivity at the adequate levels.

Exchange rate risk

The exchange rate risk of commercial activity is measured and controlled by the global exchange position, the Group's strategy being its total coverage.

Liquidity risk

Liquidity policy followed by the Group is based upon a low liquidity risk and the continuous diversification of the sources of finance, placing into perspective the volume and nature of the financing instruments used to allow the achievement and the development under good conditions of the established business plan.

By keeping to a conservative profile, the Bank is better protected with respect to potential crises that affect its environment, thus providing extra time to prepare an adequate reaction.

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 to be employed as a liquidity cushion.

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

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

The different stages of the model of operational risk allow identifying, assessing and carrying out the following up of the operational risk of all the business lines and units, easing the taking of management decisions when allowing the effective establishment of priorities, as well as controlling and mitigating operational risks in all business lines and units, identifying and inhibiting all the risk focal points.

This model thus allows:

- An integrated and effective management of the operational risk (identification, assessment, prevention, control/mitigation, follow up and repo);
- Improve the knowledge of operational risks, both effective and potential, and their attribution to business lines;

liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenditure related to the funding activity.

The structural liquidity situation is fully balanced. In December 2012 the Bank presented an asset situation in the short term monetary market of approximately 500 million euros.

The capital market operated very irregularly throughout the year. In this context the ECB, by leading monetary policy assumed itself as the counterpart of the system through lending operations and absorbing liquidity. To take part in these operations it is necessary to hold assets considered eligible by the ECB to be given as collateral. In December 2012, the Bank held 11.77 billion euros in eligible assets that constitute a very comfortable liquidity reserve.

Operational Risk

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". This is generally a risk that exists in internally generated processes (people, systems, etc.) or as a consequence of external risks such as natural catastrophes.

- Improvement of procedures and controls and reduction of losses;
- Identifying the operational risk inherent to all the Bank's activities, products, processes and systems;
- The measurement and assessment of the operational risk objectively, continually and in coherence with the Basle II standards and the definition of the objectives and analysis of the risk profile;
- Carrying out a continuous follow up of exposures to operational risk with the objective to detect risk levels that have not been assumed;
- Implementation of control procedures, improving the knowledge of the causes of operational risks as well as the respective implications;
- Establishing mitigation measures that eliminate or minimize operational risks.

In the 1st half year of 2012, the Bank of Portugal authorized the adoption of the Standard method for the purposes of estimating equity requisites to cover operational risks.

Reputation Risk

Reputation risk is understood to be the occurrence of negative financial impacts for the institution affecting the results or even its share capital, 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 reputation risk policy targets its management, such as defined in the above paragraph, determining the devices and procedures that allow: i) to minimize the probability that it materializes; ii) to identify, report to the Board and overcome the situations that may have arisen; iii) to ensure follow up and control; iv) to provide evidence, if necessary, that the Bank has reputation risk amongst its main concerns and has available the organization and means required for its prevention and, should it be the case, to overcome it.

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

- Corporate values;
- Compliance policy;
- Prevention of money laundering and of financing terrorism;
- Deportment codes;
- Marketing policies and product follow up;
- Financial risks policy;
- Quality policy;
- Social responsibility and environmental defence policies.

Proposal for the Application of Results

Net Income for the Year, in individual terms and referring to 2012, was negative at € 9,179,589.40 (nine million, one hundred and seventy nine thousand, five hundred and eighty nine euros and forty cents) and the Consolidated Net Income for 2012 was € 88,067,821 (eighty eight million, sixty seven thousand, eight hundred and twenty one euros)

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

1. Transfer of the negative Net Income of € 9,179,589.40 (nine million, one hundred and seventy nine thousand, five hundred and eighty nine euros and forty cents) to Income Carried Forward.

Lisbon, 22 February 2013

THE BOARD OF DIRECTORS

Supplementary Information and Attachments

Prevention of Money Laundering

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

The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively directed towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Institutional Issues, and the staff trained and regularly updated in this issue in order to detect eventual risk situations and communicate with the competent body, has available computer applications to monitor atypical movements, to assess transactions that fit into risk typologies and to bring into prominence high risk customers, with a view for eventual communication to the Authorities. The system is audited annually.

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

Complying with the determinations of the Bank of Portugal's Memorandum No. 9/2012, Santander Totta prepared the corresponding Report on Prevention of Money Laundering and of Financing Terrorism relative to the period from 1 June 2011 to 31 May 2012 which, once approved by the Board of Directors was forwarded to the Bank of Portugal.

Shareholder Structure

Accionista	Nº acções	%
Santander Totta, S.G.P.S., S.A.	641.269.620	97,65
TaxaGest - Sociedade Gestora de Participações Sociais, S.A.	14.593.315	2,22

Adoption of the recommendations of the *Financial Stability Forum* and of the *Committee of European Banking Supervisors* (CEBS) relative to the transparency of information and valuing of assets

In order to comply with the recommendation of the Bank of Portugal through circular letter No. 97/08/DSBDR dated 3 December 2009, the replies requested by the questionnaire were as follows:

I.	Business Model	
1.	Description of the business model (i.e., reasons for the development of the activities/business and respective contribution towards the process of creation of value and, if applicable, the alterations carried out (e.g. as a result of the period of turbulence);	See Report and Accounts - Chapter: - Business areas.
2.	Description of the strategies and objectives (including the strategies and objectives specifically related to carrying out securitization operations and with structured products);	See Report and Accounts - Chapters: - Business areas; - Risk management. See Attachment to Consolidated FS's -Notes 11, 21 and 44.
3.	Description of the importance of the activities carried out and respective contribution towards the Business (including approach in quantitative terms);	See Report and Accounts - Chapters: - Business areas; - Business support areas; - Economic and Financial Information. See Attachment to Consolidated FS's -Notes 3 and 26.
4.	Description of the type of activities developed, including the description of the instruments used, and the operation and qualification criteria that products/investments must comply with;	See Report and Accounts - Chapter: - Business areas. See Attachment to Consolidated FS's -Notes 1, 3 e) and f).
5.	Description of the objective and range of the institution's involvement (i.e. commitments and liabilities assumed), relative to each activity developed.	See Report and Accounts - Chapter: - Business areas.
II.	Risks and Risk Management	
6.	Description of the nature and range of the risks incurred relating to activities developed and instruments used	See Report and Accounts - Chapter: - Risk management. See Attachment to Consolidated FS's – Note 47 – disclosure of the management policies over the financial instruments inherent to the Group's activity and their monitoring.
7	Description of the practices in risk management (particularly including the liquidity risk in the current environment) relevant to the activities and the corrective measures adopted, description of any weaknesses identified and the corrective measures adopted;	See item 6 above.

III.	Impact of the Period of Financial Turbulence on Results	
8.	Qualitative and quantitative description of the results with emphasis on losses (where applicable) and impact of the write-downs on results;	N.A
9.	Breakdown of write-downs/losses per type of products and instruments affected by the turbulence period such as the following: commercial mortgage backed securities (CMBS), residential mortgage backed securities (RMBS), collateralised debt obligations (CDO), asset-backed securities (ABS);	N.A.
10.	Description of the motives and factors responsible for the impacts suffered;	N.A.
11.	Comparison of: i) impacts between (relevant) periods and ii) financial statements before and after the impact of the turbulence period;	N.A.
12.	Breakdown of write-downs between amounts realised and not realised;	N.A.
13.	Description of the influence of the financial turbulence in the prices quoted for the unit's shares;	N.A.
14.	Disclosure of the risk of maximum loss and disclosure of how the institution's situation may be affected by the extension or the worsening of the turbulence period or by the market's recovery;	See Report and Accounts - Chapters: - Economic and financial information; - Risk management. See Attachment to Consolidated FS's - Note 47.
15.	Disclosure of the impact that the variations to the spreads, related to the institutions main liabilities, had on the results, as well as the methods used to determine this impact;	See Report and Accounts - Chapter: - Economic and financial information. Liabilities deriving from issues of the Santander Totta Group are recorded at the amortized cost .

IV.	Levels and Types of Exposures Affected by the Turbulence Period	
16.	Nominal value (or amortized cost) and fair value of the "live" exposures";	See Report and Accounts - Chapter: - Risk management. See Attachment to Consolidated FS's – Notes 1.3 e) and f) and 47.
17.	Information on credit risk mitigating factors (e.g. via credit default swaps) and the respective effect on existing exposures	See Attachment to Consolidated FS's – Notes 1.3 f), 7, 12 and 47.
18.	Detailed disclosure, broken down by: - Seniority level of exposures/tranches held; - Level of credit quality (e.g. ratings, vintages) - Original geographic area; - Sector of activity; - Origin of exposures (issued, held or acquired); - Product features: e.g. ratings, weight/part of sub-prime associated assets, discount rates, spreads, financing; - Features of underlying assets: e.g. vintages, "loan-to-value" ratio, credit privileges, weighted average life of underlying assets, variation assumptions of pre-payment situations, expected losses.	See Attachment to Consolidated FS's – Notes 3, 11, and 47.
19.	Movements occurred in exposures between relevant reporting periods and underlying reasons for such variations (sales, write-downs, acquisitions, etc.)	N.A.
20.	Explanations concerning exposures (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognized during the crisis) and the related reasons;	N.A.
21.	Exposure to "monoline" insurers and quality of the insured assets: - Nominal value (or amortized cost) of the insured exposures as well as the amount of protection of the acquired credit; - Fair value of the "live" exposures, as well as the respective protection of the acquired credit; - Value of "write-downs" and losses, broken down between realised and non realised amounts; - Breakdown of exposures per rating or counterparty;	Santander Totta Group has no exposures to "monoline" insurers.

V.	**Acconting Policies and Valuation mehods**	
22.	Classification of transactions and of structured products for accounting purposes and respective accounting treatment	See Attachment to Consolidated FS's – Note 1.
23.	Consolidation of Special Purpose Entities (SPE) and other vehicles and reconciling these with the structured products affected by the turbulence period;	N.A:
24.	Detailed disclosure of the fair value of the financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (breakdown of all exposures measured at fair value in the fair value hierarchy and breakdown between availabilities and derivative instruments as well as disclosure of migration between hierarchical levels); - Treatment of "day 1 profits" (including quantitative information); - Use of fair value option (including conditions for its use) and respective amounts (with the adequate breakdown);	See Attachment to Consolidated FS's – Notes 1.3 e) and f), 7, 8, 12 and 47.
25.	Description of modelling techniques used for the valuation of financial instruments, including information on: - Modelling techniques and instruments to which these are applied; - Evaluation processes (particularly including the assumptions and the inputs on which the models are based); - Types of adjustment applied to reflect the modelling risk and other evaluation uncertainties; - Fair value sensitivity (namely the variations in key assumptions and inputs); - Stress scenarios.	See Attachment to Consolidated FS's – Notes 1.3 e), f) and 47.
VI.	**Other Relevant Disclosure Features**	
26.	Description of the disclosure policies and of the principles followed in disclosure and financial reporting.	See Attachment to Consolidated FS's – Note 1.

Organic Structure by Position

António Vieira Monteiro

Internal Audit – Miguel Cabeza Ruiz
- Dep. Operational Risks
- Dep. Credit Risks
- Dep. Financial Risks

Human Resources – Isabel Viegas
- Dep. Human Resources Management
- Dep. Administrative Management
- Dep. Training, Knowledge and Development
- Off. Compensation and Information

Chairman's Office – Sebastião Beltrão

Control/Operation Risk Management – Manuel Aragão

Recoveries – José Sousa
- Dep. Recoveries & Special Processes
- Dep. Recoveries & Mass Management
- Dep. Recoveries North
- Dep. Recoveries South

Standardized Risks– Inês Furtado
- Off. Risk Information Systems
- Dep. Private Risks
- Dep. Business Risks
- Dep. Follow Up Non Portfolio Customers

Wholesale Banks and Companies – Amílcar Lourenço
- Dep. Real Estate Risks
- Dep. Wholesale Banking
- Dep. Commercial Banking
- Dep. Follow Up Portfolio Customers

Solvency, Markets and Credit Control – Jesus Garcia
- Dep. Control & Analysis of Commercial Risks & BIS II
- Dep. Control & Analysis of Wholesale Risks
- Dep. Control & Analysis of Market & Financial Risks
- Dep. Technological Systems Risk Information

Planning and Risk Projects – José Leão

Higher Credit Council

Finance & International – Manuel Preto

Finance – Luís Capitão-Mor
- Dep. Corporate Finance
- Dep. Shareholdings and Taxation
- Dep. Assets & Liabilities Management
- Dep. Short Term Markets
- Off. Strategic Planning and Investor Relations

International – António Carneiro
- Off. Support and Network Dynamics
- Dep. Subsidiaries and Management Control
- Off. Europe
- Off. America and Africa

Accounting & Management Control – Ignacio Centenera Galán

Accounting – Graça Vale
- Div. Account Rendering Bank
- Div. Account Rendering Specialized Credit
- Div. Account Rendering Treasury
- Div. Monetary & Financial Statistics
- Div. Parameterization
- Div. Consolidation
- Off. Prudential Control

Management Control– Ana Cristina Marques
- Div. Commercial Banking Management Control
- Div. Group Consolidation Management Control
- Div. Expenses Management Control
- Div. Bank, AC and ALCO Management Control

Internal Control– Américo Domingues

Management Control Support – Manuela Marinho

José Manuel Elias da Costa

Companies – North – Paulo Natal
- Companies Porto 1
- Companies Braga
- Companies Guimarães
- Companies Boavista - Porto
- Companies Aveiro
- Companies Viseu
- Companies Coimbra
- Companies Porto 2
- Specialists and Dynamizers North
- Customer Management & Follow Up North
- Companies Middle Office North
- Company Risks North

Companies – South – Jorge Gaspar
- Companies Rua do Ouro - Lisbon
- Companies Conde Valbom - Lisbon
- Companies Setúbal
- Companies Odivelas
- Companies Estoril
- Companies Leiria
- Companies Funchal
- Companies Columbano B. Pinheiro – Lisbon
- Companies Iberian - Lisbon
- Specialists and Dynamizers South
- Customer Management & Follow Up South
- Companies Middle Office South
- Company Risks South

Business Support to Company Network

Real Estate Credit/Construction Promotion – António Fontes
- Construction Promotion North
- Construction Promotion South

Institutional Customers – Pedro Fialho
Institutional Customers
Dinamizing of Institutional Customers
Off. Collective Protocols
Factoring & Confirming– Maria do Carmo Carvalho
Off. Private & Business Factoring & Confirming Management
Off. Companies Factoring & Confirming Management
International Desk– Pedro Correia

João Baptista Leite

Technology & Business Systems - Nuno Frias Costa
Off. of Planning & Financial Control
Off. of Government & Compliance
Dep. of Planning Management & Technical Implementation
Dep. of Business Processes
Dep. of Network Means

Operations – Elsa Graça
Dep. of Middle Office, Assets & Liabilities
Dep. of Trans-nationality, Forwarding & Records
Dep. of Custody, Markets & Financial Assets
Dep. of Leasing
Dep. of Official Bodies & Contractual Support
Dep. of Control, Innovation & Efficiency Systems
Dep. of Accounting Controls

Real Estate, General Services & Security – Pedro Rodrigues
Off. of Security
Off. of Financial Control
Dep. of Works & Maintenance
Dep. of Areas & Asset Management
Dep. of General Services
Organization – Otília Casquilho
Off. of Structures
Off. of Planning & Control
Integral Expense Management – Mário Paulino
Off. of Purchasing Management
Off. of Optimization & Expense Control
Technological & Operational Risk – Esther Casillas
Off. of Operational Risk
Off. of Operational Treasury & Brokerage Risk
Off. of Computer Security and Technological Risk
Supplementary Channels – Joaquim Calça e Pina
Off. Contact Centre
Dep. Self-Banking
Dep. NetB@nco

José Carlos Sítima

Business Legal Consultancy
Dep. Corporate Consultancy
Dep. Network Consultancy
Off. of Consultancy to Global Wholesale Banking

Institutional & Compliance Issues – João Labareda
Off. of Compliance
Unit for Prevention of Money Laundering

Supervision – João Pedro Mendes

Real Estate Divestment – Jacinto Galante
Off. of Technical Divestment Regularization
Off. of Real Estate Sales
Off. of Divestment Contracting
Off. of Divestment Management Control

José Leite Maia

Private & Business – North – Manuel Cerejeira Castro
Companies - North
Privates - North
Business Support - North
Off. of Price Decision - North
Private & Business North 1
Private & Business North 2
Private & Business North 3
Private & Business North 4
Private & Business North 5
Private & Business North 6
Private & Business North 7
Private & Business North 8
Private & Business North 9
Private & Business North 10
Private & Business North 11
Private & Business North 12
Private & Business North 13
Private & Business North 14
Private & Business North 15

Private & Business – South – Sofia Frère
Companies - South
Private - South
Business Support - South
Off. of Price Decision - South
Private & Business South 1
Private & Business South 2
Private & Business South 3
Private & Business South 4
Private & Business South 5
Private & Business South 6
Private & Business South 7
Private & Business South 8
Private & Business South 9
Private & Business South 10
Private & Business South 11
Private & Business South 12
Private & Business South 13
Private & Business South 14
Private & Business South 15
Private & Business South 16
Private & Business South 17
Private Banking South – Luís Henrique S. Santos
Private Banking South 1
Private Banking South 2
Support to Private Business– Miguel Cordovil
Management of Private Assets – Catarina Roseira
Private Banking North – Luís Coimbra

Premium – António Lourenço
Dinamizing Premium North
Dinamizing Premium South
Off. of Support to Premium Segment

Business Follow Up – António Velez do Peso
Business Follow Up North
Business Follow Up South
Off. of Support to Business Follow Up

Network Control & Dynamics – Joaquim Filipe
Dep. Planning & Control of Network Management
Dep. Network Operational Marketing
Dep. Management & Dynamics of Commercial Network
Off. of Support to Network Projects and Insurance Brokerage

Support to Private & Business Network – Pedro Louceiro

Real Estate Promoters & Brokers – José Alberto Moura
Off. of Management Support
P&B North
P&B South

Studies & CRM– Sara Fonseca
Off. Technical & Support
Off. Study Analyses

Control of Irregulars – Jorge Mogo
Control of Irregulars - North
Control of Irregulars – South
Div. of Tele-collections
Off. of Technical Support

Luís Bento dos Santos

Quality – Abel Bernardes
Dep. of Customer Support
Dep. of Control & Assessment
Dep. Customer Experience Management

Image & Internal Communication – Rui Santos

External Communication – Cristina Neves

Public Relations & Events – Cristina Carvalho

Shareholders – José Pacheco

Economic Research– Rui Constantino

Universities– Marcos Ribeiro
Universities
Off. of Support for University Development
Div. of Management Control of the Consolidated Group
Div. of Management of Cost Control
Div. of Bank, Ac & ALCO Management Control

Pedro Castro e Almeida

Corporate and Investment Banking – João Veiga Anjos

Credit Markets – Cristina Melo Antunes

Global Transaction Banking – Hélder Gomes
Global Customers - South
Global Customers - North
Off. for Dinamizing Global Customer Products
Dep. of Institutional Custody

Treasury – Alexandra Gomes
Dep. of Fixed Income Corporate Sales
Dep. of Fixed Income Retail Sales
Dep. of Retail Structured Products, FX & Cash Equities

Middle Office & GBM Control– António Rebocho
Off. Sales & Trading Support
Off. Global Transaction Banking Support
Off. Loan and Markets Support

Business Control– José Viegas

Financial Institutions Group – Carlos Ramalho

Marketing
Dep. of Marketing Planning & Segments
Dep. of Publicity & Communication

Products & Private Services – Inês Oom de Sousa
Off. Liabilities & Price List
Off. Consumer Credit
Off. Mortgage Loans

Products & Company Services – Cláudia Barrocas
Dep. Credit, Resources & Partnership Products
Off. Transaction Banking
Off. International Business
Div. Customer Service
Off. Correspondent Banks
Off. Specialized Services

Means of Payment – Inês Gouveia
Off. Technical & Control
Off. for POS
Off. for Cards

Positions occupied by Members of the Santander Totta Board of Directors in other companies

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

Name	Company	Office
Matias Rodrigues Inciarte	Banco Santander, S.A (Spain).	Third Deputy Chairman of the Board of Directors
	Banco Espanhol de Crédito, S.A.	Member of the Board of Directors
	Financeira Ponferrada, S.A.	Member of the Board of Directors
	SCH Seguros e Reseguros, S.A.	Member of the Board of Directors
	União de Crédito Imobiliário, S.A.	Chairman of the Board of Directors
	Operador do Mercado Ibérico de Energia Pólo Espanhol, S.A.	Member of the Board of Directors
	Sanitas, S.A.	Director
António José Sacadura Vieira Monteiro	Portal Universia Portugal, S.A.	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Faculty of Social & Human Sciences	Member of the General Council
	Portuguese-Spanish Chamber of Commerce & Industry	Deputy Chairman of the Board of Directors
	Vieira Monteiro, Lda.	Manager
José Carlos Brito Sítima	Portal Universia Portugal, S.A.	Chairman of the General Meeting
	Partang, SGPS, S.A.	Member of the Board of Directors
	Tottaurbe – Empresa de Administração e Construções, S.A.	Chairman of the Board of Directors (1)
Luís Filipe Ferreira Bento dos Santos	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee
Eduardo José Stock da Cunha	Sovereign Bank	Member of the Board of Directors and of the Management Executive Committee MD, Head of Manufacturing
José Urgel Moura Leite Maia	Association of the Friends of Recife	Chairman of the Audit Board
Pedro Aires Coruche Castro e Almeida	Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	Chairman of the Board of Directors
	Trem – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
	SIBS – Forward Payment Solutions, S.A.	Member of the Board of Directors
	SIBS – SGPS, S.A.	Member of the Board of Directors
	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
Luís Manuel Moreira de Campos e Cunha	Serralves Foundation	Vice-President
	SEDES – Association for Economic & Social Development	President
	Galp Energia, SGPS, S.A.	Member of the Board of Directors
	Centro Cultural de Belém Foundation	Vice-President of the Management Committee
	Lisbon Nova University	Professor
Ricardo Manuel Duarte Vidal de Castro	Clube do Autor, S.A.	Director

(1) Terminated office on 02-02-12

Movements in Shares and Bonds held by Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of Company Law and CMVM Regulation No. 5/2008, following were the movements in shares and bonds held by Corporate Officers in 2012:

Name	Securities	Opening 31/12/11	Movements in 2012				Closing 31/12/12
			Date	Purchases	Disposals	Unit Price (€)	
João Baptista Leite	BST – Cash U.S.A. – Cx.Bonds	820					820
	BST – Cash Income Latin America TOP 3 Bonds	400					400

Corporate Governance

I - Report

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

1. The Bank's share capital is 97.647% owned by Sociedade Santander Totta SGPS, SA, which is directly controlled by Santusa, SL, a Company incorporated under Spanish Law which owns in it a 99.848% shareholding.

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

   There is a remaining 2.222% holding in the Bank's share capital that is owned by a Company under full, direct or indirect control of Companies Santander Totta, SGPS, Santusa and Banco Santander.

   The remaining 0.131% of the total share capital is dispersed among several shareholders, with 0.019% corresponding to BST's own shares.

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

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

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

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

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

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

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

   The corporate bodies are: the General Meeting, the Board of Directors and the Audit Board. Additionally, an official auditor, autonomous from the Audit Board, has been appointed in line with the provisions of article No. 413, §1, item b) and §2c of Company Law.

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

   The Board of Directors comprises an Executive Committee on which are constituted all the powers permitted by article No. 407, §4 of Company Law.

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

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

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

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

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

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

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

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

8. The main business areas of the Bank are:

- Retail Banking – refers essentially to credit granting operations and to the capture of resources related to private and business customers with a turnover lower than five million euros, channelled by the branch network and services made available by supplementary channels (telephone, internet, etc.);

- Company Banking –This area comprises companies with turnovers between 5 and 125 million euros. This activity is supported by the branch network, by company centres and specialized services, including several products, such as loans to finance working capital, project finance, trading, exports and real estate;

- Global Banking & Markets – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and stock exchange brokerage orders received from customers;

- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but is not directly linked with the core business, also including liquidity management, balance sheet coverage and structural financing of the Bank.

9. The global model of the company's governance is that comprised under item IV

Itemized below are the most relevant and the specific activities of the multiple interdisciplinary Committees that follow up and control all the institutions activity.

<u>Higher Credit Council</u>
Highest decision body in the Risk structure that exercises the powers delegated by the Executive Committee.

<u>Market & Financial Risks</u>
Analysis of the governance information of the Risks area; analysis and control of the several risks; approval of procedures and controls to prevent or mitigate existing risks.

<u>ALCO – Assets and Liabilities Committee</u>
Manages the market and liquidity structural risk, establishes contingency plans, promotes hedging strategies, and decides strategic positioning in order to optimize net interest income and the profitability of the equity funds.

<u>Human Resources Committee</u>
Analysis and decision concerning changes and exceptions to the current HR management policies.

<u>ARC – Analysis and Resolution Committee</u>
Prevents Money Laundering and Financing Terrorism and carries out the communications established by Law.

<u>Marketing and Product Follow Up</u>
Approval of product and services and their respective follow up, singling out incidences that may occur and the reputation risk they may generate.

<u>Expenditure and Investments</u>
Assesses, decides, follows up and controls expenditure and investment.

<u>Pensions</u>
Carries out the corporate policy over pensions and fully controls the respective risks.

<u>Commercial (Private, Companies, Business, Premium, University Business and International Business)</u>

Follows up the evolution of operating income, ensuring that it proceeds in line with the established objectives, accompanies proposals and decides over the launching of products and campaigns.

<u>Customer Capturing and On-Boarding</u>
Redesigns the model of capturing and binding of customers for the development of a sustained and sustainable model of customer capturing that supports the Bank's growth requirements.

<u>Distribution and Multi-channelling Model</u>
Redesigns the distribution model and adapts it to the requirements of the new commercial model.

<u>Customer Quality and Experience</u>
Monitors and assesses general quality indicators within the scope of the quality management model.

<u>Internal Control and Compliance</u>

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

Technological and Operational Risk
Establishes and follows up the implementation of control and mitigation measures to be applied in case of technological and operational risk.

Disposal of Real Estate
Analysis and decision on the disposal of real estate with values equal to or in excess of 200,000 euros.

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

Standardized Risks
Analyse, issue view on or approve Programmes of Credit Management (PCM), follow up the indicators and supervise the credit management policies applied.

Analysis and Follow Up of Provisions
Ensure the correct operational management of the provisions set up and decide upon credit provisions that should be binding.

Public Policy
Follows up known legislative or regulatory projects as well as standards of conduct.

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

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

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

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

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

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

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

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

a) Risk Management Mission

The Risk Management Mission (RMM) is transversal to the Santander Totta Group. The mission is comprised in the Control Office / Risk Management Mission (CORMM), established in BST's organic structure.

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

This feature's general mission is to ensure an efficient and adequate operation of the internal control model, aiming to assess the relevance of the incurred risks and the degree of effectiveness of the measures adopted for its control, mitigation and overcoming.

RMM was set up with the highest level of independence, that is, without any direct responsibility over any executive duty or first or second line of control over the activities to be assessed and thus with the capability of carrying out its own tests with the objective to ensure the effective application of the risk management system.

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

- Full access to all the institution's activities as well as to all considered as relevant in the audit reports;
- Independence relative to the assessed areas;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and in the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Board;

- Promotion of an adequate and efficient level of control extensive to the whole organization considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputation and Strategic Risks, without prejudice to any others that, in the view of the institution, may become material;
- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements with respect to the development of new tools and the estimate of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Board the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board considers as opportune.

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

The CORMM is applying a specific methodology developed to assess the reach and effectiveness of the controls and mitigation processes of the Risk profiles, which has materialized in a number of tests or checks of the requisites specifically recommended for each type of risk. Such tests and requisites were based on the recommendations issued by the Basle Committee and by the European Banking Authority (EBA, ex-CEBS), by the Committee of Sponsoring Organizations of theTreadway Commission (COSO), by the Federal Reserve System (FED), Sarbanes-Oxley Law (SOX), Financial Services Authority (FSA) and other standard and regulatory bodies. Also considered was the Portuguese case, especially the regulations covering Internal Control contained in the General Regime of Credit Institutions and Finance Companies (GRCIFC) and connected documentation such as CMVM and particularly in the Risk Assessment Model (RAM).

The activity developed by the Risk Management Mission is usually documented in a specific annual report, the "CMM Report", the last of which is dated May 2012. This document is intended to be used as a support to the Internal Control System of the Santander Totta Group, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred Report.

As a complement, the activity was directed towards the accompaniment of the Special On-Site Inspection Programme (SIP) promoted by the Bank of Portugal, with the support of international auditors and consultants, under the supervision of IMF/ECB/EU, the excellent results of which confirmed, in all regards – *Work Stream* (WS) 1, 2, 3 and 4 – the certainty of the correct adequacy of the policies, procedures and controls instituted by Santander Totta.

WS1 acted on the assessment of the credit portfolio; WS2 on the capital requisites for credit risk ("RWA"); WS3 on the methodologies and parameters used in the Stress Tests; and WS4 on the assessment of the credit portfolio on the activities of real estate promotion and construction "Commercial Real Estate (CRE) and Construction".

The main conclusions identified: for WS1, that after 100% of the portfolio had been assessed no additional provisions had to be constituted; for WS2 that Core Tier 1 ratio would increase by 0.1 percentage points with the application of the revision carried out; for WS3 that ST uses a clearly appropriate methodology in its stress test exercises. The WS4 results were disclosed in November 2012 with reference to 30 June 2012, and indicated the need for an additional 49 million euro imparity, which had anyway already been provided for in September, with the result that BST was also the only bank that had not shown additional provisioning needs in this WS.

b) <u>Compliance Mission</u>

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

The compliance mission is comprised in the Department for Coordination of Institutional and Compliance Issues (DCICI). The officer responsible is the Compliance Manager, Dr. João António Cunha Labareda, with the following specific duties and attributions:

- DCICI is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;

- DCICI has its own staff, who are employees of the institution, exclusively affected to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;

- DCICI, in exercising its mission, has free access to all information and data relative to the Bank's activity that it may request or require, as well as to the Institution's facilities and equipment;

- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputation and compliance risks and, should it be the case, the correction of the incidences occurred;

- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of whiich set the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by DCICI that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;

- Policies and procedures are approved and established for marketing products, as well as the process and offices for the respective approval and follow up that aim, on the one hand, to guarantee the prior checking of all the necessary requisites in order that marketing operates without legal, reputation and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, enter the justifiable overcoming measures, which may include the interruption or the termination of the marketing exercise when circumstances so determine or advise. In this context, special relevance is assumed by the assessment and follow up of the reputation risk inherent to the products or that may arise during the exercise of the marketing operation by the occurrence of on the spot adverse circumstances that, in some way, may affect those, or that are relevantly incident on customer relationship;

- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its scope, to external branches and subsidiaries. Several of these already have officers responsible for compliance that locally exercise the corresponding duties. In remaining cases, where the type of operation of the activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in Portugal. DCICI, within the framework of its mission, controls the performance of such duties by the respective responsible officers.

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

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

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

Without prejudice to the permanent and systematic contacts with the Board of Directors, and mainly with the Director responsible, the activity developed within the scope of the compliance mission is the object of an annual report.

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2011) and the end of May 2012.

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

c) Audit Mission

The basic duties of Internal Audit are:

- Supervise the compliance, effectiveness and efficiency of the Group's systems of internal control, as well as the reliability and quality of the accounting information. For this purpose the risks inherent to the Group's activity are adequately covered, particularly the accounting risks, market risks (that include interest and exchange rates), of the balance sheet structure (that includes liquidity risks), credit, operational, (including the adequate launching of products), money laundering, regulatory and reputation;

- Check that the Units responsible to exercise Risk controls comply with their duties and respect the policies established by the Board of Directors, and the applicable internal and external procedures and standards. Likewise, it analyses the latter's organizational structure and the adequate use of the assigned human resources and material means;

- Carry out special investigations, both on its own initiative and at the request of the Board of Directors;

- Prepare reports on all the audited units and advise these of the recommendations issued as a result of the audit procedures, establishing an implementation schedule and following this up to check that such recommendations are being carried out.

The officer responsible for the internal audit mission is Dr. Miguel Cabeza, appointed by the Board of Directors, who conferred on him all the necessary powers for the independent performance of his duties, with free access to all relevant information.

The staff of the Internal Audit Department comprises 28 employees, distributed over the areas of Financial Risks, Credit Risks and Operational Risks, and all of them are University graduates.

The Risk Matrix gives priority to the units covered by the Internal Audit, in line their inherent degree of risk. The matrix assesses the business risks implicit to the units during the previous accounting year and other factors (size of Unit, last rating obtained, and degree of implementation of the recommendations).

Based upon the assessment of all these factors the Overall Units covered are classified as Priority, Concerning, To Be Watched, Normal and Not Concerning. Amongst the Regulatory requisites are the carrying out of revisions of the Basle II project and DMIF. Additionally, the units' revisions include the analysis and checking of the SOX processes.

II. Remuneration

1. Remuneration Policy of Corporate Officers applicable in 2012

Following a proposal of the Remuneration Committee, the General Meeting held on 28 May 2012 approved the following statement on remunerations policy.

Remuneration Policy of Corporate Officers

A. Framework

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

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

The current Remuneration Committee was elected for a three year mandate, at the meeting of the General Meeting held on 28 May 2010, and comprises the following individualities:

D. Alfredo Saenz Abad, representing Santander Totta SGPS
D. José Luis Gómez Alciturri
D. Matias Pedro Rodriguez Inciarte, appointed on 27 May 2011.

B. Santander Group Policy

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

These are the premises that generally determine the Group's remuneration policy, with special reference to the executive directors, and that allow attracting and retaining talents in the organization, considering the wide scope of the market in which it operates.

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

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

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

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

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

C. Guiding principles of the Remuneration Policy of Bank Santander Totta

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

- Simplicity, clarity, transparency, aligned with the Bank's culture, and also considering the group to which it belongs;
- Consistency with an effective risk and control management to avoid excessive exposure to risk and conflicts of interest, on the one hand, and endeavouring coherence with the objectives, values and long term interests of the Bank, whose capacity for reinforcing its equity basis it preserves, jointly with its employees, and, on the other, the interests of its customers and investors;
- Competitiveness, considering the market practices and fairness, since the practice of remuneration is based upon uniform, consistent, fair and balanced criteria;
- Alignment with the best practices and recent trends in the financial sector, at national and international levels, with the ultimate objective of discouraging the exposure to excessive risks and to promote the continuity and sustainability of positive performances and results, namely: i) the setting of maximum limits for the Remuneration components that must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establishing the individual Variable Remuneration considering the assessment of the respective performance, based upon financial and non financial criteria, in line with the duties and level of responsibility, as well as the Bank's results, and also in comparison with other international institutions in the same sector;
- The legal rulings in force at each moment are applied to early termination of contracts;
- No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

D. Components of the Remuneration Policy

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

- The Remuneration Policy of Corporate Officers is framed within the Group's directives that were laid down in line with the best practices existing in the sector
- The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
  - (i) Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
  - (ii) Annually, by the Group's Managing Director, with respect to the Chairman of the Bank's Executive Committee.
- Concerning the non executive directors, the Chairman of the Board of Directors does not receive any remuneration in Portugal, and is remunerated exclusively for his activity in Spain; the other non executive Director receives Fixed and Variable remuneration, the amount of which is directly related to the results of Bank Caixa Geral Totta de Angola, where he has executive duties.
- The members of the Audit Board receive only a fixed remuneration the amount of which is determined in line with the criteria and practices in use in the remaining Group companies, considering the size of the business and of the Portuguese market.
- Considering that the conditions under which the variable remuneration is established and paid result in an indeterminate value and eventual payment, it is not possible to determine a maximum absolute limit for the relation between the fixed and variable remuneration of the executive directors. For this reason, with respect to 2012, the only indication given will be the estimated proportion that results for each of the components in the total remuneration, considering the practice followed in previous years.

D.1. Fixed Remuneration

- Fixed Remuneration is paid 14 times per year;
- The Fixed Remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank's results, the assessment of performance and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Remuneration of the executive directors has the limits annually set by the Remunerations Committee, and should not be, in 2012, lower than 40% of the Total Remuneration.

D.2. Variable Remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2012, it will amount to more than 60% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established by the Group;
- The determination of the value of the Variable Remuneration is based upon the following criteria: i) the results of the Bank and of the Group it comprises, although, as to the latter, with a lower relative weight, and considering the indicators of efficient capital consumption and the average growth of the operating results; ii) individual performance, considering the individual quantitative results achieved, as well as the contribution to the Bank's image and reputation;
- Attribution of Variable Remuneration equally depends upon the degree of achievement of the annual objectives established;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary in each year as a function of the degree of achievement of the objectives, between 0% and a value that in 2012 is estimated not to be in excess of 150% of the reference value established annually by the Remunerations Committee;
- The weighting of the achievement of the strategic objectives set by and for the Bank, either in absolute terms, or by comparison with other institutions in the sector, for the purpose of establishing the Variable Remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
- In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be placed in suspense until such claims have been established and, should these be conclusive, the respective remuneration will not be attributed until such damages have been settled.

D.2.1 Deferment of Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, with reflex on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander, S.A.;
- The deferment of Variable Remuneration is determined as a function of results obtained during a three year period and subject to the following cumulative conditions being achieved: i) permanence in the company during an established given period; ii) preservation of the level of financial performance of the Santander economic group during the referenced three year period; iii) non occurrence of significant variations in the economic capital or in the risk profile of the Santander Group; iv) compliance with internal standards, including those relative to risks, annually approved by the Group;
- The deferred portion will represent 40% of the total value of the Variable Remuneration, with respect to the main body of executive directors and may, in specific circumstances, reach 50%;
- Half of the non deferred portion will be paid in shares and the remaining half in cash;

- Half of the deferred amount is paid in shares and the other half in cash, the payment of the latter portion to be effected in three instalments, during the three coming years, and will be dependent upon the above referred conditions;
- Shares distributed to the members of the Executive Committee do not benefit from any risk coverage contract and will remain, until the termination of their respective contracts, subject to the condition that the shares continue held, until their value reaches twice the value of the amount of the Total Remuneration (without prejudice to the possibility of shares being disposed of should this be required in order to settle taxes resulting from the benefits of those same shares).

D.2.2. Identification of the deferred portion and of that already paid

On this date, with respect to two directors, two thirds of the Variable Deferred Remuneration relative to 2010 has been deferred, and one third of this Remuneration has already been paid in the current year.

Concerning the 2011 variable remuneration relative to members of the Executive Committee, 30% have been paid in cash and 30% in shares. The payment of the remainder has been deferred.

D.3. Amounts paid by other companies owned or related to the Group

It is not estimated that, in 2012, any amounts will be paid to the executive directors, by other companies owned or related to the Group.

D.4. Benefits

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

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

E. Complementary features

The attribution of option plans for 2012 is not envisaged.

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

It is not foreseeable that, in 2012, any compensation will be paid for early termination of services by Corporate Officers.

F. Compliance with the remuneration policies established by the Bank of Portugal

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

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

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

2. Remuneration and Other Benefits Attributed to Corporate Officers

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

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2012 were, respectively, 2,337,000 euros in fixed remunerations and 3,338,000 euros in variable remuneration.

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

On 31 December 2012 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 1,135,000 euros.

Annual Remuneration

Board of Directors

Name	Position	Remuneration fixed
Matias Pedro Rodriguez Inciarte	Chairman	-
António José Sacadura Vieira Monteiro *	Vice - President	482
Carlos Manuel Amaral de Pinho	Non-Executive Member	139
Eduardo José Stock da Cunha	Non-Executive Member	-
João Baptista Leite	Member	200
José Carlos Brito Sítima	Member	273
José Urgel Moura Leite Maia	Member	200
José Manuel Alves Elias da Costa	Member	257
Luís Filipe Ferreira Bento dos Santos	Member	231
Pedro Aires Coruche Castro e Almeida	Member	210
Nuno Manuel da Silva Amado **		161
Miguel de Campos Pereira de Bragança ***		85
		2,238

* Appointed on 31/01/2012
** Rennounced office on 27/01/2012
*** Rennounced office on 11/02/2012

Audit Board

Name	Position	Remuneration fixed
Luís Campos e Cunha	Chairman	60
Mazars & Associados, SROC	Member	15
Ricardo Castro	Member	24
		99

Annual Variable Remuneration

Remuneration in cash:

Board of Directors

Name	Position	Bonuses in 2012 (cash)
António José Sacadura Vieira Monteiro	Vice - Presidente	158
Carlos Manuel Amaral de Pinho	Non-Executive Member	83
João Baptista Leite	Member	79
José Carlos Brito Sítima	Member	122
José Urgel Moura Leite Maia	Member	120
José Manuel Alves Elias da Costa	Member	143
Luís Filipe Ferreira Bento dos Santos	Member	129
Pedro Aires Coruche Castro e Almeida	Member	170
		1,004

Remuneration in shares:

Board of Directors

Name	Position	Bonuses in 2012 retained by one year
António José Sacadura Vieira Monteiro	Vice - President	147
Carlos Manuel Amaral de Pinho	Non-Executive Member	78
João Baptista Leite	Member	73
José Carlos Brito Sítima	Member	114
José Urgel Moura Leite Maia	Member	112
José Manuel Alves Elias da Costa	Member	134
Luís Filipe Ferreira Bento dos Santos	Member	120
Pedro Aires Coruche Castro e Almeida	Member	159
		937

This amount corresponds to 156,212 shares of Banco Santander, S.A., at the value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

The Santander Group, in which the Bank is comprised, also has a long term worldwide incentive plan, naturally including Bank Banco Santander Totta, S.A., which is divided into cycles.

On 09 July 2012, the fourth cycle of the share plan bound to objectives was finalized. Within this, the total number of shares attributed to members of the Board of Directors numbered 35,850, at the value of 4.883 Euros per share (market value on that date). The individual value attributed to each member of the Board of Directors, which corresponds to the shares attributed in I12, was the following:

Board of Directors

Name	Position	Shares Plan I12 amount
António José Sacadura Vieira Monteiro	Vice - President	21
Carlos Manuel Amaral de Pinho	Non-Executive Member	14
João Baptista Leite	Member	11
José Carlos Brito Sítima	Member	21
José Urgel Moura Leite Maia	Member	23
José Manuel Alves Elias da Costa	Member	26
Luís Filipe Ferreira Bento dos Santos	Member	27
Pedro Aires Coruche Castro e Almeida	Member	32
		175

Deferred Remuneration

Deferred remuneration in cash relative to 2012 was as follows:

Board of Directors

Name	Position	Bonuses in 2012 2014 Cash	2015 Cash	2016 Cash
António José Sacadura Vieira Monteiro	Vice - President	52	52	52
Carlos Manuel Amaral de Pinho	Non-Executive Member	19	19	19
João Baptista Leite	Member	17	17	17
José Carlos Brito Sítima	Member	27	27	27
José Urgel Moura Leite Maia	Member	27	27	27
José Manuel Alves Elias da Costa	Member	32	32	32
Luís Filipe Ferreira Bento dos Santos	Member	29	29	29
Pedro Aires Coruche Castro e Almeida	Member	38	38	38
		241	241	241

Deferred remuneration in shares relative to 2012 was as follows:

Board of Directors

Name	Position	Bonuses in 2012 2014 shares	2015 shares	2016 shares
António José Sacadura Vieira Monteiro	Vice - President	8,169	8,169	8,169
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,885	2,885	2,884
João Baptista Leite	Member	2,723	2,723	2,723
José Carlos Brito Sítima	Member	4,220	4,220	4,221
José Urgel Moura Leite Maia	Member	4,149	4,149	4,149
José Manuel Alves Elias da Costa	Member	4,963	4,963	4,964
Luís Filipe Ferreira Bento dos Santos	Member	4,452	4,452	4,452
Pedro Aires Coruche Castro e Almeida	Member	5,876	5,876	5,876
		37,437	37,437	37,438

On this date two thirds of the variable remuneration relative to 2011 has been deferred, and one third of that remuneration paid in the current year.

Board of Directors

Name	Position	Bonuses of 2011 paid in February 2013 Interest	Dividend	Cash	Shares
António José Sacadura Vieira Monteiro	Vice - President	0.2	1	10	10
Carlos Manuel Amaral de Pinho	Non-Executive Member	-	1	-	11
João Baptista Leite	Member	0.1	1	6	7
José Carlos Brito Sítima	Member	0.2	1	10	10
José Urgel Moura Leite Maia	Member	0.2	1	10	10
José Manuel Alves Elias da Costa	Member	0.2	2	13	14
Luís Filipe Ferreira Bento dos Santos	Member	0.2	1	12	13
Pedro Aires Coruche Castro e Almeida	Member	0.5	3	25	27
		2	11	86	102

The amount corresponds to a number of 17,012 shares in Banco Santander, S.A., at a value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

Board of Directors

Name	Position	Bonuses in 2011 2014 Shares	2014 Cash	2015 Shares	2015 Cash
António José Sacadura Vieira Monteiro	Vice - President	1,703	10	1,703	10
Carlos Manuel Amaral de Pinho	Non-Executive Member	1,773	-	1,773	-
João Baptista Leite	Member	1,087	6	1,086	6
José Carlos Brito Sítima	Member	1,703	10	1,704	10
José Urgel Moura Leite Maia	Member	1,703	10	1,704	10
José Manuel Alves Elias da Costa	Member	2,409	13	2,409	13
Luís Filipe Ferreira Bento dos Santos	Member	2,138	12	2,138	12
Pedro Aires Coruche Castro e Almeida	Member	4,496	25	4,495	25
		17,012	86	17,012	86

On this date one third of the variable remuneration relative to 2010 has been deferred, and one third of that remuneration paid in the current year
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Board of Directors

		Bonuses of 2010 paid in February 2013	
Name	Position	Dividend	Shares
José Manuel Alves Elias da Costa	Member	1	3
Pedro Aires Coruche Castro e Almeida	Member	4	19
		5	22

The amount corresponds to a number of 3,725 shares in Banco Santander, S.A., at a value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

Board of Directors

		Bonuses of 2010 to pay in 2014
Name	Position	Shares
José Manuel Alves Elias da Costa	Member	588
Pedro Aires Coruche Castro e Almeida	Member	3,137
		3,725

Other Benefits

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

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

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

On 31 December 2012, liabilities with this plan amounted to 13,735,000 euros and are duly covered by a provision recorded in the Bank’s accounts.

Contractual Terminations

There were no payments, in 2012, of any compensation for early termination of employment of corporate officers.

3. Remunerations Policy applicable in 2012 to the Managerial Staff of Bank Santander Totta, S.A.

At its meeting held on 20 June 2012 the Board of Directors approved the following remunerations policy.

Remunerations Policy applicable to the Managerial Staff of Bank Santander Totta, S.A.

In the terms and for the purposes of the provisions of article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy is disclosed of the employees who, not being Corporate Officers of Bank Santander Totta, S.A. (the "Bank"), exercise their professional activity within the scope of the control missions comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank's risk profile.

Considered for this purpose are the Managers referred to in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July (responsible for the Audit, General Control of the Bank's Risks, Compliance and Credit and Market Risks areas), as well as those responsible for the Financial, Accounting and Management Control areas.

A. Framework

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

The Remuneration Policy of Managerial Staff is annually reviewed and approved by the Board of Directors, in the exercise of the competence that may be delegated on the respective Executive Committee, The Bank's Human Resources Management also took part in its definition, putting forward recommendations intended to ensure that remunerations are adequate and reflect the Bank's risk profile and long term objectives, and also conform to legal and regulatory standards, as well as with the national and international pertinent principles and recommendations.

B. The Santander Group Policy

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

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

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

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

The Group set up, in 2010, a Committee for the Assessment of Remuneration Risks, whose members are individualities of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives, all features that have an impact on remunerations.

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

C. Guiding Lines of the Remuneration Policy

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

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

D. Components of Remuneration Policy

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

- This Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the practices existing in the sector;
- The means for the assessment of the Managers' performance derive from the referred directives. This assessment is carried out on an annual basis by the Directors responsible for the respective areas. Whenever these managers report to two different areas, the assessment is also carried out by the Group officer responsible for the other area in question;
- Since the conditions for the establishment and payment of the variable remuneration render its final value indeterminate and its payment eventual, it is not possible to set an absolute maximum limit for the relationship between the fixed and variable components of the Managerial remunerations. For this reason, with respect to 2012, the only possible indication will be the estimated proportion that each of the components will represent in the total remuneration, having as a reference the practice followed in prior years.

D. 1. Fixed Remuneration

- Fixed remuneration is paid 14 times a year;
- Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 1012, it will represent a lower proportion than 67% of Total Remuneration.

D. 2. Variable Remuneration

- Managerial remuneration equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2012, it will amount to more than 33% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established by the Group;
- The determination of Variable Remuneration will thus be based on the following criteria: (i) the Bank's performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results, except in the case of the Managers referred to in Instruction No, 5/2008 of the Bank of Portugal; (ii) individual performance, considering the individual quantitative results achieved, as well as the contribution to the Bank's image and reputation;
- The attribution of Variable Remuneration depends upon short term performance and on the degree of achievement of the established annual objectives individually weighted in line with the respective degree of strategic importance and in the terms of the schedule defined in the Performance Assessment Policy;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary each year in terms of the degree in the achievement of objectives, between 0% and a value that in 2012 is estimated as not in excess of 150% of the reference value, such as determined by the majority shareholder.

D. 2. 1. Deferment of Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, with reflex on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander,
- In the terms of the Regulation approved by the Board of Directors of Banco Santander, S.A., the deferment of Variable Remuneration is determined as a function of results obtained during a three year period and subject to the following cumulative conditions being achieved: i) permanence in the company during an established given period; ii) preservation of the level of financial performance of the Santander economic group during the referenced three year period; iii) non occurrence of significant variations in the economic capital or in the risk profile of the Santander Group; iv) compliance with internal standards, including those relative to risks, annually approved by the Group;
- The deferred portion will represent 40% of the value of the Variable Remuneration;
- Half of the non deferred portion will be paid in shares and the remaining half in cash;

- Half of the deferred amount is paid in shares and the other half in cash, the payment of the latter portion to be effected in three instalments, during the three coming years, and will be dependent upon the above referred conditions, under *b)*;
- The shares immediately given to the employees covered by this regulation are subject to their being held during one year and do not benefit from any risk covering contract; shares given on a deferred basis are not subject to a holding condition.

D. 2. 2. Identification of the deferred portion and of that already paid

None of the Managers covered by this Declaration was subject to a deferment of a portion of Variable Remuneration relative to prior years.

D. 3. Benefits

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

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

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

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

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

There are no pension benefits attributed on a discrete basis.

E. Compliance with the remuneration policies determined by the Bank of Portugal

The remuneration policy of Bank Managers is globally in line with the principles comprised in Instruction No. 10/2011 of the Bank of Portugal, dated 26 December (Official Gazette, 2nd Series, dated 9 January 2012), guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the establishment of the Total Remuneration of these groups of employees, comprising Fixed and Variable Remuneration, as well as the relationship between these two components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Instruction, which is manifestly its basic source.

The circumstance of the Bank being comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in turn, considering the global nature of the Group, respect the applicable international regulations. In this context, the adoption of the remaining rules contained in Instruction No. 10/2011 would imply a procedural redundancy and an artificial execution without any practical effects. Thus Bank Santander Totta's policy in the matter of its Managers remunerations is contained within the current limits without prejudice to the compliance, in global terms, and at the time of the setting of the directives of the Group it comprises, with rules issued in identical sense by the competent national authorities.

4. Remuneration and Other Benefits attributed to Managers

This information is provided in compliance with the provisions of article No. 17 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), in that part that refers the disclosure, in aggregate terms, of the remuneration paid to employees who, not being Corporate Officers of Banco Santander Totta, S.A. (the "Bank"), exercise their professional activity within the scope of the control missions comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank's risk profile (herein referred to as "Managers").

Annual Remuneration

Fixed remuneration:	mEuros 1,028
Variable remuneration:	mEuros 473
Number of beneficiaries:	7

2012 Performance prize retained for one year amounting to Euros 242,000, corresponding to 40,295 shares of Banco Santander, S.A., at the value of 6 Euros per share, since this was the market value (stock exchange) on the date of the respective attribution.

Deferred Remuneration	2014	2015	2016
Cash portion (mEuros)	65	65	65
Shares	10.088	10.088	10.088

These managers are also included in the long term worldwide incentive plan, which is divided in cycles. The third cycle of the share plan was finalized on 09 July 2012. In this area, the total number of shares attributed to these Managers was 7,699, at a value of 4.883 Euros per share, corresponding to an amount of 38,000 Euros.

Other Benefits

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

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

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

New Contracts

One employee was contracted in 2012, to exercise the control duties included in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, and with responsibility in assuming risks on behalf of the Bank or of its customers, with material impact in the Bank's risk profile, replacing the employee who terminated his duties.

Contractual Terminations

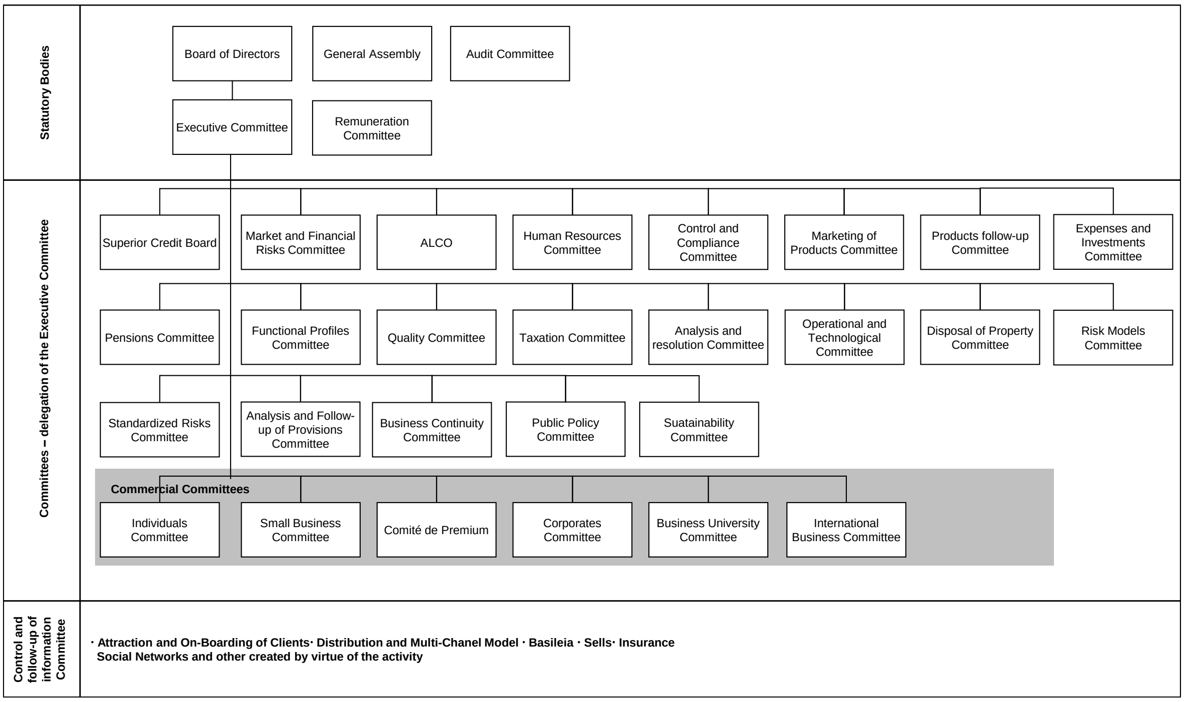
In 2012, one of the Managers that exercised control duties terminated his labour contract.

III. Remunerations Policy for 2013

The Remunerations policy for the Corporate Officers of Bank Santander Totta for 2013, will be considered at the Annual General Meeting, in compliance with article No. 2, §1 of Law No. 28/2009, dated 19 June and of article No. 16 of Instruction No. 10/2011, of the Bank of Portugal, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012).

The Remunerations policy for the Managerial Staff of Bank Santander Totta was approved at the meeting of the Board of Directors held on 20 June 2012, applicable in 2012 and 2013. Until a new decision is taken, that policy is described above. This issue will be re-appreciated in June 2013.

IV. Model of Internal Governance



Declaration referred under item c) of § 1 of article No. 245 of the Securities Legislation

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

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2012, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

Board of Directors

Matias Pedro Rodriguez Inciarte
Chairman

António José Sacadura Vieira Monteiro
Director

Carlos Manuel Amaral de Pinho
Director

Eduardo José Stock da Cunha
Director

José Carlos Brito Sítima
Director

José Urgel Moura Leite Maia
Director

José Manuel Alves Elias da Costa
Director

Luís Filipe Ferreira Bento dos Santos
Director

Pedro Aires Coruche Castro e Almeida
Director

João Baptista Leite
Director

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

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

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2012, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

Audit Board

Chairman: Luís Manuel Moreira de Campos e Cunha

Members: Mazars & Associados, SROC, represented by Fernando Vieira

Ricardo Manuel Duarte Vidal Castro

Consolidated Financial Statements

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheets originally issued in Portuguese - Note 49)

ASSETS	Notes	2012 Amounts before impairment and depreciation	2012 Depreciation and impairment	2012 Net assets	2011 Net assets
Cash and deposits at central banks	5	352,365	-	352,365	387,837
Balances due from other banks	6	385,323	-	385,323	356,962
Financial assets held for trading	7	2,265,495	-	2,265,495	1,995,784
Financial assets at fair value through profit or loss	8	93,735	-	93,735	80,121
Available-for-sale financial assets	9	3,548,847	58,983	3,489,864	4,439,605
Loans and advances to credit institutions	10	3,097,422	-	3,097,422	2,692,911
Loans and advances to customers	11	27,945,311	965,662	26,979,649	28,372,027
Hedging derivatives	12	284,850	-	284,850	167,302
Non-current assets held for sale	13	300,905	94,065	206,840	141,163
Other tangible assets	14	840,372	504,288	336,084	365,415
Intangible assets	14	346,605	280,763	65,842	74,230
Investments in associated companies	15	143,654	660	142,994	133,052
Current tax assets	16	4,246	-	4,246	17,632
Deferred tax assets	16	631,578	-	631,578	714,817
Other assets	17	216,798	25,842	190,956	176,456
Total assets, net		40,457,506	1,930,263	38,527,243	40,115,314

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Liabilities			
Resources of central banks	18	5,837,242	4,913,234
Financial liabilities held for trading	7	2,048,743	1,663,299
Resources of other credit institutions	19	1,949,574	3,611,532
Resources of customers and other debts	20	21,497,174	19,844,104
Debt securities	21	3,953,519	7,393,865
Hedging derivatives	12	455,911	282,889
Provisions	22	72,271	75,482
Current tax liabilities	16	4,687	6,545
Deferred tax liabilities	16	75,303	66,972
Subordinated liabilities	23	4,311	4,328
Other liabilities	24	303,417	289,589
Total liabilities		36,202,152	38,151,839
Shareholders' equity			
Share capital	25	656,723	656,723
Share premium account	25	193,390	193,390
Other equity instruments	25	135,000	135,000
Revaluation reserves	25	(699,202)	(1,008,461)
Other reserves and retained earnings	25	1,421,512	1,404,582
(Treasury shares)		(42,560)	(42,400)
Consolidated net income attributable to the shareholders' of BST	26	88,068	47,121
Shareholders' equity attributable to the shareholders' of BST		1,752,931	1,385,955
Minority interests	27	572,160	577,520
Total shareholders' equity		2,325,091	1,963,475
Total liabilities and shareholders' equity		38,527,243	40,115,314

The accompanying notes form an integral part of the consolidated balance sheet as of December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of income statement originally issued in Portuguese - Note 49)

	Notes	2012	2011
Interest and similar income	29	1,648,148	1,692,694
Interest and similar charges	30	(1,106,614)	(1,149,161)
Net interest income		541,534	543,533
Income from equity instruments	31	1,698	1,278
Income from services and commission	32	384,701	397,185
Charges with services and commission	33	(53,893)	(54,326)
Result of assets and liabilities at fair value through profit or loss	34	37,183	1,895
Result of available-for-sale financial assets	35	(2,696)	(77,237)
Result of foreign exchange revaluation	36	5,652	5,295
Result from the sale of other assets	37	85,689	1,006
Other operating results	38	(12,760)	(14,044)
Net income from banking activities		987,108	804,585
Staff costs	39	(257,636)	(296,634)
General administrative costs	40	(137,496)	(146,857)
Depreciation in the year	14	(63,873)	(63,362)
Provisions, net of reversals	22	(22,821)	(14,297)
Loan impairment net of reversals and recoveries	22	(378,147)	(227,826)
Impairment of other financial assets net of reversals and recoveries	22	(16,504)	(10,439)
Impairment of other assets net of reversals and recoveries	22	(49,137)	(40,478)
Result from associates	41	11,864	12,893
Income before taxes and minority interests		73,358	17,585
Taxes			
Current	16	(29,593)	(11,201)
Deferred	16	44,303	40,684
Income after taxes and before minority interests		88,068	47,068
Minority interests	27	-	53
Consolidated net income attributable to the shareholders of BST	26	88,068	47,121
Average number of ordinary shares outstanding		642,021,170	639,917,462
Earnings per share (in Euros)		0.14	0.07

The accompanying notes form an integral part of the consolidated statement of income for the year ended December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of comprehensive income originally issued in Portuguese - Note 49)

	December 31, 2012		December 31, 2011	
	Attributable to the shareholders' of BST	Attributable to minority interests	Attributable to the shareholders' of BST	Attributable to minority interests
Consolidated net income for the year	88,068	-	47,121	(53)
Other comprehensive income				
. Exchange differences on transaction of foreign subsidiaries	1,527	(5,377)	(2,749)	8,808
. Revaluation reserves of associated companies valued at equity method				
. Fair value	1,446	-	(361)	-
. Tax effect	(420)	-	245	-
. Actuarial and financial deviations				
. Fair value	(35,093)	-	(213,765)	-
. Tax effect	10,178	-	61,992	-
. Changes in fair value of financial assets available for sale				
. Fair value	427,590	-	(426,027)	-
. Tax effect	(124,000)	-	123,563	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	40,944	-	52,083	-
. Tax effect	(11,874)	-	(15,104)	-
Consolidated comprehensive income for the year	398,366	(5,377)	(373,002)	8,755

The accompanying notes form an integral part of the consolidated statement comprehensive income for the year ended December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 49)

				Revaluation reserves										
	Share Capital	Share Premium Account	Other equity instruments	Legal revaluation	Fair value	Foreign exchange fluctuation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income in the year	Minority interests	Shareholder equity
Balances as at December 31, 2010	**620,105**	**163,703**	**135,000**	**23,245**	**(847,881)**	**(3,545)**	**239,825**	**215,832**	**828,691**	**94,177**	**(42,113)**	**399,196**	**568,792**	**2,395,027**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	(416)	27,801	68,419	132,307	-	(228,111)	-	-
. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	(171,085)	-	(171,085)
. Preference shares	-	-	-	-	-	179	-	-	(30,213)	-	-	-	(28)	(30,062)
Merger with Totta IFIC	36,618	29,687	-	-	-	-	-	-	67,611	-	-	-	-	133,916
Long-term incentives	-	-	-	-	-	-	-	-	(47)	-	-	-	-	(47)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(287)	-	-	(287)
Other	-	-	-	-	-	(1)	256	-	4	-	-	-	1	260
Comprehensive income for the year 2011	-	-	-	-	(588,070)	(2,749)	170,696	-	-	-	-	47,121	8,755	(364,247)
Balances as at December 31, 2011	**656,723**	**193,390**	**135,000**	**23,245**	**(1,435,951)**	**(6,116)**	**410,361**	**243,633**	**934,465**	**226,484**	**(42,400)**	**47,121**	**577,520**	**1,963,475**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	229	2,229	30,069	14,594	-	(47,121)	-	-
. Preference shares	-	-	-	-	-	(1,268)	-	-	(29,346)	-	-	-	16	(30,598)
Long-term incentives	-	-	-	-	-	-	-	-	(616)	-	-	-	-	(616)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(160)	-	-	(160)
Other	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Comprehensive income for the year 2012	-	-	-	-	434,887	1,527	(126,116)	-	-	-	-	88,068	(5,377)	392,989
Balances as at December 31, 2012	**656,723**	**193,390**	**135,000**	**23,245**	**(1,001,064)**	**(5,857)**	**284,474**	**245,862**	**934,572**	**241,078**	**(42,560)**	**88,068**	**572,160**	**2,325,091**

consolidated statement of changes in shareholders' equity for the year ended December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of cash flow statements originally issued in Portuguese - Note 49)

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commission received	1,862,203	1,932,731
Payment of interest and commission	(1,065,914)	(1,024,562)
Payments to staff and suppliers	(430,528)	(435,372)
Contributions to the Pension Fund	(12,023)	(245,000)
Foreign exchange and other operating results	(14,081)	(269)
Recovery of uncollectable loans	8,638	15,371
Operating results before changes in operating assets and liabilities	348,295	242,899
(Increase) / decrease in operating assets:		
Loans and advances to banks	(403,229)	447,588
Financial assets held for trading	(257,082)	(12,084)
Loans and advances to customers	981,684	3,135,205
Assets and liabilities at fair value through profit and loss	(32,618)	43,916
Non-current assets held for sale	(108,330)	(60,074)
Other assets	(28,209)	61,480
	152,216	3,616,031
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(723,734)	(4,862,303)
Resources of customers and other loans	1,585,956	1,742,489
Financial liabilities held for trading	385,444	350,311
Other liabilities	20,553	(238,461)
	1,268,219	(3,007,964)
Net cash flow from operating activities before income tax	1,768,730	850,966
Income tax paid	(19,588)	(33,949)
Net cash flow from operating activities	1,749,142	817,017
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1,698	1,278
Purchase of available-for-sale financial assets	(435,853)	(1,038,768)
Sale of available-for-sale financial assets	1,873,570	2,128,008
Income from available-for-sale financial assets	229,159	200,383
Purchase of tangible and intangible assets	(33,341)	(43,325)
Sale of tangible assets	7,945	716
Net cash flow from investment activities	1,643,178	1,248,292
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	-	(171,085)
Issuance/(redemption) of debt securities	(3,283,192)	(1,553,544)
Interest paid on bonds issued and other	(116,114)	(148,730)
Interest paid on subordinated liabilities	(125)	(244)
Net cash flow from financing activities	(3,399,431)	(1,873,603)
Net Increase / (Decrease) in cash and cash equivalents	(7,111)	191,706
Cash and cash equivalents at the start of the period	744,799	553,091
Entry of entities in the consolidation perimeter	-	2
Cash and cash equivalents at the end of the period	737,688	744,799

The accompanying notes form an integral part of the consolidated statement of cash flow
for the year ended December 31, 2012.

Notes to the Consolidated Financial Statements

INTRODUCTION

Banco Santander Totta, S.A. (hereinafter referred to as the "Bank", "BST" or "Group") previously known as Companhia Geral de Crédito Predial Português, S.A. ("CPP"), was founded in 1864 and has its registered office in Portugal, in Rua do Ouro, no. 88, Lisboa. The Bank was nationalized in 1975 and transformed into a government owned corporation in 1990. 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 during 2012 and 2011 are detailed in Note 45.

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

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 from January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeiro de Crédito, S.A. ("Totta IFIC"). For accounting and tax purposes the operation was recorded as from April 1, 2011, which was the date of registration.

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

The Bank has a domestic network of 633 branches (659 branches as at December 31, 2011) and also has a branch in London, as well as an offshore financial branch and an international offshore financial branch in the Autonomous Region of Madeira. The Bank also has subsidiaries and representation offices abroad as well as investments in subsidiaries and associated companies.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of presentation of the accounts

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

In 2012, the Bank adopted the amendment to IFRS 7 – "Financial instruments: Disclosures", which increased the disclosure requirements involving the transfer of financial assets. The adoption of this amendment in the case of the Bank did not require additional disclosures.

At December 31, 2012, the following standards (new and revised) and interpretations, already endorsed by the European Union, were available for early adoption:

- IAS 1 (Amendment) - "Presentation of financial statements" – The amendment to this standard includes some modifications to the way in which comprehensive income is presented, being mandatory for reporting periods beginning on or after July 1, 2012.

- IAS 19 (Amendment) - "Employee Benefits" - This amendment introduced some alterations related to the reporting of defined benefit plans, namely: (i) actuarial gains/losses are fully recognised by corresponding entry to equity (the corridor approach is no longer allowed); (ii) a single interest rate will be applied to calculate the current value of liabilities and for the estimated income from the assets of the plan. The difference between the real return from the fund's assets and the single interest rate is reflected as actuarial gains/losses; (iii) the costs reflected in the income statement correspond only to current service cost and net interest cost. This amendment is mandatory for reporting periods beginning on or after January 1, 2013.

- IFRS 11 – "Joint arrangements" - This standard replaces IAS 31 – "Joint ventures" and SIC 13 – "Jointly controlled entities – non-monetary contributions by venturers". The new standard establishes that the parties involved in a joint venture should determine the type and manner for recording joint ventures through assessment of the rights and obligations arising from the operation. The joint venture may be classified as a joint operation, in cases whereby the parties involved have joint rights over the assets and obligations over the liabilities relating to the arrangement, or as a joint venture in cases whereby the parties involved have rights to the net assets of the arrangement. This standard eliminates the possibility of using the proportional consolidation method for recording interests in joint ventures. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.

- IFRS 12 – "Disclosures of interests in other entities" - This standard requires the disclosure of information which allows users of the financial statements of an entity to evaluate the nature and the risks relating to the interests that the entity may have in other entities (subsidiaries, joint arrangements, associated companies and non-consolidated entities), namely, the effect of these interests on its financial position and performance and on its cash flow. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.

- IFRS 13 – "Fair Value Measurement" – This standard replaces the guidelines in the various IFRS relating to fair value measurement. It is applicable when another IFRS standard requires or allows measurements or disclosures of fair value. The standard defines fair value and establishes a framework for its determination. It also establishes a "fair value hierarchy", in accordance with the inputs used in valuation models. The standard also requires disclosures relating to fair value determination. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2013.

- IAS 27 (Amendment) – "Separate financial statements" – This amendment restricts the scope of application of IAS 27 to separate financial statements. Application of this arrendement is mandatory for reporting periods beginning on or after January 1, 2014.

- IFRS 10 - "Consolidated financial statements" - This standard establishes the requirements relating to the presentation of consolidated financial statements by a parent company, replacing, with regard to these matters, standard IAS 27 – Consolidated and separate financial statements and "SIC 12 – Consolidation – Special purpose entities". This standard also introduces new rules regarding the definition of control and the determination of the consolidation perimeter. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.

- IAS 28 (Amendment) “Investments in associated companies and jointly controlled entities” - This amendment ensures consistency between IAS 28 – “Investments in associated companies” and the new standards, in particular IFRS 11 – “Joint arrangements”. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.

- IFRS 7 (Amendment) - “Financial instruments: disclosures” - This amendment requires additional disclosures in terms of financial instruments, namely information relating to those that are subject to compensating and similar agreements. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2013.

- IAS 32 (Amendment) – “Financial instruments: presentation” - This amendment clarifies certain aspects of the standard relating to the offsetting of financial assets and liabilities. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.

Although these standards are endorsed by the European Union, they were not adopted by the Bank at December 31, 2012, as their application was not yet mandatory. The Board of Directors believes that their application will not have a significant impact on the financial statements.

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

- IFRS 9 – “Financial instruments” – This standard establishes the requirements for the classification and measurement of financial assets. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2015.

- Improvements to the IFRS (2009-2011 period) – This includes, among others, amendments to the following standards:
  - IAS 1 – Clarifies the disclosure requirements of comparative information.
  - IAS 32 – Clarifies that the tax effect of a distribution to holders of an equity instruments should be accounted for in accordance with IAS 12 – Income tax.
  - IAS 34 – Clarifies the requirements for interim disclosure of assets by segments so as to be more consistent with the requirements of IFRS 8 – Operating Segments.

  Applications of these amendments is mandatory for reporting periods beginning on or after January 1, 2013.

- IFRS 10, IFRS 11 and IFRS 12 (Amendments) – The amendments to these standards include clarifications concerning the obligation to disclose comparative information, eliminating the requirement to present comparative information for periods immediately prior to the reference period. Application of these standards is mandatory for reporting periods beginning on or after January 1, 2013.

- IFRS 10, IFRS 12 and IAS 27 (Amendments) – Investment entities – The amendments to these standards create an exception for the preparation of consolidated financial statements by investment entities.

These standards have not yet been endorsed by the European Union and so were not applied by the Bank in the year ended December 31, 2012.

The Bank’s financial statements for the year ended December 31, 2012 are still awaiting approval from the General Shareholders’ Meeting. Nevertheless, the Bank’s Board of Directors believes that they will be approved without significant amendments.

1.2. Consolidation principles and recording of associated companies

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

Subsidiary companies are those in which the Bank exercises effective control over the current management in order to obtain economic benefits from its activities. Control usually exists when more than 50% of the share capital or of the voting rights are held. Furthermore, as a result of the application of the IAS 27 – "Consolidated and Separate Financial Statements", the Group includes special purpose entities in the consolidation perimeter, namely vehicles and funds created under securitization operations when it exercises effective financial and operating control over them and in which the Bank owns the majority of the risks and benefits associated to their activity.

The financial statements of subsidiaries are consolidated by the full integration method from the time that BST has control over their activities to the time control ceases. Transactions and the significant balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full integration method are accounted for under the caption "Minority interests" (Note 27).

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

In accordance with the equity method of accounting, the consolidated financial statements include the part of shareholders' equity and profit or loss of the associated companies attributable to the Bank.

Goodwill is measured as the excess of the acquisition costs over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of subsidiary and associated companies. At least once a year, the Bank performs impairment tests to the goodwill in the balance sheet, in accordance with the requirements of IAS 36 - "Impairment of Assets". For this purpose, goodwill is allocated to units that generate cash flows, and assessed the recoverable amount based on estimates of future cash flows date based on discount rates considered appropriate by the Bank. Impairment losses associated with goodwill are recorded in the income statement and cannot be reversed.

The Bank decided not to apply IFRS 3 – Business combinations, retrospectively.
Therefore goodwill on acquisitions up to January 1, 2004 is reflected as a deduction to shareholders' equity in compliance with the former accounting policy. Previously recognised 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 are recorded in accordance with the acquisition method. Cost of the acquisition corresponds to the fair value of the assets and liabilities of the subsidiaries and associated companies as of the acquisition date. Goodwill is recorded as an asset and is subject to impairment tests in accordance with IAS 36, but is not amortized. Furthermore, whenever the fair value of the assets acquired and of the liabilities incurred or assumed is higher than the acquisition cost (negative goodwill), the difference is recognised in the income statement.

With the application of amendments to IFRS 3 and IAS 27, the Bank defined as accounting policy the fair value valuation through profit or loss when there is a change of control for subsidiaries acquired in stages. In such cases, the share participation acquired prior to the time of the change of control is revalued at fair value through profit or loss. Goodwill is calculated on a given date as the difference between total acquisition cost and the proportion in the fair value of associate's assets and liabilities. Similarly, by the application the said amendments, the Bank reassesses through profit or loss the undertakings in which joint control is lost (Note 4).

The Bank decided to reverse, as of the transition date (January 1, 2004), the reserve resulting from foreign exchange differences arising out from the translation of financial statements of subsidiaries expressed in functional currencies other than the Euro. As from that date, in compliance with IAS 21, the foreign currency financial statements of subsidiary and associated companies have been converted to Euros as follows:

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

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

- Foreign currency income and expenses are translated to Euros at the average exchange rates of the month in which they are recognised.

Exchange differences arising upon conversion to Euros are accounted in shareholders' equity, in the caption of "Foreign exchange fluctuation reserves".

1.3. Summary of the main accounting policies

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

a) Accruals basis

The Bank uses the accrual-based accounting principle for most of its financial statement captions. Therefore, expenses and income are recorded in the period 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 the Bank 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 that they occur. Foreign currency assets and liabilities are translated to Euros at the fixing exchange rates as of the balance sheet date (Bank of Portugal fixing).

c) Loans and accounts receivable

This category of financial assets includes loans and advances to customers and applications in credit institutions.

Loans and advances to customers includes loans to costumers, as well as other securitized loans (commercial paper), not intended to be sold in the short term, being initially recorded at fair value, less any commission included in the effective interest rate, plus all the external costs directly attributable to the operations.

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

Commissions and external costs attributable to the underlying operations included in this category, as well interests associated to the loans and advances granted, are recognised on an accruals basis, using the effective interest rate method, regardless of when they are received or paid. The Bank opted to defer commission received and paid relating to credit granted as from January 1, 2004.

The Bank classifies as overdue credit, instalments of principal and interests overdue for more than 30 days. Credits with overdue instalments are denounced in accordance with the approved credit procedures, the whole debt being considered overdue.

The Bank periodically analyses the loans and advances which should have already been paid in full but where the effort to collect them had no effect. Where the prospects of recovering a loan are negligible, loans are considered to be uncollectible and impairment losses are recognised for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently are recognised in the income statement in the caption “Loan impairment net of reversals and recoveries”.

Impairment

The Group periodically analyses the loans and advances granted to customers and other amounts 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 Group’s loan portfolio is segmented as follows:

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

The Group makes an individual assessment of the customers that have:

- Credit granted greater than tEuros 5,000;
- Credit granted greater than tEuros 500 that are classified in the Bank's system as Doubtful not in litigation;
- Credit granted greater than tEuros 1,000 if classified in VE1 and Substandard and tEuros 1,500 if classified in VE2 and VE3, in the Bank's special monitoring system;

In this regard, these segments may include customers without overdue credit. Occasionally the Bank also includes some customers without the mentioned features in individual assessment, by professional judgement.

Customers assessed individually with no evidence of impairment are subsequently assessed on a collective basis, being segmented between customers with responsibilities greater or lesser than tEuros 300.

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

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

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

Impairment losses for customers without overdue credit correspond to the probability of having overdue credit (PI) times the difference between the book value of the respective credits and the present value of estimated future cash flows of those operations. PI corresponds to the probability of one transaction, operation or client becoming overdue during an emergence period. The emergence period corresponds to the period between the occurrence of a loss event and the identification of that event by the Bank (incurred but not reported). For all loan portfolio segments, the Bank considers an emergence period of 6 months.

If there is evidence that the Group has incurred in an impairment loss on credits 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 assets is reduced by the impairment loss account balance. In the case of credits with variable interest rates, the discount rate used to determine an impairment loss is the current interest rate, as determined by the contract. Impairment losses are recorded by corresponding charge in the income statement.

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

When, in a subsequent period, there is a decrease in the amount of impairment losses due to a specific event, the previously recognised amount is reversed and the impairment loss balance is adjusted. The amount of the reversal is recognised directly by a corresponding charge in the income statement.

Write off of principal and interest

In accordance with the policies in place in the Bank, interest arising out from overdue credits without a real guarantee are reversed three months after the due date of the operation or after the first due instalment. Unrecorded interest on the above-mentioned credits is only recognised in the period of its actual collection.

Interest on mortgage loans or on loans granted with other real guarantees are not reversed provided that the outstanding principal and interest due is less than the collateral value.

Loan sales

Gains and losses on the definitive sale of loans are recorded in the income statement in the caption "Results from the sale of other assets" (Note 37). These gains or losses correspond to the difference between the sale value agreed and the book value of these assets, net of impairment losses. Contingent future collections are not considered in the determination of the sale price.

Finance leasing

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

i) *As lessee*

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

ii) *As lessor*

Leased assets are recorded in the balance sheet as loans granted, which are repaid by amortising the principal in accordance with the financial plan of the contracts. Interest included in the instalments is recorded in the caption "Interest and similar income".

Guarantees given and irrevocable commitments

Responsibilities for guarantees given and irrevocable commitments are recorded in off--balance sheet accounts for the amount at risk, while interest, commission and other income are recorded in the income statement over the period of the operations.

d) <u>Recognition of income and costs relating to services and commissions</u>

Income from services and commission obtained in the execution of a significant act, for example a commission from syndicating loans operations, is recognised in the income statement when the significant service act has been completed.

Income from services and commission obtained as the services are rendered is recognised in the income statement in the period to which it refers.

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

Costs relating to services and commission are recognised using the same criteria as adopted for income.

e) <u>Financial instruments</u>

The following financial assets and liabilities are recognised and measured in accordance with IAS 32 and IAS 39 within the following specific categories:

- 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) <u>Financial assets and liabilities held for trading and financial assets and liabilities at fair value through profit or loss</u>

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

Assets at fair value through profit or loss include fixed income securities.

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

The interest inherent to the financial assets and the difference between the acquisition cost and nominal value (premium or discount) is calculated are accordance with the effective interest rate method and recognised in the income statement in the caption “Interest and similar income”. The effective interest rate is that which, is used to discount the estimated future cash flows associated to the financial instrument, makes its present value equal to the net carrying amount of the financial instrument on initial recognition.

Interest relating to trading derivative is classified in the caption “Results of assets and liabilities valued at fair value through profit or loss” in the income statement.

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

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

The fair value of the derivatives that are not traded on a stock exchange 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 an active market and whose fair value cannot be reliably measured, which are recorded at cost. Subsequent gains or losses resulting from changes in fair value are reflected in a specific equity caption "Fair value reserve" until they are disposed of (or until impairment losses are recognised), when they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are directly recognised in the income statement.

Interest on available-for-sale financial assets is calculated in accordance with the effective rate method and recorded in the income statement caption "Interest and similar income".

Income from variable income securities is recognised in the income statement on the date that it is attributed. In accordance with this criterion, the interim dividends are recognised as profit in the year the distribution is declared.

Reclassification of financial assets

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

Disclosure on the reclassifications made under this amendment is provided in Note 9.

iii) Income recognition

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

Income from variable return securities is recognised in the income statement on the date that it is declared. In accordance with this criterion, interim dividends are recognised as income in the year the distribution is declared.

iv) Sale operations with repurchase agreements

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

v) Impairment of financial instruments

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

For quoted securities, objective evidence of impairment exists when there is a significant or prolonged decline in fair value. Objective evidence of impairment for unquoted securities exists when there is a negative impact on the estimated future cash flows of the financial asset, provided that it can be reliably estimated.

The Group considers the specific nature and features of the assets being valued in its periodic impairment tests. In terms of objective impairment criteria, the Group considers a 24 month period to be adequate for the prolonged devaluation of financial instruments in relation to their acquisition cost. The Group also considers the existence of unrealised capital losses exceeding 50% of the acquisition cost to be a significant devaluation.

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

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

For financial assets recorded at cost namely unquoted equity instruments whose fair value cannot be measured reliably, the Bank also carries out periodic impairment tests. In this context, the recoverable amount corresponds to the present value of the estimated future cash flows, using a discount rate that reflects the underlying risk of a similar the asset.

vi) Other financial liabilities

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

Bond issues are recorded in the captions "Other subordinated liabilities" and "Debt securities".

On the issue date debt securities are recorded at fair value (issue price) and subsequently are measured at amortized cost using the effective interest rate method.

Embedded derivatives in debt securities are recorded separately in the captions "Financial assets and liabilities at fair value through profit or loss", being revalued at fair value through profit or loss.

Fair value

As mentioned above, the financial assets recorded in the categories of "Financial assets held for trading", "Financial assets at fair value through profit or loss" and "Financial assets available for sale" are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which an asset or financial liability can be sold or settled between independent, knowledgeable and interested parties in the transaction under normal market conditions.

The fair value of financial assets is determined by an independent area of the Bank's trading function, based on:

- Closing price at the balance sheet date for the instruments traded on active markets;

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

  i) Prices (bid prices) provided by financial information services, namely Bloomberg and Reuters, including market prices available for recent transactions;

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

  iii) Valuation models, which take into account market inputs when determining the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and credit risk associated to the instrument.

Amortised cost

Financial instruments measured at amortized cost are initially recorded at fair value added to or deducted from the income or costs directly attributable to the transaction. The interest is recognised by the effective interest rate method.

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

f) Valuation of derivative instruments and hedge accounting

Derivative instruments traded by the Group are always recognised in the balance sheet at their fair value.

Embedded derivatives in other financial instruments (namely in debt issued) 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 recognised in profit or loss.

BST uses derivative financial instruments to hedge the interest rate risk resulting from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under the financial assets or financial liabilities held for trading captions, being all changes in their fair value recorded by a corresponding entry in the income statement.

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

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

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

  - Identification of the hedging instrument;

  - Identification of the hedged item;

  - Identification of the type of hedged risk; and

  - Definition of the method used to measure the hedging effectiveness and subsequent monitoring.

- Initial expectation that the hedging relationship is highly effective; and

- Throughout the life of the operation, the hedging effectiveness is kept between 80% and 125%. The hedging effectiveness is tested on each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

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

Fair value hedges

Gains or losses on the revaluation of a hedging instrument are recognised 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 recognised in the income statement.

If a hedging instrument matures or is early terminated, the gains or losses in the valuation of the hedged item relating to the risk being hedge, recognised as value adjustments of the hedged items, are amortized over the remaining period. If the asset or liability being hedged is sold or settled, the amounts recognised as 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 recognised as value adjustments to the hedged items are amortized through the income statement over the remaining period.

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

Cash flow hedges

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

BST has entered into derivative to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

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

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

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

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

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

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is early terminated, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that recognised 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 recognised.

g) Other tangible assets

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

Depreciation of tangible assets is recorded on a straight forward basis over the estimated useful lifetime of the assets:

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

Non recoverable expenditure capitalized on leasehold buildings is amortised over a period compatible with that of their expected useful life or of the lease contract, if shorter, which on average corresponds to a period of ten years.

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

Impairment tests are made periodically. The branches are considered as cash flows generating units for this purpose with impairment losses being recognised whenever the recoverable value of the property (through the use in the operations or sale) is lower than carrying amount.

The criteria followed in the valuations of the buildings normally use a market comparison method, and the amount of the valuation corresponds to the market value of the property in its current condition.

h) Intangible assets

In this caption the Bank recognises the expenses incurred in the development phase of IT systems implemented and in their implementation phase, as well as expenses of acquiring software, in both cases where the impact extends beyond the financial year in which the cost in incurred. Impairment losses assessments are made on an annual basis.

Intangible assets are amortised on a monthly basis over the estimated lifetime period of the assets, which corresponds to three years on average. For the new computer platform (Partenon), the expected useful lifetime corresponds to a maximum of five years.

i) Non-current assets held for sale

The Group accounts for property and other assets received in settlement of non-performing loans under this caption, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the caption “Other assets” (Note 17). These assets are recorded at the amount agreed under negotiation or court decision, plus the estimate sale costs or their forced sale value, if lower. Property recovered following the termination of finance lease contracts is recorded in assets at the amount of the outstanding principal on the date the contract is terminate.

The caption also includes participating units of a closed real estate investment fund acquired following a debt settlement agreement with a customer.

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

Property is subject to periodic appraisals made by independent real estate appraisers. Impairment losses are recognised whenever the appraised value (net of costs to sell) is lower than the book value.

According to IFRS 5 - Non-current assets held for sale and discontinued operations, no unrealised gains are recognised on these assets.

The Bank’s Board of Directors considers that the valuation methods adopted are appropriate and reflect the market situation.

j) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) arising from past obligation event relating to which there will be a probable future outflow of resources, and this can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle a liability at the balance sheet date. Whenever the outflow of resources is not probable, a contingent liability exists. Contingent liabilities need only to be disclosed unless the probability of their payment is remote.

This caption includes the provisions to cover specific post-employment benefits of members of the Board of Directors, restructuring plans, tax contingencies, legal processes and other losses arising from the BST’s activity, in accordance with IAS 37 (Note 22).

k) 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 will receive during retirement, based on his/her time of service and remuneration at the time of retirement, where the pensions are updated annually based on the remuneration established in the ACT for the serving 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 out from the defined benefit plan are covered by a Pension Fund.

The employees of the former totta were already covered by Social Security, thus the Bank’s liability for those employees consists only of the payment of supplements.

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

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

Past service liabilities as at December 31, 2010 have not changed as result of the above-mentioned Decree-Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011. Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). The Bank maintains the responsibility of paying out the disability pensions and the survival pensions along with any healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

In December 2011 a three party agreement was established between the Ministry of Finance, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), concerning the transfer to the Social Security of part of the liabilities for pensioners which, as at December 31, 2011 were covered by the substitutive regime of the Social Security as per the Collective Labour Agreement (ACT) in force for the banking sector.

Following the above-mentioned three party agreement, still in 2011, Decree-Law no. 127/2011, dated December 31, was issued determining that as from January 1, 2012 the Social Security started to be responsible for the above-mentioned pensions for an amount corresponding to the pension computed in accordance to the terms and conditions in force under the Collective Labour Agreement for the banking sector as at December 31, 2011, including both vacation (14^{th} month) and Christmas subsidies.

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

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

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

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

iii) the death subsidy;

iv) the survival pension for children;

v) the survival pension for children and living spouse, provided it refers to the same employee; and

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

Under the transfer of responsibilities to the Social Security, the Bank's pension fund assets backing such responsibilities were also transferred. The value of the pension fund assets transferred corresponds to the value of the responsibilities assumed under the mentioned Decree Law, which were determined considering the following assumptions:

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

The assets to be transferred should be in cash and up to 50% in Portuguese government debt securities valued at the respective market value.

Under the terms of the said Diploma, the ownership of the assets was transferred by the Bank as follows:

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

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

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

Following the transfer agreement of the pensioners to the Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions in Decree Law No. 127/2011, of December 31, the Bank calculated the liabilities separately for serving and retired employees, having defined specific assumptions for each case (Note 43).

The difference between the amount of the liabilities to be transferred to the Social Security determined as per the above assumptions and the liabilities determined based on updated actuarial assumptions as adopted by the Group, was recorded under the caption "Staff Costs" in the income statement (Notes 39 and 43).

Furthermore, the London branch employees are covered by a defined benefit pension plan, for which there is a separate pension fund (Note 43).

In February 2010, a supplementary defined contribution pension plan was approved for a defined set of the Bank's executives, for which an insurance policy was taken out. BST's retirement pension liability is calculated annually by external experts (Towers Watson International Limited, Portuguese Branch) based on the "Projected Unit Credit" method. The discount rate used in the actuarial calculations is determined based on market rates for high quality corporate bonds in terms of credit risk, in the currency in which the benefits will be paid (Euros), with similar maturity of the plan's liability. Employees' post-employment benefits also include healthcare assistance (SAMS) and death subsidy during retirement.

Banco Santander Negócios Portugal, S.A. (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. In 2006 the BSN established a defined contribution pension fund under which employees are allowed to make voluntary contributions. BSN's contribution depended of the results and corresponded to a percentage of the employees' wages, with an annual floor of 1,000 Euros per participant. Following the merger of BSN into BST, the employees of the former BSN have been incorporated in the ACT and in BST's defined benefit pension plan as from May 2010, with recognition of the seniority of employees hired before July 1, 1997.

Totta IFIC had no pension fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were integrated in the ACT and in the BST's defined benefit pension plan as from April 2011. The seniority of the employees hired before July 1, 1997 has been recognised. The increase of past service liability with the employees of Totta IFIC was recognised in the caption "Staff costs", for the amount of tEuros 1,044 (Note 43).

Application of IAS 19

On January 1, 2004 BST opted not to apply IAS 19 retrospectively, and therefore has not recalculated the actuarial gains and losses that would be deferred on the balance sheet if this standard had been adopted as from the beginning of the pension plans. Accordingly, the actuarial gains and losses existing as at January 1, 2004, as well as those resulting from adopting IAS 19 was reversed/recorded against retained earnings as at the transition date.

In 2011 the Bank decided to change the accounting policy for recognizing actuarial gains and losses using the corridor method, having started to recognize actuarial gains and losses in equity, as permitted by IAS 19. The Board of Directors believes that this change reflects the economic and financial position of the Bank more appropriately in respect of pension liabilities. This change in accounting policy has been applied retrospectively, as required by IAS 8.

The BST records the following components in the “Staff costs” caption of the income statement:

- Interest cost of the plan, net of the estimated return on plan assets;

- Current service cost; and

- Early retirement cost corresponding to the increase in the past service liability as due to early retirement.

The liability for retirement pensions, less the fair value of the assets of the Pension Fund is recorded in the captions “Other assets” or “Other liabilities”, depending on whether there is financial surplus or deficit (Notes 17 and 24).

Notice no. 4/2005 of the Bank of Portugal states that the liability arising from pensions being paid shall be fully funded and a 95% minimum funded level for the past service liability of serving employees. Notwithstanding this, it also established a transition period ranging from 5 to 7 years in respect of the increase in the liability as result of the adoption of IAS 19.

At December 31, 2012 and 2011, the rate of coverage of the full amount of the liability for employee benefits, including SAMS, was 98.80% and 100.9%, respectively (Note 43).

l) Long service bonus

In compliance with the ACT, BST assumed the commitment to pay serving employees with fifteen, twenty-five and thirty years of good and effective service, corresponding to one, two or three months of their effective monthly wage (in the year the premium is attributed), respectively.

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

Long service bonus liabilities are recorded in the caption “Charges payable relating to staff – Long service bonus” (Note 24).

m) Income tax

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

The Offshore branch in the Autonomous Region of Madeira benefits from article 33 of the Statute of Tax Benefits (“EBF”), which grants the exemption from corporate income tax until December 31, 2011. In accordance with article 34 of EBF, for the purposes of this benefit, at least 85% of the taxable profit of the Bank’s total operations is considered to result from operations outside of the Madeira free trade area.

With the wording used in the State Budget Law for 2011 (Law no. 55–A/2010, of December 3), in accordance with article 92 of the Corporation Income Tax Code, tax paid under the terms of item 1, article 90, net of international double taxation and any tax benefits, cannot be less than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in item 13, article 43 and article 75 of the Corporation Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum local surcharge of up to 1.5% over taxable income subject to and not exempt from corporate income tax. With the publication of Law No. 12 - A/2010, of 30 June, a state surcharge was introduced, and is payable by all taxpayers subject to and not exempt from corporate income tax with taxable income in excess of tEuros 2,000. The state surcharge corresponds to 2.5% of the taxable income exceeding that limit. This resulted in the tax rate used for the computation of deferred taxes on tax losses carried forward being 25% being a tax rate of 29% applied to other temporary differences generated in the recognition of the income tax for the year. This state surcharge has been applicable since 2011.

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, of December 30), the companies that present higher taxable income on the period and on the two following years are subject to higher state surcharge rates. Companies with taxable income between tEuros 1,500 and tEuros 10,000 are now subject to a state surcharge rate of 3% and the companies with taxable income exceeding tEuros 10,000 are subject to a rate of 5%. Therefore, whenever the taxable income exceeds tEuros 10,000, a 3% state surcharge rate will be applied to the amount of tEuros 8,500 and a rate of 5% to the exceeding remaining taxable income. Consequently, the tax rate used in the year 2012 was 26.5% up to tEuros 1,500 of taxable income, 29.5% up to tEuro 8,500 of taxable income and 31.5% for the remainder. The Bank determined a tax loss for the years 2011 and 2012.

The tax losses for the years 2011 and 2012 can be carried forward for four and five years, respectively. However, within the terms allowed in the State Budget Law for 2012, the deduction of the losses in each year cannot exceed 75% of the respective taxable profit, although the remaining 25% continue to be deductible up to the end of the four or five year periods.

With the publication of Law no. 55-A/2010, of 31 December, the Bank is subjected to the banking sector contribution regime. The basis of such contribution is as follows:

a) Liabilities calculated and approved by taxpayers deducted from own funds (Tier 1) and supplementary own funds (Tier 2) and deducted from the deposits under the Deposits Guaranteed Fund coverage. The following are deducted from the liability thus computed:
   - Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
   - Liabilities associated to the recognition of liabilities for defined benefit plans;
   - Provisions;
   - Liabilities resulting from the revaluation of derivative financial instruments;
   - Deferred income, without consideration of that arising from liability operations; and
   - Liabilities resulting from assets not derecognised within securitization operations.

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

The rates applicable to the bases of incidence defined by a) and b) above are 0.05% and 0.00015%, respectively, as allowed for in no's. 1 and 2 of article 5 of Dispatch no. 121/2011, of 30 March.

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

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

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

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders' equity, namely potential gains and losses on securities available for sale and on cash flow hedging derivatives, and actuarial gains and losses related to pension liabilities following the change in accounting policy (Note 1.3. k)).

n) Long term incentive plans

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

The recording of such plans correspond to the recognition of the Group's employees right to these instruments in the caption "Other reserves" and in the caption "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentives plans for stocks and stock options of Banco Santander S.A. in force in reporting periods of 2012 and 2011 is included in Note 46.

o) Insurance brokerage services rendered

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

p) Cash and cash equivalents

In preparing cash flow statement, the Bank considers "Cash and cash equivalents" to be the total of the captions "Cash and deposits at Central Banks" and "Balances due from other banks".

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

1.4. Comparability of information

As mentioned in the Introduction, on April 1, 2011 the Bank carried out a merger by incorporation of Totta IFIC. For accounting purposes the operation was recorded as at that date. The Bank incorporated the assets and liabilities of Totta IFIC at their book value as at March 31, 2011. The difference between the accounting value and the acquisition cost was recorded in the shareholders' equity captions, share premium and merger reserve. The impact of the merger on the shareholders' equity of the Bank can be shown as follows:

Shareholder's equity of Totta IFIC as of the merger date	175,019
Transfer of the fair value reserve	(7,606)
Other adjustments – incentive plan	(32)

Adjusted shareholders' equity	167,381

Acquisition cost of the participation in Totta IFIC on 31 March 2011	10,556
Increase of the Bank's share capital	36,618
Share premium	29,687

	76,861

Merger reserve	90,520
	=====

Consequently, the Bank's costs and income for 2012 and 2011 are not directly comparable, as in 2011 there are three months of activity of the former Totta IFIC that are not reflected in the costs and income captions.

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

The preparation of the financial statements requires estimates and assumptions to be made by the Bank's Board of Directors. These estimates are subjective by nature and can affect the value of the assets and liabilities, income and costs, and also of the contingent liabilities disclosed.

Employees' post-employment benefits

Retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Portuguese Securities and Exchange Commission (CMVM). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, expected return on pension assets of the Fund, the mortality, disability, pension growth and wages, amongst others. Note that the expected return of the Pension Fund has an impact on the annual cost of pensions.

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

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in Note 1.3 e) and 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 at the balance sheet date. As mentioned in Note 1.3. e) to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by an independent area of the trading function.

Determination of loans impairment losses

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

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

As described in Note 1.3. e), the unrealised capital losses resulting from the valuation of these assets are recognised under the revaluation reserve. Whenever there is objective evidence of impairment, the accumulated capital losses that have been recognised in equity are transferred to the year losses.

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

In the case of debt instruments recorded in this caption, unrealised capital losses are transferred from the caption "Revaluation reserve" to the income for the year whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer.

Taxes

Deferred tax assets are recognised based on the assumption of the existence of future taxable income. Furthermore, deferred tax assets and liabilities 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 deferred taxes.

The Bank, as an entity subject to Bank of Portugal supervision, must present separate (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice 1/2005, dated February 21, and which form the basis for determining the taxable profit.

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

This Decree Law no. 159/2009, of 13 July, 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 1 January 2010.

In this regard, these new rules were observed to compute the taxable profit for 2012 and 2011, in accordance with their interpretation by the Bank.

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

3. SEGMENT REPORTING

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

Global Banking & Markets:

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

Retail banking:

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

Commercial banking:

This is geared towards companies with a turnover ranging between 5 and 125 million Euros. This activity is backed by the branches network as well as by specialised services, and includes a variety of products, such as loans, project funding, export financing and real estate.

Asset management:

This area results from the investment fund management activity, which includes the launching of funds, the objective of which is to create added value products for the Group's customers.

Corporate activities:

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

The income statement by segment as at December 31, 2012 is made up as follows:

	2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	77,148	307,299	166,108	-	(9,021)	541,534
Income from equity instruments	-	-	-	-	1,698	1,698
Financial margin	**77,148**	**307,299**	**166,108**	**-**	**(7,323)**	**543,232**
Net commissions	55,052	252,197	23,186	5,847	(5,474)	330,808
Other results from banking activity	-	2,785	-	12	(15,557)	(12,760)
Commercial margin	**132,200**	**562,281**	**189,294**	**5,859**	**(28,354)**	**861,280**
Results from financial operations	12,786	(355)	(372)	-	113,769	125,828
Net income from banking activities	**144,986**	**561,926**	**188,922**	**5,859**	**85,415**	**987,108**
Operating costs	(18,649)	(329,346)	(42,190)	(4,947)	-	(395,132)
Depreciation and amortization	(2,943)	(56,947)	(3,735)	(248)	-	(63,873)
Net operating income	**123,394**	**175,633**	**142,997**	**664**	**85,415**	**528,103**
Impairment and provisions, net of reversals	(23,632)	(265,638)	(91,083)	(1,353)	(84,903)	(466,609)
Result from associates	-	-	10,808	-	1,056	11,864
Income before taxes	**99,762**	**(90,005)**	**62,722**	**(689)**	**1,568**	**73,358**
Taxes	(28,931)	26,401	(15,054)	200	32,094	14,710
Net income for the year	**70,831**	**(63,604)**	**47,668**	**(489)**	**33,662**	**88,068**

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

The assets and liabilities under management of each business segment at December 31, 2012, in accordance with the information used by the Group's management for decision making, are as follows:

	2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Assets						
Loans and advances to customers						
Mortgage Loans	-	15,788,523	-	-	-	15,788,523
Consumer credit	-	1,433,532	-	-	-	1,433,532
Other loans	2,024,753	3,309,047	4,423,794	-	-	9,757,594
Total allocated assets	2,024,753	20,531,102	4,423,794	-	-	26,979,649
Total non-allocated assets						11,547,594
Total assets						38,527,243
Liabilities						
Resources in the balance sheet						
Customers' accounts and other resources	415,014	18,193,057	2,889,103	-	-	21,497,174
Debt securities issued	-	353,878	328,165	-	3,271,476	3,953,519
	415,014	18,546,935	3,217,268	-	3,271,476	25,450,693
Guarantees and other sureties given (Note 28)	206,332	189,279	824,119	-	-	1,219,730
Investment funds	-	1,261,600	641,874	813,723	-	2,717,197

The income statement by segment as at December 31, 2011 is made up as follows:

	2011					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	42,146	418,179	122,785	-	(39,577)	543,533
Income from equity instruments	-	-	-	-	1,278	1,278
Financial margin	**42,146**	**418,179**	**122,785**	**-**	**(38,299)**	**544,811**
Net commissions	65,932	255,333	18,177	9,414	(5,997)	342,859
Other results from banking activity	(6)	6,675	-	(84)	(20,629)	(14,044)
Commercial margin	**108,072**	**680,187**	**140,962**	**9,330**	**(64,925)**	**873,626**
Results from financial operations	16,116	(1,074)	519	-	(84,602)	(69,041)
Net income from banking activities	**124,188**	**679,113**	**141,481**	**9,330**	**(149,527)**	**804,585**
Operating costs	(20,313)	(372,780)	(45,602)	(4,796)	-	(443,491)
Depreciation and amortization	(2,748)	(56,641)	(3,613)	(360)	-	(63,362)
Net operating income	**101,127**	**249,692**	**92,266**	**4,174**	**(149,527)**	**297,732**
Impairment and provisions, net of reversals	(4,918)	(153,932)	(21,694)	(25,846)	(86,650)	(293,040)
Result from associates	-	-	9,409	-	3,484	12,893
Income before taxes	**96,209**	**95,760**	**79,981**	**(21,672)**	**(232,693)**	**17,585**
Taxes	(27,901)	(27,656)	(20,466)	6,285	99,221	29,483
Minority interests	-	-	-	-	53	53
Net income for the year	**68,308**	**68,104**	**59,515**	**(15,387)**	**(133,419)**	**47,121**

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

The assets and liabilities under management for each business segment as at December 31, 2011, in accordance with the information used by the Group's management for decision making, are as follows:

	2011					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Assets						
Loans and advances to customers						
Mortgage Loans	-	16,033,835	-	-	-	16,033,835
Consumer credit	-	1,537,078	-	-	-	1,537,078
Other loans	1,674,615	3,816,266	5,310,233	-	-	10,801,114
Total allocated assets	1,674,615	21,387,179	5,310,233	-	-	28,372,027
Total non-allocated assets						11,743,287
Total assets						40,115,314
Liabilities						
Resources in the balance sheet						
Customers' accounts and other resources	576,672	16,580,506	2,686,926	-	-	19,844,104
Debt securities issued	-	467,810	387,979	-	6,538,076	7,393,865
	576,672	17,048,316	3,074,905	-	6,538,076	27,237,969
Guarantees and other sureties given (Note 28)	336,364	198,533	953,558	-	-	1,488,455
Investment funds	-	1,448,516	580,001	778,619	-	2,807,136

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

The information by geographic area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as at December 31, 2012, by geographic segments was as follows:

	2012							
		International operations					Intra Group	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	352,365	-	-	-	-	-	-	352,365
Balances due from other banks	384,850	11,366	-	6,039	396	17,801	(17,328)	385,323
Financial assets held for trading	2,265,493	-	-	-	-	-	2	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	-	-	-	-	93,735
Available-for-sale financial assets	3,489,864	1,311,876	-	-	-	1,311,876	(1,311,876)	3,489,864
Loans and advances to credit institutions	3,097,194	50,001	-	465,202	311,790	826,993	(826,765)	3,097,422
Loans and advances to customers	26,979,649	-	-		-	-	-	26,979,649
Hedging derivatives	284,850	-	-	-	-	-	-	284,850
Non-current assets held for sale	206,840	-	-	-	-	-	-	206,840
Other tangible assets	336,047	-	-	-	34	34	3	336,084
Intangible assets	65,842	-	-	-	-	-	-	65,842
Investments in associated companies	31,710	-	111,284	-	-	111,284	-	142,994
Current tax assets	4,001	-	-	-	-	-	245	4,246
Deferred tax assets	631,578	-	-	-	-	-	-	631,578
Other assets	190,010	3	-	1,996	942	2,941	(1,995)	190,956
Total Net Assets	38,414,028	1,373,246	111,284	473,237	313,162	2,270,929	(2,157,714)	38,527,243
Liabilities								
Resources of central banks	5,837,242	-	-	-	-	-	-	5,837,242
Financial liabilities held for trading	2,048,741	-	-	-	-	-	2	2,048,743
Resources of other credit institutions	1,949,574	1,013,953	-	4,227	-	1,018,180	(1,018,180)	1,949,574
Resources of customers and other debts	21,323,190	-	-	171,022	-	171,022	2,962	21,497,174
Debt securities	3,953,519	-	-	-	-	-	-	3,953,519
Hedging derivatives	455,906	-	-	-	-	-	5	455,911
Provisions	72,271	-	-	-	-	-	-	72,271
Current tax liabilities	3,702	-	-	-	-	-	985	4,687
Deferred tax liabilities	57,911	-	-	-	-	-	17,392	75,303
Subordinated liabilities	4,311	-	-	-	-	-	-	4,311
Other liabilities	302,838	-	-	3,313	191	3,504	(2,925)	303,417
Total Liabilities	36,009,205	1,013,953	-	178,562	191	1,192,706	(999,759)	36,202,152
Shareholders' equity								
Shareholders' equity attributable to shareholders	2,404,071	359,293	111,284	21,824	14,414	506,815	(1,157,955)	1,752,931
Minority interests	752	-	-	272,851	298,557	571,408	-	572,160
Total shareholders' equity	2,404,823	359,293	111,284	294,675	312,971	1,078,223	(1,157,955)	2,325,091
Total liabilities and shareholders' equity	38,414,028	1,373,246	111,284	473,237	313,162	2,270,929	(2,157,714)	38,527,243

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

	2011							
		International operations					Intra Group	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	387,837	-	-	-	-	-	-	387,837
Balances due from other banks	356,249	16,739	-	9,137	610	26,486	(25,773)	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	-	-	-	-	80,121
Available-for-sale financial assets	4,439,605	1,020,104	-	-	-	1,020,104	(1,020,104)	4,439,605
Loans and advances to credit institutions	2,689,956	52,723	-	430,376	311,790	794,889	(791,934)	2,692,911
Loans and advances to customers	28,372,027	-	-	-	-	-	-	28,372,027
Hedging derivatives	167,302	-	-	-	-	-	-	167,302
Non-current assets held for sale	141,163	-	-	-	-	-	-	141,163
Other tangible assets	365,334	-	-	-	81	81	-	365,415
Intangible assets	74,230	-	-	-	-	-	-	74,230
Investments in associated companies	(25,918)	-	158,970	-	-	158,970	-	133,052
Current tax assets	17,632	-	-	-	-	-	-	17,632
Deferred tax assets	714,817	-	-	-	-	-	-	714,817
Other assets	175,327	-	-	1,318	1,123	2,441	(1,312)	176,456
Total Net Assets	39,951,466	1,089,566	158,970	440,831	313,604	2,002,971	(1,839,123)	40,115,314
Liabilities								
Resources of central banks	4,913,234	-	-	-	-	-	-	4,913,234
Financial liabilities held for trading	1,663,246	-	-	-	-	-	53	1,663,299
Resources of other credit institutions	3,455,964	620,352	-	2,005	-	622,357	(466,789)	3,611,532
Resources of customers and other debts	19,706,992	-	-	135,306	-	135,306	1,806	19,844,104
Debt securities	7,393,865	-	-	-	-	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	-	-	-	282,889
Provisions	75,482	-	-	-	-	-	-	75,482
Current tax liabilities	4,673	-	-	-	-	-	1,872	6,545
Deferred tax liabilities	64,037	-	-	-	-	-	2,935	66,972
Subordinated liabilities	4,328	-	-	-	-	-	-	4,328
Other liabilities	289,116	5,514	-	2,924	242	8,680	(8,207)	289,589
Total Liabilities	37,853,826	625,866	-	140,235	242	766,343	(468,330)	38,151,839
Shareholders' equity								
Shareholders' equity attributable to shareholders	2,096,890	463,700	158,970	22,367	14,821	659,858	(1,370,793)	1,385,955
Minority interests	750	-	-	278,229	298,541	576,770	-	577,520
Total shareholders' equity	2,097,640	463,700	158,970	300,596	313,362	1,236,628	(1,370,793)	1,963,475
Total liabilities and shareholders' equity	39,951,466	1,089,566	158,970	440,831	313,604	2,002,971	(1,839,123)	40,115,314

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

In the reporting periods ending on December 31, 2012 and 2011, the income statement by geographic segments was as follows:

	2012							
		International operations					Intra Group	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Interest and similar income	1,648,133	74,042	-	24,542	-	98,584	(98,569)	1,648,148
Interest and similar charges	(1,100,401)	(3,767)	-	(5,941)	-	(9,708)	3,495	(1,106,614)
Financial margin	547,732	70,275	-	18,601	-	88,876	(95,074)	541,534
Income from equity instruments	1,698	-	-	-	-	-	-	1,698
Income from services and commission	384,701	-	-	-	-	-	-	384,701
Charges with services and commission	(53,651)	-	-	(1)	(241)	(242)	-	(53,893)
Result of assets and liabilities at fair value through profit or loss	37,172	-	-	-	-	-	11	37,183
Result of available-for-sale financial assets	(2,696)	-	-	-	-	-	-	(2,696)
Result of foreign exchange revaluation	5,639	-	-	13	-	13	-	5,652
Result from sale of other assets	85,691	-	-	-	(2)	(2)	-	85,689
Other operating results	(12,679)	-	-	(5)	(78)	(83)	2	(12,760)
Net income from banking activities	993,607	70,275	-	18,608	(321)	88,562	(95,061)	987,108
Staff costs	(256,632)	(176)	-	(200)	(628)	(1,004)	-	(257,636)
General administrative costs	(136,747)	(421)	-	(129)	(307)	(857)	108	(137,496)
Depreciation in the year	(63,846)	-	-	-	(27)	(27)	-	(63,873)
Provisions net of cancellations	(22,821)	-	-	-	-	-	-	(22,821)
Loan impairment net of reversals and recoveries	(378,147)	-	-	-	-	-	-	(378,147)
Impairment of other financial assets net of reversals and recoveries	(16,504)	-	-	-	-	-	-	(16,504)
Impairment of other assets net of reversals and recoveries	(49,137)	-	-	-	-	-	-	(49,137)
Result from associates	2,296	-	9,568	-	-	9,568	-	11,864
Income before taxes and minority interests	72,069	69,678	9,568	18,279	(1,283)	96,242	(94,953)	73,358
Current taxes	(20,614)	(8,958)	-	(4)	(22)	(8,984)	5	(29,593)
Deferred taxes	44,303	-	-	-	-	-	-	44,303
Income after taxes and before minority interests	95,758	60,720	9,568	18,275	(1,305)	87,258	(94,948)	88,068
Minority interests	-	-	-	-	-	-	-	-
Consolidated net income attributable to the shareholders of BST	95,758	60,720	9,568	18,275	(1,305)	87,258	(94,948)	88,068

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

	2011							
		International operations					Intra Group	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Interest and similar income	1,692,164	3,618	-	21,193	-	24,811	(24,281)	1,692,694
Interest and similar charges	(1,140,920)	(13,283)	-	(3,879)	-	(17,162)	8,921	(1,149,161)
Financial margin	551,244	(9,665)	-	17,314	-	7,649	(15,360)	543,533
Income from equity instruments	1,278	-	-	-	-	-	-	1,278
Income from services and commission	397,185	-	-	-	-	-	-	397,185
Charges with services and commission	(54,090)	-	-	(1)	(235)	(236)	-	(54,326)
Result of assets and liabilities at fair value through profit or loss	1,915	902	-	-	-	902	(922)	1,895
Result of available-for-sale financial assets	(77,237)	118,910	-	-	-	118,910	(118,910)	(77,237)
Result of foreign exchange revaluation	5,236	-	-	44	-	44	15	5,295
Result from sale of other assets	999	-	-	-	7	7	-	1,006
Other operating results	(13,937)	-	-	-	(103)	(103)	(4)	(14,044)
Net income from banking activities	812,593	110,147	-	17,357	(331)	127,173	(135,181)	804,585
Staff costs	(295,595)	(178)	-	(192)	(668)	(1,038)	(1)	(296,634)
General administrative costs	(146,009)	(583)	-	(105)	(339)	(1,027)	179	(146,857)
Depreciation in the year	(63,327)	-	-	-	(35)	(35)	-	(63,362)
Provisions net of cancellations	(14,297)	-	-	-	-	-	-	(14,297)
Loan impairment net of reversals and recoveries	(227,826)	-	-	-	-	-	-	(227,826)
Impairment of other financial assets net of reversals and recoveries	(10,439)	-	-	-	-	-	-	(10,439)
Impairment of other assets net of reversals and recoveries	(40,478)	-	-	-	-	-	-	(40,478)
Result from associates	3,546	-	9,347	-	-	9,347	-	12,893
Income before taxes and minority interests	18,168	109,386	9,347	17,060	(1,373)	134,420	(135,003)	17,585
Current taxes	3,342	(13,673)	-	(855)	(17)	(14,545)	2	(11,201)
Deferred taxes	42,962	-	-	-	(7)	(7)	(2,271)	40,684
Income after taxes and before minority interests	64,472	95,713	9,347	16,205	(1,397)	119,868	(137,272)	47,068
Minority interests	53	-	-	-	-	-	-	53
Consolidated net income attributable to the shareholders of BST	64,525	95,713	9,347	16,205	(1,397)	119,868	(137,272)	47,121

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

4. GROUP COMPANIES AND TRANSACTIONS DURING THE YEAR

As at December 31, 2012 and 2011, the subsidiaries and associated companies and their most significant financial data, taken from their respective individual financial statements, excluding of conversion adjustments to the IAS/IFRS, may be summarised as follows:

	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
Company	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
BANCO SANTANDER TOTTA , S.A.	-	-	100.00	100.00	38,501,791	45,639,291	1,212,474	746,961	(9,180)	22,289
BANCO CAIXA GERAL TOTTA DE ANGOLA (3)	-	-	24.99	24.99	1,864,889	1,507,229	229,836	159,186	44,023	36,842
TOTTA & AÇORES FINANCING (1) (5)	100.00	100.00	100.00	100.00	311,789	311,790	311,789	311,788	12,360	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	33,736	33,994	33,717	33,973	401	240
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,187	1,344	1,013	1,121	(88)	113
TOTTA IRELAND, PLC (4)	100.00	100.00	100.00	100.00	1,373,246	1,089,565	359,293	463,700	4,040	6,700
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	101,468	102,948	74,865	75,827	4,293	5,693
TOTTA URBE - Emp.Admin. e Construções, S.A.(2)	100.00	100.00	100.00	100.00	112,634	121,003	109,225	117,281	2,474	2,166
BENIM - Sociedade Imobiliária, S.A. (3)	-	-	25.81	25.81	-	n.d.	-	n.d.	-	n.d.
SANTANDER - GESTÃO DE ACTIVOS,SGPS, S.A.	100.00	100.00	100.00	100.00	41,656	50,308	41,633	49,732	1,331	9,582
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	-	-	100.00	100.00	26,426	25,258	22,270	22,294	11	(20,266)
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (6)	100.00	100.00	100.00	100.00	473,237	440,831	294,675	300,596	18,276	16,204
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	55,043	55,004	54,963	55,000	(37)	(5,307)
PARTANG, SGPS (3)	0.49	0.49	49.00	49.00	139,611	113,535	130,108	112,384	21,433	16,653
SANTANDER PENSÕES	-	-	100.00	100.00	3,685	4,064	3,607	3,862	769	1,000
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. (3)	21.50	21.50	21.50	21.50	305,005	307,856	84,595	73,375	11,256	8,745
HIPOTOTTA nº 1 PLC	-	-	-	-	215,728	238,832	(3,423)	(2,923)	(2,061)	(1,800)
HIPOTOTTA nº 4 PLC	-	-	-	-	1,220,666	1,299,458	(20,466)	(17,616)	(8,699)	(5,633)
HIPOTOTTA nº 5 PLC	-	-	-	-	1,021,215	1,076,745	(12,215)	(8,857)	(5,081)	(4,382)
HIPOTOTTA nº 7 Ltd	-	-	-	-	1,258,561	1,319,559	(17,739)	(12,110)	(5,684)	(6,067)
LEASETOTTA nº 1 Ltd	-	-	-	-	569,976	724,957	(23,142)	709,099	(15,292)	-
HIPOTOTTA nº 1 FTC	-	-	-	-	202,335	228,332	201,123	226,181	(2,282)	(2,145)
HIPOTOTTA nº 4 FTC	-	-	-	-	1,182,405	1,276,937	1,178,445	1,263,330	(9,982)	(9,746)
HIPOTOTTA nº 5 FTC	-	-	-	-	1,004,670	1,068,126	1,001,819	1,059,767	(7,814)	(5,927)
HIPOTOTTA nº 7 FTC	-	-	-	-	1,226,920	1,303,213	1,228,066	1,291,479	(13,001)	(8,257)
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11) (7)	-	-	-	-	-	1,881,452	-	100,452	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12) (7)	-	-	-	-	-	1,253,838	-	75,254	-	-
LEASETOTTA nº 1 FTC	-	-	-	-	485,651	724,936	506,336	704,235	(15,108)	(4,864)
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº1) (7)	-	-	-	-	-	2,028,717	-	98,179	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº1) (7)	-	-	-	-	-	962,218	-	111,278	-	-

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

Company	Business	Head office	Consolidation method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Parent company
BANCO CAIXA GERAL TOTTA DE ANGOLA (3)	Banking	Angola	Equity Method
TOTTA & AÇORES FINANCING (1) (5)	Banking	Cayman Islands	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Islands	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC (4)	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS	Holding company	Madeira	Full
TOTTA URBE - Emp.Admin. and Construções, S.A.(2)	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A. (3)	Real estate	Portugal	Equity Method
SANTANDER - GESTÃO DE ACTIVOS,SGPS, S.A.	Holding company	Portugal	Full
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	Investment management	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (6)	Banking	Puerto Rico	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
PARTANG, SGPS (3)	Holding company	Portugal	Equity Method
SANTANDER PENSÕES	Pension fund management	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. (3)	Credit Card Management	Portugal	Equity Method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 7 Ltd	Investment management	Ireland	Full
LEASETOTTA nº 1 Ltd 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
HIPOTOTTA nº 7 FTC	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11) (7)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12) (7)	Securitized loans company	Portugal	Full
LEASETOTTA nº 1 Ltd	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº1) (7)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº1) (7)	Securitized loans company	Portugal	Full

(1) The shareholders' equity of these companies includes preference shares subscribed by Santander Group companies (Note 27).

(2) The shareholders' equity of this company includes supplementary capital contributions totalling tEuros 99,760.

(3) Valued by the equity method.

(4) The amounts reflected in the columns "Net income" correspond to net income determined in December of each year, as this entity closes its financial year on 30 November. In the periods from January 1 to November 30, 2012 and 2011, the net income of Totta Ireland, Plc. amounted to tEuros 56,680 and tEuros 89,013, respectively.

(5) The share capital is made up of 50,000 ordinary shares with a nominal value of 1 United States Dollar each and 300,000 non-voting preference shares with a nominal value of 1,000 Euros each. Considering preference shares, the Bank's effective participation in this entity is 0.01%.

(6) The share capital is made up of 5,000,000 ordinary shares with a nominal value of 1 United States Dollar each and 3,600 non-voting preference shares with a nominal value of 100,000 United States Dollars each. Considering preference shares, the Bank's effective participation in this entity is 1.37%.

(7) Emissions settled during 2012.

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

In compliance with IAS 27 and SIC 12, the Group's consolidated financial statements include special purpose entities (SPE) created for securitization operations, given that the Bank retains most of the risks and benefits of their activity, as the Group holds in its portfolio bonds issued with a higher degree of subordination (Note 44). These entities are referred to above as Leasetotta Ltd, Hipotottas FTC (securitised loans funds) and Hipotottas PLC or Ltd. (entities which acquired the participating units issued by the securitised loan funds).

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	2012	2011
Cash	210,763	186,707
Demand deposits at Central Banks:		
European Central Bank	141,602	201,130
	352,365	387,837

In accordance with European Central Bank Regulation 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves is all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of clients repayable in less than two years' time, to which 2% is applied and tEuros 100 is deducted from the amount calculated. The minimum cash reserve requirements earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	2012	2011
Balances due from domestic banks		
Cheques for collection	62,074	80,789
Demand deposits	490	332
Interest receivable	-	3
Balances due from foreign banks		
Demand deposits	321,138	273,985
Cheques for collection	1,621	1,853
	385,323	356,962

The caption "Balances due from foreign banks – Demand deposits" at December 31, 2011 included tEuros 118,600 referring to deposits which were given as pledge, as established in the "Reserve Loans Agreements" of Hipototta no. 12 and of BST SME no. 1. These pledge deposits were released in March and June of 2012, respectively, following early settlement of the securitization operations.

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

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	2012	2011
Financial assets held for trading		
Derivatives with positive fair value	2,031,856	1,708,752
Securities - Participating units	233,639	287,032
	2,265,495	1,995,784
Financial liabilities held for trading		
Derivatives with negative fair value	(2,048,743)	(1,663,299)
Net balance of the fair value of derivative financial instruments	(16,887)	45,453

As at December 31, 2012 and 2011, the caption "Securities - Participating units" refers essentially to security and real estate investment funds managed by Santander Group entities, as follows:

	2012	2011
Securities investment funds	233,613	221,036
Special investment funds	26	23
Real estate investment funds	-	65,973
	233,639	287,032

The caption "Real estate investment funds" at December 31, 2011 corresponded to the market value of the participating units held in the real estate investment funds "Novimovest" and "Lusimovest". In on first semester of 2012, the Bank reclassified these participating units to the caption "Available-for-sale financial assets" (Note 9).

On December 31, 2012 and 2011 the caption of derivative financial instruments is made up as follows:

	2012			2011		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
FRA's	227	-	227	109	-	109
Forwards	576	746	(170)	544	9	535
Swaps						
Currency swaps	3,179	18,900	(15,721)	28,998	-	28,998
Interest rate swaps	1,687,138	1,689,107	(1,969)	722,934	703,704	19,230
Equity swaps	113,516	112,843	673	1,232	3,836	(2,604)
Options	22,343	22,343	-	80,637	80,644	(7)
Caps & Floors	204,877	204,804	73	874,298	875,106	(808)
	2,031,856	2,048,743	(16,887)	1,708,752	1,663,299	45,453

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On December 31, 2012 and 2011 this caption corresponds exclusively to Portuguese Treasury Bonds that fall due in September 2013.

Interest and revaluation results arising out from these financial assets are recorded in the income statement caption "Results of assets and liabilities valued at fair value through profit or loss" (Note 34).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	2012							
	Acquisition Cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 25)	Impairment (Note 22)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	1,612,565	25,395	155,226	461	(229,662)	(229,201)	(252)	1,563,733
Other Portuguese Government entities	420,456	3,385	-	-	(9,442)	(9,442)	-	414,399
Other residents								
Acquired in securitization operations	93,047	88	-	-	(27,688)	(27,688)	-	65,447
Unsubordinated debt	170,285	579	-	-	(25,481)	(25,481)	(230)	145,153
Subordinated debt	127,294	28	-	-	(10,808)	(10,808)	(15,674)	100,840
Issued by non-residents								
Foreign government entities	1,007,573	23,111	166,351	294	(207,771)	(207,477)	-	989,558
Equity instruments								
Issued by residents								
Valued at fair value	234,432	-	-	670	(2,939)	(2,269)	(36,114)	196,049
Valued at cost	20,192	-	-	-	-	-	(5,967)	14,225
Issued by non-residents								
Valued at cost	1,206	-	-	-	-	-	(746)	460
	3,687,050	52,586	321,577	1,425	(513,791)	(512,366)	(58,983)	3,489,864

	2011							
	Acquisition Cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve Positive	Fair Value Reserve Negative	Fair Value Reserve Total (Note 25)	Impairment (Note 22)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	2,131,053	25,352	110,949	-	(688,358)	(688,358)	(373)	1,578,623
Other Portuguese Government entities	271,867	3,358	-	-	(47,029)	(47,029)	-	228,196
Other residents								
Acquired in securitization operations	134,096	197	-	-	(22,798)	(22,798)	-	111,495
Unsubordinated debt	809,458	7,280	-	1,495	(24,924)	(23,429)	(231)	793,078
Subordinated debt	16,759	8	-	-	(2,108)	(2,108)	-	14,659
Issued by non-residents								
Foreign government entities	1,638,666	47,306	99,192	523	(157,187)	(156,664)	-	1,628,500
Other non-resident								
Other	16,500	130	-	102	-	102	-	16,732
Equity instruments								
Issued by residents								
Valued at fair value	108,246	-	-	-	-	-	(57,373)	50,873
Valued at cost	21,648	-	-	-	-	-	(5,947)	15,701
Issued by non-residents								
Valued at fair value	1,016	-	-	328	-	328	-	1,344
Valued at cost	1,150	-	-	-	-	-	(746)	404
	5,150,459	83,631	210,141	2,448	(942,404)	(939,956)	(64,670)	4,439,605

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

As at December 31, 2012 and 2011, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 321,577 and tEuros 210,141, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

	2012						2011					
Description	Acquisition cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book value
Treasury bonds - Portugal												
. Maturing in one year	50,676	747	-	460	-	51,883	5,617	24	-	(2)	-	5,639
. Maturing betw een one and three years	771,722	5,906	28,518	(28,560)	-	777,586	825,852	6,635	28,427	(244,873)	-	616,041
. Maturing betw een three and five years	114,678	1,009	-	(7,666)	-	108,021	-	-	-	-	-	-
. Maturing betw een five and ten years	675,000	17,728	126,708	(193,435)	-	626,001	790,657	18,687	82,522	(443,167)	-	448,699
Treasury bills - Portugal	-	-	-	-	-	-	508,440	-	-	(316)	-	508,124
Other	489	5	-	-	(252)	242	487	6	-	-	(373)	120
	1,612,565	25,395	155,226	(229,201)	(252)	1,563,733	2,131,053	25,352	110,949	(688,358)	(373)	1,578,623
Treasury bonds - Spain												
. Maturing in one year	-	-	-	-	-	-	5,596	23	-	62	-	5,681
. Maturing betw een three and five years	-	-	-	-	-	-	625,354	24,231	-	(10,774)	-	638,811
. Maturing betw een five and ten years	1,000,000	23,028	166,351	(207,771)	-	981,608	1,000,000	22,966	99,192	(146,412)	-	975,746
						-						
Other	7,573	83	-	294	-	7,950	7,716	86	-	460	-	8,262
	1,007,573	23,111	166,351	(207,477)	-	989,558	1,638,666	47,306	99,192	(156,664)	-	1,628,500
	2,620,138	48,506	321,577	(436,678)	(252)	2,553,291	3,769,719	72,658	210,141	(845,022)	(373)	3,207,123

At December 31, 2012 and 2011, the Bank held in its portfolio Treasury Bonds of Portugal and Spain, amounting of tEuros 1,115,614 and tEuros 1,558,315 respectively, used as collateral in financing operations (Note 19). At December 31, 2012, the fair value of the securities used as collateral in financing operations amounted to tEuros 1,130,071.

On December 31, 2012 and 2011, the caption "Debt instruments – Other residents" includes, among others, the following securities:

	2012					2011				
Description	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value
Acquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	92,998	88	(27,673)	-	65,413	99,111	154	(22,227)	-	77,038
TAGUS ROSE-07 1 SEC NOTES DEC/2012	-	-	-	-	-	34,935	43	(571)	-	34,407
Other	49	-	(15)	-	34	50	-	-	-	50
	93,047	88	(27,688)	-	65,447	134,096	197	(22,798)	-	111,495
Unsubordinated debt										
BANCO ESPIRITO SANTO 3.75% JAN/2012	-	-	-	-	-	77,171	2,750	(480)	-	79,441
SONAE DISTRIBUICAO SET 2007/2015	70,000	235	(10,290)	-	59,945	70,000	501	(10,701)	-	59,800
IBERWIND II P- CONSULTORIA SENIO A	32,078	30	(1,482)	-	30,626	33,967	59	170	-	34,196
OBRIGAÇÕES ZON MULTIMÉDIA 2014	24,300	47	(1,011)	-	23,336	24,300	63	(1,195)	-	23,168
EDIA 2010/2030	19,250	248	(11,144)	-	8,354	19,250	336	(8,627)	-	10,959
AUTO SUECO 2009/2014	15,000	3	(1,202)	-	13,801	15,000	5	(1,552)	-	13,453
BANCO INTL DO FUNCHAL SA 3.25%	-	-	-	-	-	59,994	1,268	(1,713)	-	59,549
BANCO COMERC PORTUGUES 3.625%	-	-	-	-	-	23,605	813	(142)	-	24,276
Commercial Paper	-	-	-	-	-	475,961	1,460	769	-	478,190
Other	9,657	16	(352)	(230)	9,091	10,210	25	42	(231)	10,046
	170,285	579	(25,481)	(230)	145,153	809,458	7,280	(23,429)	(231)	793,078
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	110,492	24	-	(15,674)	94,842	-	-	-	-	-
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	1	(8,428)	-	5,573	14,000	2	(785)	-	13,217
Other	2,802	3	(2,380)	-	425	2,759	6	(1,323)	-	1,442
	127,294	28	(10,808)	(15,674)	100,840	16,759	8	(2,108)	-	14,659

The operations of commercial paper held in 2011 fell due in the first semester of 2012. The issues subscribed in 2012 were recorded under the caption of "Loans and advances to customers".

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

As at December 31, 2012 and 2011, the caption "Equity instruments " includes the following securities:

	2012				2011			
Description	Acquisition cost	Fair value reserve	Impairment	Book value	Acquisition cost	Fair value reserve	Impairment	Book value
Valued at fair value								
NOVIMOVEST - F.I. IMOBILIÁRIO	125,910	649	-	126,559	-	-	-	-
LUSIMOVEST - F.I. IMOBILIÁRIO	26,379	(461)	-	25,918	-	-	-	-
FUNDO RECUPERAÇÃO FCR	25,014	(2,478)	-	22,536	18,356	-	-	18,356
FUNDO SOLUCAO ARRENDAMENTO	15,000	-	-	15,000				
GARVAL - SOC.DE GARANTIA MUTUA S.A.	2,086	-	-	2,086	2,506	-	-	2,506
Banco BPI, S.A.	-	-	-	-	27,782	-	(22,031)	5,751
F.I.I. FECHADO IMORENDIMENTO II	-	-	-	-	18,663	-	-	18,663
Other	6,628	21	(2,699)	3,950	9,905	328	(3,292)	6,941
Securities with 100% impairment losses	33,415	-	(33,415)	-	32,050	-	(32,050)	-
	234,432	(2,269)	(36,114)	196,049	109,262	328	(57,373)	52,217
Valued at cost								
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions) (ex-AENOR)	3,749	-	-	3,749	3,749	-	-	3,749
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS SARL	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (ex-AENOR)	3,749	-	(404)	3,345	3,749	-	(404)	3,345
Securities with 100% impairment losses	4,281	-	(4,281)	-	5,027	-	(5,027)	-
Other	6,158	-	(2,028)	4,130	6,812	-	(1,262)	5,550
	21,398	-	(6,713)	14,685	22,798	-	(6,693)	16,105

In the last quarter of 2012, the Bank acquired Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by the Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its market value. Following this operation, impairment losses of the same amount were recorded.

During 2012, the Bank subscribed 3,002,028 participating units of "Solução Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional" amounting to tEuros 15,000. The share capital was paid up in cash for the amount of tEuros 2,000 and the remainder was covered by buildings.

At December 31, 2011, the Group held 11,956,434 shares of the Bank BPI, S.A. at a cost of tEuros 27,882. In 2011, the impairment for these securities was increased by tEuros 9,604. In 2012 and 2011, the Bank sold 11,956,434 and 2,360,640 shares of the Bank BPI for tEuros 6,318 and tEuros 2,870, respectively, using the impairment recorded for the purpose (Note 22).

In the years 2012 and 2011, the Bank responded to capital calls of the Fundo de Recuperação, FCR, in the amounts of tEuros 6,658 and tEuros 6,540, respectively. At December 31, 2012, the Bank held in its portfolio 25,010 participating units, corresponding to 4.13% of the capital of the fund on that date.

As mentioned in Note 7, during the first semester of 2012 the Bank reclassified the participating units held in the real estate investment funds "Novimovest" and "Lusimovest" from the caption "Financial assets held for trading" to the caption "Available-for-sale financial assets". The impact of the reclassification of these participating units on the results and in the fair value reserve was the following:

Book value on the date of reclassification:	
. Participating units	50,289
. Credit rights of the Fund Lusimovest (Note 17)	15,890

	66,179

Fair value of the participating units reclassified on December 31, 2012	50,015

Fair value reserve of the participating units reclassified in 2012 (excluding tax effect)	(274)
	====

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

In October of 2012 the Bank reclassified the credit rights held over Fund Lusimovest from “Available-for-sale financial assets” to “Other assets – Other debtors”, which at that date amounted to tEuros 24,500 (Note 17).

In the first semester of 2012, the Bank reclassified to the caption “Non-current assets held for sale” (Note 13), the 2,748,238 participating units for the value of tEuros 18,663 of Fundo Fechado de Investimento Imobiliário – Imorendimento II, received in 2011, following a settlement agreement of a debt receivable on a loan granted. This fund is in the process of liquidation.

At December 31, 2012 and 2011, the negative fair value reserve resulting from the fair value valuation had the following percentages in relation to cost:

	2012				
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	2,297,157	33,638	194,869	(265,195)	2,260,469
. Between 25% and 50%	778,551	17,817	126,708	(223,703)	699,373
. Over 50%	36,052	252	-	(21,954)	14,350
	3,111,760	51,707	321,577	(510,852)	2,974,192
Equity Instruments					
. Between 0% and 25%	51,393	-	-	(2,939)	48,454
	3,163,153	51,707	321,577	(513,791)	3,022,646

	2011				
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	2,940,006	54,486	99,192	(214,661)	2,879,023
. Between 25% and 50%	1,051,519	9,603	28,427	(335,379)	754,170
. Over 50%	675,000	17,680	82,522	(392,364)	382,838
	4,666,525	81,769	210,141	(942,404)	4,016,031

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

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	2012	2011
Loans and advances - Bank of Portugal	900,000	1,150,000
Loans and advances to other Portuguese banks		
Loans	46,581	57,428
Interest receivable	261	953
Purchase operations with resale agreements	-	368,711
Deferred income	-	(150)
	46,842	426,942
Loans and advances to other foreign banks		
Deposits	1,192,627	918,705
Other applications	709,874	102,345
Very short term loans and advances	216,402	65,215
Interest receivable	31,677	29,704
	2,150,580	1,115,969
	3,097,422	2,692,911

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

11. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	2012	2011
Unsecuritised credit		
Domestic loans		
To corporate clients		
Loans	4,148,746	3,325,033
Current account loans	1,195,764	1,334,775
Factoring	905,312	1,231,364
Finance leasing	455,646	526,117
Overdrafts	337,700	438,299
Discount and credit securities	137,300	184,867
Other credits	26,898	39,165
To individuals		
Mortgage loans	11,745,561	9,141,345
Consumer credit and other loans	1,798,911	1,255,346
Foreign loans		
To corporate clients		
Loans	124,141	82,077
Factoring	42,147	91,558
Current account loans	9,558	12,240
Finance leasing	3,276	4,239
Overdrafts	2,559	5,294
Other credits	1,541	3,432
Discount and credit securities	85	49
To individuals		
Mortgage loans	377,167	397,570
Consumer credit and other loans	39,894	22,035
	21,352,206	18,094,805
Loans represented by securities		
Non-subordinated debt securities		
Commercial paper	1,451,055	40,000

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

	2012	2011
Non-derecognised securitised assets (Note 44)		
Companies		
Finance leasing		
. Leasetotta no. 1	462,375	652,910
Loans		
. BST SME no. 1	-	1,327,390
. Totta Consumer no. 1	-	36,331
Loans represented by securities – Commercial paper		
. BST SME no. 1	-	615,200
To individuals		
Loans		
Mortgage loans		
. Hipototta no. 1	200,164	225,469
. Hipototta no. 4	1,177,349	1,255,543
. Hipototta no. 5	997,032	1,049,819
. Hipototta no. 7	1,217,069	1,275,981
. Hipototta no. 11	-	1,736,471
. Hipototta no. 12	-	1,216,021
Consumer credit		
. Totta Consumer no. 1	-	747,758
Finance leasing		
. Leasetotta no. 1	685	1,803
	4,054,674	10,140,696
Overdue loans and interest		
Up to 90 days	45,689	47,748
More than 90 days	891,127	539,251
Non-derecognised securitised assets	89,771	94,737
	1,026,587	681,736
	27,884,522	28,957,237
Interest receivable		
Unsecuritised credit	52,626	58,915
Loans represented by securities	4,161	1,541
Non-derecognised securitised assets	6,852	31,981
Deferred expenses	89,526	100,227
Commissions associated with amortised cost (net)	(98,476)	(111,287)
Value adjustment of hedged assets	6,100	5,327
	60,789	86,704
	27,945,311	29,043,941
Impairment of loans and advances to customers (Note 22)	(965,662)	(671,914)
	26,979,649	28,372,027

In 2012 and 2011, the Bank has sold mortgage loans and company loans portfolios, most of which had already been written off. As a result of these operations, net gains were recorded in 2012 and 2011 amounting to tEuros 4,117 and tEuros 1, respectively (Note 37).

On December 31, 2012 and 2011, the caption “Domestic loans - Mortgage loans” includes loans allocated to the autonomous patrimony of the covered bonds issued by the Bank totalling tEuros 7,675,686 and tEuros 7,567,003, respectively (Note 21).

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

Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1 were liquidated in March, May, June and August of 2012, respectively.

Changes in impairment of loans and advances to customers during 2012 and 2011 are presented in Note 22.

On December 31, 2012 and 2011, overdue loans and interest are made up as follows:

	2012	2011
Up to three months	46,934	54,267
Between three and six months	97,166	97,880
Between six months and one year	247,703	176,115
Between one year and three years	515,542	258,491
More than three years	119,242	94,983
	1,026,587	681,736

The portfolio of loans to customers as at December 31, 2012 and 2011, by business sector is as follows:

	2012			
	Performing	Overdue	Total	%
Agriculture and forestry	196,186	10,979	207,165	0.74%
Fishing	22,465	885	23,350	0.08%
Mining	76,740	3,341	80,081	0.29%
Manufacturing:				
Food, beverage and tobacco	377,099	12,505	389,604	1.40%
Textiles, leather and clothing	367,730	17,189	384,919	1.38%
Wood and cork	87,374	5,657	93,031	0.33%
Paper and publishing	253,911	4,114	258,025	0.93%
Chemical industry	139,790	1,108	140,898	0.51%
Ceramics, glass and cement	227,827	3,158	230,985	0.83%
Metal-working	140,131	7,236	147,367	0.53%
Machines and vehicles	234,778	11,074	245,852	0.88%
Electricity, water and gas	269,065	4,332	273,397	0.98%
Construction and public works	1,535,568	204,745	1,740,313	6.24%
Commerce and hotels				
Wholesale trading	622,867	39,232	662,099	2.37%
Retail sale	668,126	44,678	712,804	2.56%
Restaurants and hotels	397,555	43,092	440,647	1.58%
Transport and communications	614,601	15,413	630,014	2.26%
Non-monetary financial institutions	449,620	4,232	453,852	1.63%
Government administration	653,341	7,028	660,369	2.37%
Other service companies	1,495,854	86,876	1,582,730	5.68%
Loans to individuals	16,782,550	459,107	17,241,657	61.83%
Foreign loans	369,628	4,588	374,216	1.34%
Holding companies	738,732	31,100	769,832	2.76%
Other loans	136,397	4,918	141,315	0.50%
	26,857,935	1,026,587	27,884,522	100.00%

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

	2011			
	Performing	Overdue	Total	%
Agriculture and forestry	246,502	6,808	253,310	0.87%
Fishing	29,425	425	29,850	0.10%
Mining	94,724	1,842	96,566	0.33%
Manufacturing:				
Food, beverage and tobacco	378,800	5,074	383,874	1.33%
Textiles, leather and clothing	442,721	8,796	451,517	1.56%
Wood and cork	109,911	3,446	113,357	0.39%
Paper and publishing	157,400	2,890	160,290	0.55%
Chemical industry	107,122	582	107,704	0.37%
Ceramics, glass and cement	185,302	2,174	187,476	0.65%
Metal-working	150,166	4,006	154,172	0.53%
Machines and vehicles	221,242	6,774	228,016	0.79%
Electricity, water and gas	289,613	1,665	291,278	1.01%
Construction and public works	2,000,621	119,107	2,119,728	7.32%
Commerce and hotels				
Wholesale trading	720,013	23,497	743,510	2.57%
Retail sale	780,496	27,081	807,577	2.79%
Restaurants and hotels	435,822	11,809	447,631	1.55%
Transport and communications	575,057	7,031	582,088	2.01%
Non-monetary financial institutions	265,207	12	265,219	0.92%
Government administration	858,269	3,977	862,246	2.98%
Other service companies	1,631,742	71,580	1,703,322	5.88%
Loans to individuals	17,648,536	363,747	18,012,283	62.20%
Foreign loans	378,485	2,592	381,077	1.32%
Holding companies	375,251	4,166	379,417	1.31%
Other loans	193,074	2,655	195,729	0.67%
	28,275,501	681,736	28,957,237	100.00%

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

On December 31, 2012 and 2011, the overdue and performing loans, with and without objective evidence of impairment, considering the segmentation for the purpose of calculating impairment losses, are made up as follows:

	2012		
	Overdue loans	Performing loans	Total loans
Loans to companies			
. Without objective evidence of impairment	-	9,254,210	9,254,210
. With objective evidence of impairment	547,969	217,601	765,570
	547,969	9,471,811	10,019,780
Mortgage loans			
. Without objective evidence of impairment	-	14,823,138	14,823,138
. With objective evidence of impairment	303,252	701,747	1,004,999
	303,252	15,524,885	15,828,137
Consumer credit			
. Without objective evidence of impairment	-	1,048,143	1,048,143
. With objective evidence of impairment	37,458	62,869	100,327
	37,458	1,111,012	1,148,470
Loans granted through credit cards			
. Without objective evidence of impairment	-	248,211	248,211
. With objective evidence of impairment	31,912	12,159	44,071
	31,912	260,370	292,281
Other loans to individuals			
. Without objective evidence of impairment	-	412,022	412,022
. With objective evidence of impairment	105,996	77,835	183,831
	105,996	489,857	595,853
	1,026,587	26,857,935	27,884,522

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

	2011		
	Overdue loans	Performing loans	Total loans
Loans granted to companies			
. Without objective evidence of impairment	-	9,670,386	9,670,386
. With objective evidence of impairment	302,396	409,940	712,336
	302,396	10,080,326	10,382,722
Mortgage loans			
. Without objective evidence of impairment	-	15,384,875	15,384,875
. With objective evidence of impairment	249,306	779,278	1,028,584
	249,306	16,164,153	16,413,459
Consumer credit			
. Without objective evidence of impairment	-	1,111,840	1,111,840
. With objective evidence of impairment	31,771	88,956	120,727
	31,771	1,200,796	1,232,567
Loans granted through credit cards			
. Without objective evidence of impairment	-	262,819	262,819
. With objective evidence of impairment	25,535	11,696	37,231
	25,535	274,515	300,050
Other loans to individuals			
. Without objective evidence of impairment	-	435,914	435,914
. With objective evidence of impairment	72,728	119,797	192,525
	72,728	555,711	628,439
	681,736	28,275,501	28,957,237

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

12. HEDGING DERIVATIVES

This caption is made up as follows:

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	90,407	370,277	(279,870)	63,427	253,052	(189,625)
Equity swaps	50,522	14,273	36,249	13,286	21,039	(7,753)
AutoCallable options	2,656	71,361	(68,705)	3,897	8,798	(4,901)
Cash flow hedges						
Interest rate swaps	141,265	-	141,265	86,692	-	86,692
	284,850	455,911	(171,061)	167,302	282,889	(115,587)

On December 31, 2012 and 2011, derivatives were broken down as follows:

	2012								
		Notional amounts							
	Book	Up to 3	Between 3 and	Between 6 and	Between 1	Over		Notional amounts	
Type of financial Instruments	Value	months	6 months	12 months	and 3 years	3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	(170)	27,327	15,579	3,176	-	-	46,082	14,566	31,516
. Sold		27,428	15,603	3,168	-	-	46,199	24,243	21,956
Currency swaps									
. Purchased	(15,721)	1,258,038	38,379	-	-	-	1,296,417	19,393	1,277,024
. Sold		1,273,385	38,371	-	-	-	1,311,756	1,292,770	18,986
Interest rate swaps									
Other	(1,969)	572,113	961,321	1,761,715	3,356,906	4,874,011	11,526,066	11,420,878	105,188
Equity swaps	673	6,223	1,646	6,415	479,683	170,714	664,681	652,815	11,866
FRA's	227	44,800	20,000	80,000	20,000	-	164,800	164,800	-
Currency options									
. Purchased	-	16,955	2,445	-	-	-	19,400	-	19,400
. Sold		16,955	2,445	-	-	-	19,400	-	19,400
Interest rate options									
. Purchased	-	812	619	993	191	800,558	803,173	800,791	2,382
. Sold		762	619	810	191	-	2,382	-	2,382
Caps	142	6,456	9,343	73,214	231,706	1,387,886	1,708,605	1,708,605	-
Floors	(69)	-	-	30,000	64,903	535,041	629,944	597,457	32,487
	(16,887)	3,251,254	1,106,370	1,959,491	4,153,580	7,768,210	18,238,905	16,696,318	1,542,587
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	83,928	32,081	1,008,950	197,190	1,110,756	270,106	2,619,083	2,585,397	33,686
. Financial assets available for sale	(363,798)	-	-	-	400,000	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(68,705)	70,745	12,662	152,725	241,453	-	477,585	477,585	-
Equity swaps	36,249	159,592	52,006	158,633	2,389,435	57,458	2,817,124	2,678,041	139,083
Cash flow hedges									
Interest rate swaps									
. Cash flow	141,265	300,000	250,000	-	1,200,000	1,200,000	2,950,000	2,950,000	-
	(171,061)	562,418	1,323,618	508,548	5,341,644	3,202,564	10,938,792	10,766,023	172,769

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

	2011								
		Notional amounts							
	Book	Up to 3	Between 3 and	Between 6 and	Between 1	Over		Notional amounts	
Type of financial Instruments	Value	months	6 months	12 months	and 3 years	3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	535	24,970	13,224	65,692	-	-	103,886	41,739	62,147
. Sold		24,771	13,095	65,429	-	-	103,295	58,873	44,422
Currency swaps									
. Purchased	28,998	1,299,485	-	-	-	-	1,299,485	-	1,299,485
. Sold		1,270,008	-	-	-	-	1,270,008	1,270,008	-
Interest rate swaps									
Other	19,230	807,700	328,943	1,588,220	4,284,187	4,544,329	11,553,379	11,306,226	247,153
Equity swaps	(2,604)	171,581	205,402	246,615	2,526,267	1,782,833	4,932,698	4,924,443	8,255
FRA's	109	130,000	120,000	60,000	25,000	-	335,000	335,000	-
Currency options									
. Purchased	34	26,929	46,255	60,430	10,796	-	144,410	155	144,255
. Sold		26,929	46,255	60,430	10,796	-	144,410	155	144,255
Equity options									
. Purchased	(34)	100	9,409	-	-	-	9,509	9,509	-
. Sold		100	9,409	-	-	-	9,509	9,509	-
Interest rate options									
. Purchased	(7)	1,522	1,657	2,289	2,662	885,631	893,761	887,684	6,077
. Sold		1,522	1,657	1,991	2,428	-	7,598	1,522	6,076
Caps	148	155,791	241,410	180,691	410,265	1,540,644	2,528,801	2,528,801	-
Floors	(956)	-	-	2,500	161,878	548,237	712,615	677,373	35,242
	45,453	3,941,408	1,036,716	2,334,287	7,434,279	9,301,674	24,048,364	22,050,997	1,997,367
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	56,347	3,200	38,550	305,230	2,218,571	435,287	3,000,838	2,993,032	7,806
. Financial assets available for sale	(245,972)	-	-	-	400,000	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(4,901)	5,690	16,204	229,792	250,940	-	502,626	502,626	-
Equity swaps	(7,753)	50,856	45,809	120,943	1,398,153	526,245	2,142,006	1,969,989	172,017
Cash flow hedges									
Interest rate swaps									
. Cash flow	86,692	-	-	-	1,550,000	1,050,000	2,600,000	2,600,000	-
	(115,587)	59,746	100,563	655,965	5,817,664	3,686,532	10,320,470	10,140,647	179,823

13. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	2012	2011
Property received as settlement of defaulting loans	245,156	177,737
Own property for sale	31,428	26,525
Participating units	18,663	-
Equipment	5,558	3,982
Other properties	100	100
	-----------	----------
	300,905	208,344
	----------	----------
Impairment (Note 22)	(94,065)	(67,181)
	-----------	----------
	206,840	141,163
	======	======

In 2011, following a debt settlement agreement receivable referring to a loan granted, the Bank received 2,748,238 participating units of Fundo de Investimento Imobiliário Fechado - Imorendimento II for an amount of tEuros 18,663. These participating units were initially recorded in the caption "Financial assets available for sale". In the first semester of 2012, the Bank reclassified these participating units to this caption as it considers that they are available for immediate sale in their present condition and that the sale is probable within the period of one year (Note 9).

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

Changes in these captions for the years ending December 31, 2012 and 2011, may be presented as follows:

	2012										
	December 31 2011								December 31 2012		
						Impairment (Note 22)					
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Notes 9 and 14)	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	177,737	(53,639)	178,631	(111,213)	-	(38,106)	4,328	16,339	245,155	(71,078)	174,077
. Own property for sale	26,625	(10,757)	55	(507)	5,355	(5,024)	292	76	31,528	(15,413)	16,115
Equipment	3,982	(2,785)	2,808	(1,231)	-	(1,485)	610	86	5,559	(3,574)	1,985
Participating units	-	-	-	-	18,663	(4,000)	-	-	18,663	(4,000)	14,663
	208,344	(67,181)	181,494	(112,951)	24,018	(48,615)	5,230	16,501	300,905	(94,065)	206,840

	2011										
	December 31 2010								December 31 2011		
						Impairment (Note 22)					
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Note 14)	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	114,013	(36,052)	132,403	(85,506)	(39)	(28,705)	2,314	13,228	177,737	(53,639)	124,098
. Own property for sale	20,788	(9,626)	90	(4,291)	10,038	(7,259)	4,823	1,305	26,625	(10,757)	15,868
Equipment	-	-	3,019	(1,601)	-	(1,519)	310	94	3,982	(2,785)	1,197
	134,801	(45,678)	135,512	(91,398)	9,999	(37,483)	7,447	14,627	208,344	(67,181)	141,163

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

14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions for the years ended on December 31, 2012 and 2011 are as follows:

	2012																		
							Transfers												
	31/12/2011				Write-offs		From/to assets held for sale (Note 13)		Between fixed assets		Amortization			Foreign exchange differences		31/12/2012			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	of the year	Impairment (Note 22)	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																			
Property																			
. Property for own use	415,472	120,714	2,486	351	1,548	3	(6,914)	(1,602)	1,144	(164)	7,786	1,389	-	(3)	-	408,502	126,731	3,875	277,896
. Leasehold expenditure	134,230	105,217	-	912	-	1,470	(166)	(166)	(713)	163	6,429	-	-	(7)	(3)	134,256	110,170	-	24,086
. Other property	347	1	43	-	41	-	-	-	-	-	1	-	(23)	-	2	306	4	20	282
Tangible assets in progress																			
. Property for own use	240	-	-	336	-	-	-	-	(445)	-	-	-	-	-	-	131	-	-	131
. Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
	550,290	225,932	2,529	1,599	1,589	1,473	(7,080)	(1,768)	(14)	(1)	14,216	1,389	(23)	(10)	(1)	543,196	236,905	3,895	302,396
Equipment																			
. Furniture and fixtures	23,160	17,689	-	192	133	133	-	-	-	-	1,732	-	-	-	(1)	23,219	19,287	-	3,932
. Machinery and tools	3,922	3,817	-	57	13	13	-	-	-	-	52	-	-	-	(2)	3,966	3,854	-	112
. Computer hardware	124,015	107,115	-	1,524	814	678	-	-	-	-	6,627	-	-	-	-	124,725	113,064	-	11,661
. Interior installations	91,268	82,545	-	2,153	1,031	1,029	(59)	(16)	14	1	2,621	-	-	1	(2)	92,346	84,120	-	8,226
. Vehicles	18,482	11,002	-	2,070	2,841	2,629	-	-	-	-	3,597	-	-	(3)	-	17,708	11,970	-	5,738
. Security equipment	27,805	26,737	-	59	272	272	-	-	-	-	439	-	-	1	-	27,593	26,904	-	689
. Other equipment	5,663	3,359	-	178	41	41	-	-	-	-	692	-	-	1	(2)	5,801	4,008	-	1,793
	294,315	252,264	-	6,233	5,145	4,795	(59)	(16)	14	1	15,760	-	-	-	(7)	295,358	263,207	-	32,151
Other tangible assets																			
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Work of Art	1,535	-	-	-	-	-	-	-	-	-	-	-	-	2	-	1,537	-	-	1,537
	1,816	281	-	-	-	-	-	-	-	-	-	-	-	2	-	1,818	281	-	1,537
	846,421	478,477	2,529	7,832	6,734	6,268	(7,139)	(1,784)	-	-	29,976	1,389	(23)	(8)	(8)	840,372	500,393	3,895	336,084
Intangible assets																			
Software purchased	317,482	243,252	-	13,933	-	-	-	-	11,576	-	33,897	-	-	-	-	342,991	277,149	-	65,842
Intangible assets in progress	-	-	-	11,576	-	-	-	-	(11,576)	-	-	-	-	-	-	-	-	-	-
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	321,096	246,866	-	25,509	-	-	-	-	-	-	33,897	-	-	-	-	346,605	280,763	-	65,842

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

	2011																		
										Transfers									
	12/31/2010			Charges in the consolidation perimeter			Write-offs and sales			From/to assets held for sale (Note 13)			Amortization	Foreign exchange differences		12/31/2011			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Gross amount	Accumulated depreciation	Aquisições	Gross amount	Accumulated depreciation	Impairment (Note 22)	Gross amount	Accumulated depreciation	Transfers between fixed assets	of the year	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																			
Property																			
. Property for own use	423,263	115,791	2,486	4,076	477	1,179	-	-	-	(13,426)	(3,531)	380	7,977	-	-	415,472	120,714	2,486	292,272
. Leasehold expenditure	133,393	99,187	-	-	-	1,379	-	-	-	(549)	(549)	1	6,574	6	5	134,230	105,217	-	29,013
. Other property	1,542	295	697	-	-	1	654	40	654	(315)	(255)	(227)	1	-	-	347	1	43	303
Tangible assets in progress																			
. Property for own use	3	-	-	-	-	392	-	-	-	-	-	(155)	-	-	-	240	-	-	240
. Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
	558,202	215,273	3,183	4,076	477	2,951	654	40	654	(14,290)	(4,335)	(1)	14,552	6	5	550,290	225,932	2,529	321,829
Equipment																			
. Furniture and fixtures	22,908	15,617	-	107	107	380	236	237	-	-	-	-	2,201	1	1	23,160	17,689	-	5,471
. Machinery and tools	4,028	3,864	-	18	18	27	152	152	-	-	-	-	86	1	1	3,922	3,817	-	105
. Computer hardware	119,884	99,703	-	371	351	4,829	1,029	902	-	-	-	(40)	7,963	-	-	124,015	107,115	-	16,900
. Interior installations	89,482	79,619	-	115	114	1,968	35	35	-	(262)	(218)	-	3,065	-	-	91,268	82,545	-	8,723
. Vehicles	18,389	10,139	-	428	334	3,064	3,403	3,290	-	-	-	-	3,815	4	4	18,482	11,002	-	7,480
. Security equipment	27,777	26,343	-	2	2	188	162	160	-	-	-	-	552	-	-	27,805	26,737	-	1,068
. Other equipment	5,486	2,617	-	-	-	179	2	2	-	-	-	-	744	-	-	5,663	3,359	-	2,304
	287,954	237,902	-	1,041	926	10,635	5,019	4,778	-	(262)	(218)	(40)	18,426	6	6	294,315	252,264	-	42,051
Other tangible assets																			
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Works of Art	1,525	-	-	10	-	-	-	-	-	-	-	-	-	-	-	1,535	-	-	1,535
. Other	39	39	-	-	-	-	39	39	-	-	-	-	-	-	-	-	-	-	-
	1,845	320	-	10	-	-	39	39	-	-	-	-	-	-	-	1,816	281	-	1,535
	848,001	453,495	3,183	5,127	1,403	13,586	5,712	4,857	654	(14,552)	(4,553)	(41)	32,978	12	11	846,421	478,477	2,529	365,415
Intangible assets																			
Software purchased	286,849	213,918	-	2,153	1,695	31,185	2,745	2,745	-	-	-	40	30,384	-	-	317,482	243,252	-	74,230
Intangible assets in progress	1,444	-	-	-	-	(1,444)	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	291,907	217,532	-	2,153	1,695	29,741	2,745	2,745	-	-	-	40	30,384	-	-	321,096	246,866	-	74,230

The caption “Software purchased” at December 31, 2012 and 2011 includes software acquired from Santander Tecnologia y Operaciones A.E.I.E., a european economic interest group owned by Santander Group, amounting to, net of depreciation, tEuros 64,273 and tEuros 72,054, respectively.

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

15. INVESTMENTS IN ASSOCIATED COMPANIES

On December 31, 2012 and 2011, this caption was made up as follows:

	2012		2011	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
. Partang, SGPS, S.A.	49.00	111,284	49.00	103,470
. Unicre - Instituição Financeira de Crédito, S.A	21.50	30,168	21.50	27,756
. Benim - Sociedade Imobiliária, S.A	25.81	2,202	25.81	2,326
		143,654		133,552
Impairment of investments in associates (Note 22)				
. Benim – Sociedade Imobiliária, S.A.		(660)		(500)
		142,994		133,052

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

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

On December 31, 2012 and 2011, Partang, SGPS, S.A. owned 51% of Banco Caixa Geral Totta de Angola.

Under the terms of the agreement entered into between BST and CGD, on July 5, 2010 CGD exercised its purchase option over 1% of Partang’s share capital. Following this operation, the BST Group owned 49% of the share capital of Partang, having lost its joint control over the BCGTA. In accordance with IAS 27, the Bank measured the remaining participating interest at the date when joint control was lost at fair value. Following this operation the participation was recognised in accordance with equity method of accounting.

The Group has a put option to sell its participation in Partang to the CGD, exercisable during the period of 4 years starting July 2, 2011. Additionally, the CGD has a second call option on the Group’s participation in Partang, with a limit of 80% of Partnag’s share capital and voting rights, to be exercised in the first month of the fifth anniversary of the date of the capital increase of Partang (July 2, 2009).

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

16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

On December 31, 2012 and 2011, these captions were made up as follows:

	2012	2011
Current tax assets:		
. Corporate income tax receivable	3,889	17,613
. Other	357	19
	4,246	17,632
Current tax liabilities:		
. Corporate income tax payable from previous years	2,789	1,501
. Other	1,898	5,044
	4,687	6,545
Deferred tax assets		
. Relating to temporary differences	604,209	701,127
. Tax losses carried forward	27,369	13,690
	631,578	714,817
Deferred tax liabilities		
. Relating to temporary differences	71,442	62,863
. Relating to tax credits	3,861	4,109
	75,303	66,972

On December 31, 2012 and 2011, income tax for the year was made up as follows:

	2012	2011
Current tax		
. Of the year	(23,715)	(17,777)
. Special contribution of the banking sector	(11,842)	(13,303)
. Consortiums (“ACE’s”)	(1,482)	(1,624)
. Other	7,446	21,503
	(29,593)	(11,201)
Deferred tax		
. Increases and reversals of temporary differences	44,803	26,997
. (Expense)/Income for tax credits	(500)	13,687
	44,303	40,684
	14,710	29,483

Following the change in the accounting policy relating to liabilities with pensions, in 2011, the Bank recorded deferred tax asset amounting to tEuros 61,992.

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

Changes in deferred tax assets and liabilities for the years ending on December 31, 2012 and 2011 were as follows:

	2012				
	Balances on 31/12/2011	Shareholders' equity	Income Statement	Other	Balances on 31/12/2012
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	180,675	-	54,369	-	235,044
Liabilities relating to potential capital losses	(8,324)	-	2,569	-	(5,755)
Revaluation of tangible assets	(4,109)	-	248	-	(3,861)
Pensions:					
Early retirement pensions	19,543	-	7,774	-	27,317
Retirement pensions	34,614	-	(15,446)	-	19,168
Transfers of pension liabilities to the Social Security	6,047	-	(605)	-	5,442
Actuarial variations	159,238	-	(15,924)	-	143,314
Long service bonus	7,471	-	400	-	7,871
Pension Fund - London Branch	193	-	(193)	-	-
Securitization operations:					
. Premium/discount on debt issued	(439)	-	156	-	(283)
. Recognition of accrual of interest from notes with greater subordination	(8,622)	-	(228)	-	(8,850)
. Results on intra-Group securities purchases	(17,130)	-	(904)	-	(18,034)
Tax losses carried forward	13,690		13,679		27,369
Valuation temporarily not accepted for tax purposes:					
Tangible and intangible fixed assets	77	-	(77)	-	-
Cash flow hedges	(16,978)	(11,874)	-	-	(28,852)
Financial assets available for sale	272,587	(124,000)	-	-	148,587
Deferred commissions	2,663	-	622	-	3,285
Capital gains	(1,854)	-	39	-	(1,815)
Application of the equity method in the valuation of investments in associated companies	(402)	(420)	(59)	420	(461)
Long-term incentives	3,098	-	470	-	3,568
Investments in subsidiaries, associates and joint ventures	5,809	-	(2,583)	-	3,226
Other	(2)	-	(4)	1	(5)
	647,845	(136,294)	44,303	421	556,275

	2011					
	Balances on 31/12/2010	Totta IFIC merger	Shareholders' equity	Income Statement	Other	Balances on 31/12/2011
Provisions/Impairment temporarily not accepted for tax purposes						
Assets	143,243	7,235	387	31,634	(1,824)	180,675
Liabilities relating to potential capital losses	-	-	-	(8,324)	-	(8,324)
Revaluation of tangible assets	(4,515)	-	-	229	177	(4,109)
Pensions:						
Early retirement pensions	19,841	-	-	(298)	-	19,543
Retirement pensions	44,427	-	-	(9,813)	-	34,614
Transfers of pension liabilities to the Social Security	-	-	-	6,047	-	6,047
Actuarial variations	97,247	-	61,992	-	(1)	159,238
Long service bonus	7,894	-	-	(423)	-	7,471
Pension Fund - London Branch	386	-	-	(193)	-	193
Securitization operations:						
. Premium/discount on debt issued	(496)	-	-	57	-	(439)
. Recognition of accrual of interest from notes with greater subordination	(6,897)	(717)	-	(1,008)	-	(8,622)
. Results on intra-Group securities purchases	(30,406)	-	-	13,276	-	(17,130)
Tax losses carried forward	-	-	-	12,503	1,187	13,690
Valuation temporarily not accepted for tax purposes:						
Tangible and intangible fixed assets	148,969		123,563	-	55	272,587
Cash flow hedges	715	-	-	(630)	(8)	77
Financial assets available for sale	5,809	-	-	-	-	5,809
Deferred commissions	5,855	-	-	(3,192)	-	2,663
Capital gains	2,316	-	-	782	-	3,098
Application of the equity method in the	(1,874)	-	(15,104)	-	-	(16,978)
valuation of investments in associated companies	(1,892)	-	-	38	-	(1,854)
Long-term incentives						
Investments in subsidiaries, associates and joint ventures	(401)	-	-	(1)	-	(402)
Other	(416)		-	-	414	(2)
	429,805	6,518	170,838	40,684	-	647,845

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

In 2012 and 2011, the reconciliation between the nominal and effective income tax rate is as follows:

	2012		2011	
	Income Tax Rate	Amount	Income Tax Rate	Amount
Income before income tax		73,358		17,585
Income tax based on the current tax rate				
in Portugal and countries where the subsidiaries are established	-28.84%	(21,154)	-113.67%	(19,989)
Insufficiency/(excess) of tax estimate of the previous year	3.30%	2,421	-45.10%	(7,931)
Impact on the effective tax rate of income from associated companies	-4.69%	(3,438)	-21.26%	(3,739)
Constitution/(reversal) of taxed provisions	5.13%	3,761	5.73%	1,008
Deductible tax losses (consortiums)	-0.44%	(323)	-2.78%	(489)
Tax exempt dividends	-0.42%	(307)	0.00%	-
Tax benefits	-0.46%	(341)	-1.63%	(287)
Non tax deductible costs	2.71%	1,987	8.13%	1,430
Special contribution of the banking sector	16.14%	11,842	75.65%	13,303
Autonomous taxation	5.07%	3,720	14.59%	2,566
Tax losses of previous years that became recoverable	-0.43%	(318)	0.00%	-
Other	-17.12%	(12,560)	-87.32%	(15,355)
Income tax for the year	-20.05%	(14,710)	-167.66%	(29,483)

Tax authorities may review the Bank's tax situation during a period of four years, except in the case of reportable tax losses, as well as of any other tax deduction or credit, in which case the right to corrections expires in the year of this right.

The Bank was subject to tax inspections for the years up to 2010, inclusive. As a result of the inspection for 2010, the Bank was subject to an additional assessment of Corporation Income Tax. The corrections made relate to several matters, including, adjustments to the tax base relating to impairment of non-financial assets and the limitation of losses in equity and corrections to the calculation of the tax relating to the autonomous taxation of bonuses and premiums paid to Directors of the Bank, as well as relating to the limitation of the use of tax benefits. Some of these corrections are merely temporary, namely those relating to the non-deductible impairment for non-financial assets.

As regards the additional assessments received in recent years, the Bank has paid the full amount or part of the amount of these additional tax assessments or, where applicable, has given a bank guarantee. However, the Bank has challenged the majority of the additional tax assessments.

BST records in the liability caption "Provisions", the amount considered to be necessary to cover the risks of the additional tax assessments received which were not paid out and contingencies relating to prior years not yet reviewed by the Tax Administration (Note 22).

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

17. OTHER ASSETS

This caption is made up as follows:

	2012	2011
Other available funds	333	353
Debtors and other applications		
Debtors resulting from operations with futures	3,895	2,580
VAT recoverable	548	548
Debtors for loan interest subsidy	5,939	8,345
Other debtors	47,850	24,515
Debtors and other applications - overdue capital	528	528
Debtors - unrealised capital	38	38
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	2,443	2,443
Gold, other precious metals, coins and medals	2,465	2,459
Promises and other assets received as settlement of defaulting loans	104,672	89,888
Income receivable	25,314	33,802
Other income receivable - securitization	10,767	18,523
Deferred costs on participations in consortiums		
NORTREM - Aluguer Material Ferroviário ACE	2,762	2,281
TREM - Aluguer Material Circulante ACE	137	220
TREM II - Aluguer Material Circulante ACE	443	682
Deferred costs	7,893	5,760
Liabilities with pensions		
Total liabilities	-	(780,387)
Fair value of the Pension Fund's assets	-	783,684
Over-the-counter transactions pending settlement	28	-
Asset transactions pending settlement	253	1,354
Other transactions pending settlement	-	3
	216,798	198,109
Impairment losses (Note 22):		
. Shareholders' loans	(2,042)	(2,042)
. Assets received as settlement of defaulting loans	(22,921)	(18,456)
. Debtors and other applications	(879)	(1,155)
	(25,842)	(21,653)
	190,956	176,456

The caption "Debtors resulting from operations with futures" corresponds to the current accounts maintained by the Bank in international financial institutions relating to the trading of futures. Futures margin accounts are recorded under the caption "Other liabilities - Creditors resulting from operations with futures" (Note 24).

The balance of the caption "Other debtors" at December 31, 2012, includes the amount of the credit rights held over Fund Lusimovest totalling tEuros 24,500, relating to redemptions settled on account of the Fund.

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

On December 31, 2012 and 2011, the caption “Other income receivable - securitization” corresponds to the amount receivable on swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization companies. The amount payable relating to these transactions is recorded in the caption “Other liabilities – Other charges payable” (Note 24).

On December 31, 2012 and 2011 the caption “Income receivable” includes essentially commission receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. for the sale of its products.

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	2012	2011
Resources of the European Central Bank		
Sales with repurchase agreement	5,837,226	4,913,227
Resources of other Central Banks		
Demand deposits	16	7
	5,837,242	4,913,234

On December 31, 2012 and 2011, the caption of “Resources of the European Central Bank – Sales with repurchase agreement" corresponds to the taking of funds from the Eurosystem, BST using part of its eligible assets portfolio. On those dates, of the total eligible assets portfolio, the assets relating to the European Central Bank were as follows:

	2012				
Type of asset	Principal	Total interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations and covered bonds	1,860,000	44,021	(31,685)	1,872,336	February 2015
Public debt and loans	740,000	17,513	(12,605)	744,908	February 2015
	2,600,000	61,534	(44,290)	2,617,244	
Bonds issued in securitization operations	1,610,000	14,390	(1,031)	1,623,359	January 2013
Public debt and loans	1,590,000	7,162	(539)	1,596,623	January 2013
	3,200,000	21,552	(1,570)	3,219,982	
	5,800,000	83,086	(45,860)	5,837,226	

	2011				
Type of asset	Principal	Total interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations and covered bonds	2,500,000	17,830	(5,270)	2,512,560	March 2012
Bonds issued in securitization operations and covered bonds	2,400,000	27,000	(26,333)	2,400,667	January 2013
	4,900,000	44,830	(31,603)	4,913,227	

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

19. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	2012	2011
Resources of domestic credit institutions		
Deposits	31,778	191,740
Interest payable	47	999
Other resources	2	2,762
Sale operations with repurchase agreement	-	368,899
Deferred expenses	-	(250)
	31,837	564,150
Resources of foreign credit institutions		
Sale operations with repurchase agreement	1,115,715	1,880,953
Deposits	745,391	777,401
Very short term resources	48,976	41,168
Other resources	7,236	8,402
Consigned resources	-	339,000
Interest payable	419	458
	1,917,737	3,047,382
	1,949,574	3,611,532

On December 31, 2011, the underlying assets in the caption of “Resources of domestic credit institutions – Sale operations with repurchase agreement”, were bonds issued under the Bank’s securitization transactions that were in its portfolio.

On December 31, 2012 and 2011, the caption of “Resources of foreign credit institutions – Sale operations with repurchase agreement”, is made up as follows, by type of underlying asset:

	2012			
Assets	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	146,305	46	(9)	146,342
Treasury Bonds - Spain	969,309	123	(59)	969,373
	1,115,614	169	(68)	1,115,715

	2011			
Assets	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	88,026	76	(39)	88,063
Treasury Bonds - Spain	1,470,289	8,857	(3,220)	1,475,926
Bonds issued by BST Group	316,217	858	(111)	316,964
	1,874,532	9,791	(3,370)	1,880,953

On December 31, 2011, the caption “Consigned resources” refers to loans obtained from the European Investment Bank (EIB), to be used exclusively to finance small and medium size projects previously submitted to the EIB for approval. These loans were repaid early during 2012.

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

20. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	2012	2011
Term deposits	14,431,667	12,758,347
Demand deposits	4,890,448	5,034,181
Structured deposits	1,764,839	1,668,085
Savings deposits	55,081	116,103
Advance notice deposits	21,365	25,609
	21,163,400	19,602,325
Interest payable	171,186	141,682
Cheques and orders payable	117,294	99,636
Value adjustments of hedging operations	45,294	461
	333,774	241,779
	21,497,174	19,844,104

21. DEBT SECURITIES

This caption is made up as follows:

	2012	2011
Bonds in circulation		
Covered bonds		
Issued	5,880,000	5,630,000
Repurchased	(4,003,450)	(3,580,750)
Interest from covered bonds	23,576	21,666
Bonds issued in securitization operations		
Issued	4,270,551	4,972,943
Repurchased	(3,004,781)	(2,748,088)
Interest payable	(1,597)	2,882
Cash bonds		
Issued	660,960	740,376
Repurchased	(33,446)	(10,691)
Interest payable	9,782	4,348
	3,801,595	5,032,686
Other		
EMTN Program	160,530	2,289,570
Repurchased	-	(22,920)
Interest payable	1,123	31,661
	161,653	2,298,311
Value adjustments of hedging operations	(9,729)	62,868
	3,953,519	7,393,865

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

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

In 2012 and 2011 the Group repurchased bonds issued in securitization operations, recording capital gains of tEuros 84,193 and tEuros 2,103, respectively (Note 37).

Between May of 2008 and July of 2012, BST made eight issues of Covered Bonds under the "€ 12,500,000,000 Covered Bonds Programme". As at December 31, 2012 and 2011, the covered bonds had an autonomous pool of assets comprised by:

	2012	2011
Loans and advances to customers (Note 11)	7,675,686	7,567,003
Interest on loans	8,888	15,150
Commissions	(34,574)	(37,605)
Deferred expenses	14,552	18,364
	7,664,552	7,562,912
Hedging derivatives	42,106	24,413
	7,706,658	7,587,325

Changes in the debt issued by the Bank during the years 2011 and 2012 were the following:

	Bonds in circulation		EMTN Programme	
	Issued	Repurchased	Issued	Repurchased
Balances on December 31, 2010	4,423,858	(194,069)	2,470,420	-
. Issues made	3,991,502	(250,000)	740,010	-
. Issues repaid	(2,044,984)	-	(920,860)	-
. Issues repurchased	-	(3,147,372)	-	(22,920)
Balances on December 31, 2011	6,370,376	(3,591,441)	2,289,570	(22,920)
. Issues made	250,000	-	900	-
. Issues repaid	(79,416)	8,332	(2,129,940)	800,790
. Issues repurchased	-	(453,787)	-	(777,870)
Balances on December 31, 2012	6,540,960	(4,036,896)	160,530	-

Changes in bonds issued in securitization operations during 2012 were as follows:

	Bonds	
	Issued	Repurchased
Balances on December 31, 2011	4,972,943	(2,748,088)
Redemption	(702,392)	68,117
Repurchases:		
- Hipototta No. 1 - Class A	-	(26,140)
- Hipototta No. 4 - Class A	-	(241,122)
- Hipototta No. 5 - Class A2	-	(57,548)
	-	(324,810)
Balances on December 31, 2012	4,270,551	(3,004,781)

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

In 2012 the caption “Issues repaid” includes the early repayment of bonds issued under the EMTN program, in the amount of tEuros 739,860.

On December 31, 2012, the Bank had the following bonds issued under the Euro Medium Term Notes Programme:

Bonds with remuneration indexed to baskets of shares	
. Maturity between one and three years	109,530
Bonds with remuneration indexed to Euribor	
. Maturity between three and five years	32,300
Fixed rate bonds	
. Maturity up to one year	18,700

	160,530
	======

22. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment in the years 2012 and 2011 is as follows:

	2012					
	31/12/2011	Increases	Reversals	Utilizations	Other	31/12/2012
Provisions for tax contingencies (Note 16)	16,683	263	-	-	(11,700)	5,246
Provision for pensions and other charges	29,957	14,049	-	(12,160)	-	31,846
Impairment and provisions for guarantees and other sureties given	8,254	15,570	(8,931)	-	-	14,893
Other provisions	20,588	7,749	(5,879)	(2,172)	-	20,286
	75,482	37,631	(14,810)	(14,332)	(11,700)	72,271

	2011						
	31/12/2010	Entry and/or exit from the consolidation perimeter	Increases	Reversals	Utilizations	Other	31/12/2011
Provisions for tax contingencies	32,982	-	1,169	-	(2,468)	(15,000)	16,683
Provision for pensions and other charges	9,565	-	20,392	-	-	-	29,957
Impairment and provisions for guarantees and other sureties given	32,993	-	2,880	(27,619)	-	-	8,254
Other provisions	28,653	3,380	31,875	(14,400)	(28,920)	-	20,588
	104,193	3,380	56,316	(42,019)	(31,388)	(15,000)	75,482

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

	2012					
	12/31/2011	Impairment losses	Reversal of impairment losses	Utilizations	12/31/2012	Impairment recovery
Impairment of loans and advances to customers (Note 11):						
Domestic loans	219,831	142,063	(40,966)	(1,265)	319,663	-
Foreign loans	869	1,251	-	-	2,120	-
Non-derecognized securitized loans	67,955	2,580	(47,793)	-	22,742	-
Other securitized loans and receivables	3,094	366	-	-	3,460	-
Impairment of overdue loans and interest (Note 11):						
Domestic loans	325,816	336,800	(29,683)	(89,582)	543,351	(8,544)
Foreign loans	10,095	8,405	(913)	(318)	17,269	(96)
Non-derecognized securitized loans	44,203	23,302	(11,151)	(1,874)	54,480	-
Other securitized loans and receivables	51	2,526	-	-	2,577	-
	671,914	517,293	(130,506)	(93,039)	965,662	(8,640)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 9)	64,670	17,280	(936)	(22,031)	58,983	-
Impairment of investments in associated companies (Note 15)	500	160	-	-	660	-
	65,170	17,440	(936)	(22,031)	59,643	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 13)	67,181	48,615	(5,230)	(16,501)	94,065	-
Tangible assets (Note 14)	2,529	1,389	(23)	-	3,895	-
Other assets (Note 17)	21,653	9,196	(4,810)	(197)	25,842	-
	91,363	59,200	(10,063)	(16,698)	123,802	-
	828,447	593,933	(141,505)	(131,768)	1,149,107	(8,640)

	2011							
	12/31/2010	Entry and/or exit from the consolidation perimeter	Impairment losses	Reversal of impairment losses	Utilizations	Other	12/31/2011	Impairment recovery
Impairment of loans and advances to customers (Note 11):								
Domestic loans	162,074	19,252	110,529	(67,406)	(4,618)	-	219,831	-
Foreign loans	1,860	-	240	(1,231)	-	-	869	-
Non-derecognized securitized loans	53,894	8,322	42,321	(36,582)	-	-	67,955	-
Other securitized loans and receivables	7,680	-	-	(4,586)	-	-	3,094	-
Impairment of overdue loans and interest:								
Domestic loans	215,928	6,592	217,266	(13,638)	(100,332)	-	325,816	(15,180)
Foreign loans	5,277	-	6,299	(851)	(630)	-	10,095	(191)
Non-derecognized securitized loans	49,665	5,124	37,914	(46,350)	(2,150)	-	44,203	-
Other securitized loans and receivables	779	-	-	(728)	-	-	51	-
	497,157	39,290	414,569	(171,372)	(107,730)	-	671,914	(15,371)
Impairment of other financial assets:								
Impairment of available-for-sale financial assets (Note 9)	59,148	-	10,547	(108)	(4,917)	-	64,670	-
Impairment of investments in associated companies (Note 15)	500	-	-	-	-	-	500	-
	59,648	-	10,547	(108)	(4,917)	-	65,170	-
Impairment of non-financial assets:								
Non-current assets held for sale (Note 13)	45,678	6,094	37,483	(7,431)	(14,627)	(16)	67,181	-
Tangible assets (Note 14)	3,183	-	-	-	(654)	-	2,529	-
Other assets (Note 17)	11,227	-	12,486	(2,060)	-	-	21,653	-
	60,088	6,094	49,969	(9,491)	(15,281)	(16)	91,363	-
	616,893	45,384	475,085	(180,971)	(127,928)	(16)	828,447	(15,371)

On December 31, 2012 and 2011, the provision for pensions and other charges is made up as follows:

	2012	2011
Restructuring plans	18,111	20,271
Supplementary pension plan of the Board of Directors (Note 45)	13,735	9,686
	---------	----------
	31,846	29,957
	=====	=====

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

On December 31, 2012 and 2011 the caption "Other provisions" includes:

- Provision for lawsuits filed by customers and Bank employees, in the amounts of tEuros 3,358 and tEuros 6,438, respectively. The legal Department of the Bank estimates the expected loss for each process, based on its evolution as reported by the lawyer responsible for the respective process; and

- Other provisions in the amounts of tEuros 16,928 and tEuros 14,149, respectively. On December 31, 2012 and 2011 these include provisions for contingencies relating to operational risk (fraud, operations pending confirmation, open items and fines) amounting to tEuros 13,601 and tEuros 13,023, respectively.

23. SUBORDINATED LIABILITIES

This caption is made up as follows:

	2012	2011
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-------------	----------
	288,540	288,540
Repurchased securities	(284,265)	(284,265)
Interest payable	36	53
	--------	-------
	4,311	4,328
	====	=====

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

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

24. OTHER LIABILITIES

This caption is made up as follows:

	2012	2011
Creditors and other resources		
Creditors resulting from operations with futures	3,895	2,580
Other resources		
Secured account resources	42,912	28,026
Collateral account resources	892	994
Other resources	1,411	1,365
Public sector		
VAT payable	7,828	8,455
Withholding taxes	24,073	17,344
Social Security contributions	3,873	3,886
Other	12	9
Collections on behalf of third parties	161	163
Interest, dividends and other remuneration from capital payable		
Remuneration from participating bonds	54	54
Dividends	191	191
Contributions to other health systems	1,526	1,534
Other creditors		
Creditors under factoring contracts	36,178	38,249
Creditors for the supply of goods	1,635	1,914
Other creditors	8,398	9,151
Accrued costs:		
Banking services provided by third parties	27	57
For transactions carried by third parties	23	3,005
Relating to personnel		
Long service bonus	27,140	25,762
Vacation and vacation subsidy	31,559	30,846
Other variable remuneration	17,592	26,336
Other personnel costs	789	859
General administrative costs	33,828	33,308
Relating to swap agreements (Note 17)	10,526	18,823
Other	6,384	3,141
Liabilities with pensions:		
Total liabilities	829,811	-
Fair value of the Pension Fund's assets	(816,279)	-
Other deferred income	1,977	1,733
Amounts to be settled with banks and customers		
Liability operations to be settled	2,865	4,548
Other	24,136	27,256
	303,417	289,589

On December 31, 2012 and 2011, the caption "Amounts to be settled with banks and customers" corresponds essentially to inter-bank electronic transfers that were cleared in the first days of the following year.

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

25. SHAREHOLDERS' EQUITY

As indicated in the Introduction and in Note 1.4., the merger by incorporation of Totta IFIC was recorded on April 1, 2011, with its assets and liabilities being integrated into BST. The terms of the exchange were determined based on an independent valuation of each of the entities as at May 31,2010, which resulted in the following amounts:

	Totta IFIC	BST
Subscribed share capital (excluding treasury shares)	34,562,675	620,052,218
Nominal value per share (in Euros)	5	1
Number of shares	6,912,535	620,052,218
Independent valuation of the shareholders' equity (in Euros)	318,666,145	4,488,702,452
Value per share (in Euros)	46.10	7.24
Terms of exchange		6.3680
Shares of Totta IFIC held by Santander Totta SGPS		5,750,322
Share capital increase of BST (in Euros)		36,618,301
Value assigned to the shares of Totta IFIC held by Santander Totta SGPS (in Euros)		66,304,974
Share premium increase (in Euros)		29,686,673

Therefore on March 18, 2011, BST's share capital was increased by 36,618,301 Euros, equivalent to 36,618,301 shares of 1 Euro each, which was performed by Santander Totta, SGPS, S.A. through the transfer of 5,750,322 shares representing the share capital of Totta IFIC held by that entity, for which the total value of 66,304,974 Euros was assigned. This corresponds to a share premium of Euros 0.8107059066 per share.

The difference between the share capital increase and the shareholders' equity of Totta IFIC on the date of the merger, has been recorded in the merger reserve, which has been determined as explained in Note 1.4.

Consequently, on December 31, 2012 and 2011 the Bank's share capital was represented by 656,723,284 shares, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	2012		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97,65	641,270
Taxagest, SGPS, S.A.	14,593,315	2,22	14,593
Treasury shares	125,169	0,02	125
Other	735,180	0,11	735
	656,723,284	100,00	656,723

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

	2011		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97,65	641,270
Taxagest, SGPS, S.A.	14,593,315	2,22	14,593
Treasury shares	98,930	0,02	99
Other	761,419	0,11	761
	656,723,284	100,00	656,723

On May 27, 2011 the General Meeting of Shareholders approved the distribution of dividends for the amount of tEuros 175,000.

Within the terms of Dispatch no. 408/99, of 4 June, published in the Diário da República – I Série B, no. 129, the share premium, amounting to tEuros 193,390, cannot be used to pay out dividends or to purchase treasury shares.

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

On December 31, 2012 and 2011, the revaluation reserves were made up as follows:

	2012	2011
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Financial assets available for sale (Note 9)	(512,366)	(939,956)
Financial assets available for sale of companies under the equity method	2,521	1,100
Cash flow hedging instruments	99,490	58,546
Actuarial gains and losses (Note 43)	(589,360)	(554,267)
Actuarial gains and losses of companies under the equity method	(1,349)	(1,374)
Foreign exchange differences in consolidation	(5,857)	(6,116)
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	(983,676)	(1,418,822)

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

	2012	2011
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation		
Financial assets available for sale	148,587	272,587
Financial assets available for sale of companies under the equity method	(622)	(210)
Cash flow hedging instruments	(28,852)	(16,978)
Tax impact of actuarial gains and losses	169,416	159,238
Tax impact from the change in accounting policy of companies under the equity method	391	399
Relating to the revaluation of tangible assets	(4,314)	(4,543)
Relating to the revaluation of tangible assets of companies under the equity method	(132)	(132)
	284,474	410,361
	(699,202)	(1,008,461)

Revaluation reserves

During 1998, under Decree-Law no. 31/98, of 11 February, the Bank revalued its tangible fixed assets, which resulted in an increase in the respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was entered in revaluation reserves. The net amount resulting from the revaluation may only be used for capital increases or the hedging of losses, through the use (amortization) or sale of the assets it relates to.

On December 31, 2012 and 2011, the caption of “Other reserves and retained earnings” was made up as follows:

	2012	2011
Legal reserve	245,862	243,633
Other reserves		
Reserves of consolidated companies	190,849	194,447
Reserves of companies valued under the equity method	74,727	70,463
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	1,737	2,296
	934,572	934,465
Retained earnings	241,078	226,484
	1,421,512	1,404,582

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

Legal reserve

In accordance with the provisions of Decree Law no. 298/92, of 31 December, amended by Decree Law no. 201/2002, of 26 September, the Bank set up a reserve fund up to the amount of the share capital or of the sum of the free reserves and the retained earnings, if greater. For this purpose, a fraction of the annual net income on a stand-alone basis is transferred to this reserve each year until the said amount is reached.

This reserve may only be used for the hedging of accumulated losses or to increase share capital.

Merger reserve

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

26. CONSOLIDATED NET INCOME FOR THE YEAR

Consolidated net income for 2012 and 2011 may be summarised as follows:

	2012		2011	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of BST on an individual basis	(9,180)	(9,180)	22,289	22,289
Net income of the other Group companies:				
Serfin International Bank & Trust (SIBT)	401	401	240	240
Totta Ireland, Plc.(1)	60,720	60,720	95,713	95,713
Santotta - Internacional, SGPS	4,293	4,293	5,693	5,693
Partang, SGPS	21,433	10,502	16,653	8,160
Banco Caixa Geral Totta de Angola (BCGTA)	44,023	11,001	36,842	9,207
Totta Urbe	2,474	2,474	2,166	2,166
Santander Gestão de Activos, SGPS, S.A.	1,331	1,331	9,582	9,582
Santander Asset Management, SGFIM, S.A.	11	11	(20,266)	(20,266)
Santander Pensões	769	769	1,000	1,000
Totta & Açores, Financing, Ltd (TAF)	12,360	12,360	12,360	12,360
BST International Bank, Inc	18,276	18,276	16,204	16,204
Unicre	11,256	2,420	8,745	1,880
Totta & Açores, Inc. - Newark	(88)	(88)	113	113
Taxagest	(37)	(37)	(5,307)	(5,254)
	177,222	124,433	179,738	136,798
Elimination of dividends:				
Totta Ireland, Plc.	(63,380)	(63,380)		(93,651)
Santander Gestão de Activos, SGPS, S.A.	(9,430)	(9,430)		-
Santander Asset Management, SGFIM, S.A. and Santander Pensões	(1,000)	(1,000)		(13,000)
Santotta - Internacional, SGPS	(8,216)	(8,216)		(4,800)
Partang, SGPS	(4,018)	(4,018)		(5,390)
Banco Caixa Geral Totta Angola	(4,411)	(4,411)		(3,879)
Unicre	(1,036)	(1,036)		(1,574)
		(91,491)		(122,294)
Adjustments related with the merger of Totta IFIC in BST		(93)		6,159
Elimination of the valuation by Partang of the participation in BCGTA		(6,534)		(5,094)
Gains on the repurchase by the Group of bonds issued in mortgage securitization operations (Note 37)		84,193		2,103
Other adjustments related with securitization operations		(17,176)		(9,204)
Other		3,916		16,364
Consolidated net income for the year		88,068		47,121

(1) The amount reflected corresponds to the net result for the month of December, as this entity closes its financial year on November 30, plus the net result for the period from January 1 to November 30 of 2012 and 2011, which amounted to tEuros 56,680 and tEuros 89,013, respectively.

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

27. MINORITY INTERESTS

Third party participation in Group's companies in 2012 and 2011 was as follows by entity:

	2012		2011	
	Balance sheet	Income statement	Balance sheet	Income statement
Preference shares of BST International Bank, Inc	272,851	-	278,229	-
Preference shares of TAF	300,000	-	300,000	-
Dividends received in advance	(1,443)	-	(1,459)	-
Taxagest	550	-	550	(54)
Other	202	-	200	1
	572,160	-	577,520	(53)

On June 30, 2006 BST International Bank, Inc (BST Puerto Rico) issued 3,600 non-voting preference shares of 100,000 United States Dollars (USD) each, fully subscribed and paid up by Banco Santander, S.A.. The Bank guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56% payable if and when declared by BST Puerto Rico's directors, at the beginning of January of each year. BST Puerto Rico may redeem the preference shares, in full or in part, from June 30, 2016 at 100,000 USD per share plus the amount of the dividend accrued monthly since the last payment made.

On June 29, 2005 TAF issued 300,000 non-voting preference shares of 1,000 Euros each, fully subscribed and paid up by Banco Santander, S.A.. The Bank guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 4.12% payable if and when declared by TAF's directors, at the beginning of January of each year. TAF may redeem the preference shares, in full or in part, as from June 30, 2015 at 1,000 Euros per share plus the amount of the dividend accrued monthly since the last payment made.

The above-mentioned issues were classified as equity in accordance with IAS 32. Under this Standard, the preference shares issued are classified as equity if:

- The Issuer or the Bank does not have a contractual liability to deliver cash or other financial asset to the shareholders; and

- Payment of dividends and repayment of the preference shares are at the discretion of the issuer.

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

28. OFF-BALANCE SHEET ITEMS

Off-Balance Sheet items are made up as follows:

	2012	2011
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,219,730	1,488,455
Documentary credits	125,913	570,363
Assets pledged as guarantee		
Bank of Portugal	122,829	121,723
Deposit Guarantee Fund	84,425	70,345
Investor Indemnity System	4,864	4,079
On loans of securities	478,249	-
Other contingent liabilities	6	6
	2,036,016	2,254,971
Commitments		
Credit lines		
Revocable	4,502,905	4,792,257
Irrevocable	1,496,610	1,217,742
Term deposit contracts	-	85,933
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	2,625	3,119
Other irrevocable commitments	11,235	16,141
Other revocable commitments	478,466	27,751
	6,545,933	6,197,035
Liabilities for services rendered		
Deposit and custodial services	51,506,012	55,382,093
Amounts received for collection	131,479	130,762
Assets managed by the Bank		
Other	7,656,254	7,264,208
	59,293,745	62,777,063

Deposit Guarantee Fund

The Deposit Guarantee Fund was created in November 1994 in accordance with Decree-Law no. 298/92, dated December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, which was established by Ministerial Order of the Ministry of Finance, was made in cash and deposit securities, and was amortized over 60 months as from January 1995. Except as mentioned in the following paragraph, regular annual contributions to the Fund are recorded as an expense of the year to which it relates.

In 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amount of tEuros 3,918 (Note 38). In this period, the Bank accepted an irrevocable commitment to the Deposit Guarantee Fund to pay the remaining 10% of the annual contribution if and when required to do so. The total accumulated unpaid amount of this commitment as at December 31, 2012 amounted to tEuros 54,092. Assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet accounts at market value. In 2012 the Bank paid 100% of the annual contribution amounting to tEuros 4,906 (Note 38).

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

Investor Indemnity System (SII)

The liability to pay the Investor Indemnity System is not recorded as a cost, but is covered by the acceptance of an irrevocable commitment to pay that amount, if required to do so, part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. As at December 31, 2012 and 2011 this liability amounted to tEuros 2,625 and tEuros 3,119, respectively.

In accordance with a regulation of the CMVM, an extraordinary payment of tEuros 4,163 was made by the Bank to the SII in 2011, regarding the Banco Privado Português case (Note 38).

29. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	2012	2011
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	1,719	4,522
In credit institutions	221	821
Interest on applications		
In domestic credit institutions		
In the Bank of Portugal	999	2,595
In other credit institutions	7,281	21,756
In foreign credit institutions	49,809	59,716
Interest on loans and advances to customers		
Domestic loans	708,390	679,304
Foreign loans	18,739	21,024
Other loans and receivables (commercial paper)	47,200	26,026
Income from commission received associated to amortised cost	42,468	40,772
Interest from securitized assets not derecognised	158,077	291,147
Interest on overdue credit (Note 47)	8,087	8,521
Interest and similar income on other financial assets		
Financial assets held for trading	-	2
Financial assets available for sale	198,167	162,624
Other financial assets at fair value through profit or loss	4,267	4,206
Hedging derivatives	302,753	255,370
Debtors and other applications	16	6
Other interest and similar income		
Swap agreements	98,656	112,519
Other	1,299	1,763
	1,648,148	1,692,694

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

30. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	2012	2011
Interest on customers' deposits		
Public sector	23,299	16,139
Emigrants	21,462	17,695
Other-residents	406,696	344,376
Non-residents	27,208	20,799
	478,665	399,009
Interest on other customers' resources	7,225	2,305
Interest on resources of Central Banks		
Bank of Portugal	52,015	46,667
Other Central Banks	-	13
Interest on resources of credit institutions		
Domestic	8,448	24,557
Foreign	30,425	112,408
Interest on debt securities issued		
Bonds	86,421	115,110
EMTN	81,761	96,803
Commission	30	1,161
Euro Commercial Paper	-	208
Interest on hedging derivatives	261,123	234,116
Interest and commission on other subordinated liabilities	202	316
Commissions paid associated with amortized cost of credit	246	1,862
Other interest and similar charges		
Swap agreements	100,053	114,626
	627,949	750,152
	1,106,614	1,149,161

31. INCOME FROM EQUITY INSTRUMENTS

This caption refers to dividends and income received and is made up as follows:

	2012	2011
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	1,075	1,072
Fundo Imorendimento II	355	-
Unicampus	87	-
PME Investimentos	88	-
Finangest	16	57
Visa	16	9
Other	61	140
	1,698	1,278

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

32. INCOME FROM SERVICES AND COMMISSION

This caption is made up as follows:

	2012	2011
On guarantees given		
Guarantees and sureties	16,704	15,317
Documentary credits	3,202	3,450
On commitments to third parties		
Revocable	4,822	3,268
Irrevocable	2,369	2,200
On services rendered		
Card transactions	71,042	67,945
Credit operations	53,281	56,424
Real estate and mutual fund management	25,475	31,517
Annuities	14,067	14,289
Asset management and collection	13,602	13,843
Other	9,866	9,544
On operations carried out on behalf of third parties		
On securities	31,899	27,657
Other	482	490
Other commission received		
Insurance companies	93,589	101,923
Demand deposits	20,361	15,789
Cheques	14,517	14,934
Booklets	9,381	16,498
Specialized credit	-	721
Other	42	1,376
	384,701	397,185

33. CHARGES WITH SERVICES AND COMMISSION

This caption is made up as follows:

	2012	2011
On guarantees received		
Guarantees and sureties	1,083	1,275
On commitments assumed by third parties		
Revocable commitments	1,734	-
On banking services rendered by third parties		
Credit operations	12,050	14,345
Funds for collection and management	3,813	4,872
Customer transactions	26,065	24,557
Other	4,736	3,297
On operations carried out by third parties		
Securities	2,378	2,912
Other	1,209	1,862
Other commission paid	825	1,206
	53,893	54,326

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

34. RESULT OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

These captions are made up as follows:

	2012	2011
Financial assets held for trading:		
Equity instruments	12,629	(5,662)
Debt instruments	-	183
Derivative instruments:		
. FRA's	410	(36)
. Swaps:		
Currently swaps	(117)	213
Interest rate swaps	4,244	20,687
Equity swaps	3,219	342
Other	2,593	126
. Options:		
Foreign exchange rate contracts	(329)	147
Interest rate contracts	104	3
Equity contracts	474	(425)
Other	-	(1)
. Interest rate guarantee contracts	(48)	375
Financial assets and liabilities at fair value through profit or loss	14,230	(12,466)
	37,409	3,486
Hedging derivatives:		
Swaps		
. Interest rate swaps	(90,993)	(131,561)
. Equity swaps	(2,568)	(26,182)
. "Auto-callable" options	(64,328)	2,714
Value adjustments of hedged assets and liabilities:		
. Loans and advances to customers	774	1,020
. Available-for-sale financial assets	111,437	137,104
. Resources of customers and other debts	(44,747)	(12,575)
. Debt securities	90,199	27,889
	(226)	(1,591)
	37,183	1,895

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

35. RESULT OF AVAILABLE-FOR-SALE ASSETS

This caption is made up as follows:

	2012			2011		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	-	(1)	(1)	-	(57,487)	(57,487)
Of other residents	36	(35)	1	-	-	-
Issued by non-residents						
Of foreign public issuers	758	-	758	-	(25,858)	(25,858)
Of other non-residents	3,097	(3,101)	(4)	-	-	-
Equity instruments						
Valued at fair value	2,199	-	2,199	792	(52)	740
Other	9	(5,658)	(5,649)	6,337	(969)	5,368
	6,099	(8,795)	(2,696)	7,129	(84,366)	(77,237)

In the reporting period ending on 2011, this caption includes realised capital losses on the sale of Portuguese and Spanish treasury bonds amounting to tEuros 83,331.

36. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	2012	2011
Gains on the revaluation of the foreign exchange position	42,084	64,946
Losses on the revaluation of the foreign exchange position	(36,432)	(59,651)
	5,652	5,295

37. RESULTS FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	2012	2011
Gains on the repurchase of bonds issued under mortgage securitization operations (Note 21)	84,193	2,103
Gains on the sale of loans and advances to customers (Note 11)	5,535	1
Gains on non-current assets held for sale	2,855	1,064
Gains on tangible assets	832	763
Other	2	34
	93,417	3,965
Losses on non-current assets held for sale	(4,222)	(2,380)
Losses on the sale of loans and advances to customers (Note 11)	(1,418)	-
Losses on tangible assets	(297)	(169)
Other	(1,791)	(410)
	(7,728)	(2,959)
	85,689	1,006

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

In March 2012, BST made a tender offer for the acquisition of a set of bonds issued under mortgage securitization operations held by entities not part of Santander Group, with a nominal value of tEuros 311,394. As a result of this operation the Bank recorded gains of tEuros 80,409.

In August 2012, BST again acquired bonds issued under mortgage securitization operations, with a nominal value of tEuros 10,370. As a result of this operation, the Bank recorded a gain of tEuros 3,172.

In October 2012 the BST made an exchange offer of tEuros 3,046 of bonds issued under mortgage securitization operations held by entities not part of Santander Group for covered bonds. As a result of this operation the Bank recorded a gain of tEuros 612.

38. OTHER OPERATING RESULTS

This caption is made up as follows:

	2012	2011
Other operating income		
Rent of automatic payment terminals	16,847	16,451
Income from sundry services rendered	5,195	6,112
Reimbursement of expenses	2,942	4,744
Operating leases	322	331
Other	1,534	1,580
	26,886	29,172
Other operating expenses		
Subscriptions and donations	(3,820)	(3,621)
Contributions to the Deposit Guarantee Fund (Note 28)	(4,906)	(3,918)
Charges with transactions made by customers	(11,885)	(11,744)
Expenses with automatic teller machines	(4,385)	(4,477)
Other operating expenses	(12,206)	(11,695)
Other taxation		
Direct	(1,596)	(2,788)
Indirect	(848)	(902)
Extraordinary payment under the Investor Indemnity System (Note 28)	-	(4,071)
	(39,646)	(43,216)
	(12,760)	(14,044)

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

39. STAFF COSTS

This caption is made up as follows:

	2012	2011
Remuneration		
Management and supervisory boards (Note 45)	5,675	4,522
Employees	187,564	185,723
Stock option plans (Note 45)	3,104	3,788
Other variable remuneration	18,424	13,206
	214,767	207,239
Mandatory social charges		
Charges on remuneration	51,291	52,747
Charges with pensions and other benefits (Note 43)	(2,167)	591
Early retirement (Note 43)	-	3,763
Decrease in liabilities with death subsidy (Note 43)	(13,745)	-
Effect of transfer of pension liabilities to the Social Security (Note 43)	59	20,851
Other mandatory social charges	967	966
	36,405	78,918
Other staff costs		
Indemnities for early retirements	23	2,455
Staff transfers	556	587
Supplementary retirement plan (Note 43)	583	583
Other	5,302	6,852
	6,464	10,477
	257,636	296,634

In 2012, the Bank did not record any cost with early retirements as it used part of the provision recorded for that purpose (Note 22).

The balance of the caption “Reduction in liabilities with death subsidy” refers to the reduction in liabilities with pensioners resulting from the amendments introduced by Decree Law no. 133/2012 of 27 of June, which introduced a maximum to the amount for the subsidy for death corresponding to six times the amount of the social support index.

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

40. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	2012	2011
Specialised services	40,819	43,713
Maintenance of software and hardware	33,859	33,307
Communications	14,288	16,040
Rent and leases	11,037	11,779
Advertising and publishing	10,489	13,352
External supplies		
Water, electricity and fuel	7,888	8,198
Current consumable material	2,212	2,554
Other	358	299
Travel, lodging and representation expenses	5,007	5,453
Maintenance and repairs	2,545	2,972
Transportation	2,393	2,499
Staff training	1,796	2,027
Insurance	819	744
Other	3,986	3,920
	137,496	146,857

41. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	2012	2011
Partang, SGPS, S.A.	9,568	9,345
Unicre - Instituição Financeira de Crédito, S.A.	2,420	1,880
Benim - Sociedade Imobiliária, S.A.	(124)	105
Totta Crédito Especializado,, IFIC, S.A. (Note 1.4.)	-	1,360
Leasetotta No. 1 Limited	-	203
	11,864	12,893

Partang SGPS, S.A. is 49% owned by the Bank which, in turn, owns 51% of the capital of the Banco Caixa Geral Totta Angola, S.A..

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

42. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered refers mainly to the commissions charged to Santander Totta Seguros - Companhia de Seguros de Vida S.A., and to other insurance companies for the placement of their products (Note 17), and it is as follows:

	2012			2011		
	Life Insurance	Non-Life Insurance	Total	Life Insurance	Non-Life Insurance	Total
Santander Totta Seguros	82,313	239	82,552	91,376	257	91,633
Liberty Seguros	-	9,699	9,699	-	9,420	9,420
Other	-	1,338	1,338	-	870	870
	82,313	11,276	93,589	91,376	10,547	101,923

On December 31, 2012 and 2011, the caption “Other assets – Income receivable” (Note 17) includes commission receivable from insurance companies, as follows:

	2012	2011
Santander Totta Seguros	13,712	19,558
Other	1,006	1,309
	14,718	20,867

These amounts refer essentially to the commissions raised on premiums for insurances sold during the last quarter of 2012 and the last semester of 2011, respectively.

43. EMPLOYEES’ POST EMPLOYMENT BENEFITS

For the purpose of determining BST’s past service liability relating to the servicing and retired employees, actuarial studies were carried out in 2012 and 2011 by Towers Watson International Limited, Portuguese branch. The present value of the past service liability and corresponding current service cost were determined based on the Projected Unit Credit method.

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

The liabilities with retirement pensions, healthcare benefits and death subsidy as at December 31, 2012 and in the four previous years, as well as a respective coverage, are as follows:

	2012	2011	2010	2009	2008
Estimated past service liability					
- Pensions					
. Current employees	251,252	210,669	275,580	255,009	231,114
. Pensioners	21,002	18,455	36,406	34,692	34,895
. Retired and early retired staff	388,656	387,608	855,952	896,251	973,904
	660,910	616,732	1,167,938	1,185,952	1,239,913
- Healthcare benefits (SAMS)	129,267	117,422	127,822	127,877	132,522
- Death subsidy	4,331	16,973	18,184	17,728	17,994
	794,508	751,127	1,313,944	1,331,557	1,390,429
Coverage of the liability:					
- Net assets of the Fund	784,937	758,244	1,312,888	1,395,849	1,391,585
Amount overfunded / (underfunded)	(9,571)	7,117	(1,056)	64,292	1,156
Actuarial and financial deviations generated in the year					
- Change in assumptions	73,518	(103,831)	-	(51,086)	(100,674)
- Experience adjustments:					
. Other actuarial (gains) / losses	(25,383)	(23,708)	(29,458)	(21,172)	(4,100)
. Financial (gains) / losses	(15,796)	339,627	103,392	61,639	306,680
	(41,179)	315,919	73,934	40,467	302,580
	32,339	212,088	73,934	(10,619)	201,906

The reduction in liabilities with death subsidy in 2012 is essentially due to the amendments introduced by Decree Law no. 133/2012 of June 27, which introduced a maximum amount for the subsidy for death, corresponding to six times the amount of the social support index. The gain resulting from the reduction in liabilities resulting from this amendment amounted to tEuros 13,745 (Note 39).

As described in Note 1.3.k), a three party agreement was established, in 2011, between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), regarding the transfer to the Social Security of part of the liabilities with pensioners who as at December 31, 2011 were covered by the substitutive regime of the Social Security under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's pension fund assets backing such liabilities were also transferred to the Social Security. Following Decree Law no. 127/2011, dated of December 31, the value of pension liabilities transferred to the Government was determined considering the following assumptions:

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

The liabilities transferred to the Social Security amounting to tEuros 456,111 were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the financial and actuarial assumptions used, amounted to tEuros 435,260.

The difference between the liabilities transferred to the Social Security calculated using the assumptions set out in the Decree Law no. 127/2011, dated of 31 December (tEuros 456,111) and those used by the Bank (tEuros 435,260), amounting to tEuros 20,851, was recorded in the caption "Staff costs" of the income statement for 2011.

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

The assumptions used by the Bank for the determination of responsibilities immediately before the transfer to the Social Security were the following:

	Serving 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 assumptions amounted to tEuros 1,186,387 of which tEuros 435,260 corresponds to liabilities transferred to the Social Security, as mentioned above.

The main assumptions used as at December 31, 2012 and 2011 were the following:

	2012	2011
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	5.50%	5.50%
Actuarial technical rate (discount rate)		
- Current employees	4.85%	5.92%
- Non-serving	4.00%	5.00%
Salary growth rate for 2013 and 2014	0.50%	2.35%
Salary growth rate after 2014	2.35%	2.35%
Pension growth rate for 2013 and 2014	0.00%	1.35%
Pension growth rate after 2014	1.35%	1.35%
Inflation rate	1.75%	1.75%

In 2012, the discount rates of 4.85% for serving employees and 4.00% for the inactive correspond to an average rate of 4.5%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 4.5% had been used for the entire population. In 2011 the corresponding rate was 5.5%.

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector, should reduce the pension to be provided under the ACT, the following assumptions were used on December 31, 2012 and 2011:

	2012	2011
Salary growth rate to calculate the deductible pension:		
. For 2013 and 2014	0.50%	2.35%
. After 2014	2.35%	2.35%
Inflation (no. 1 of Article 27)	1.75%	1.75%
Inflation (no. 2 of Article 27)	2.00%	2.00%
Sustainability factor accumulated until 2012	Reduction of 3.92%	
Sustainability factor accumulated until 2011	Reduction of 3.14%	
Future sustainability factor	Reduction of 0.5% per year	

The expected rate of return on the Pension Fund assets corresponds to the estimated return on assets of the Fund's portfolio as at December 31, 2012, and was determined by the actuaries in charge.

The discount rate is determined based on the market rates of low risk corporate bonds, for similar maturities as those of the Plan's liabilities.

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

The economic climate and the sovereign debt crisis of the South of Europe have brought volatility and disruption to the debt market in the Euro Zone, with a consequent abrupt reduction in the market yields on the debt of the companies with the best ratings and have limited the available basket of these bonds. In order to maintain the representativeness of the discount rate taking into consideration the universe of the Euro Zone, on December 31, 2012 the Bank incorporated information on interest rates in the determination of the discount rate, which it is possible to obtain on bonds denominated in Euros, including public debt, which it considers to be of high quality in terms of credit risk.

On December 31, 2012 and 2011, the amount of the liabilities with healthcare arising from a 1% variation in the contribution rate may be presented as follows:

	2012			2011		
	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%
Serving employees (Defined Benefit Plan)	5,341	26,997	36,813	5,451	20,811	28,379
Serving employees (Defined Contribution Plan)	177	59	81	157	25	33
Pensioners	954	4,537	6,187	926	4,183	5,705
Retired and early retired staff	5,332	77,787	106,073	5,338	74,338	101,370
	11,804	109,380	149,154	11,872	99,357	135,487

Changes in the Bank’s past service liability for the years ended December 31, 2012 and 2011 may be broken down as follows, with regard to the Bank’s pension plan:

	2012	2011
Liabilities at the beginning of the year	751,127	1,313,944
Current service cost	398	2,237
Interest cost	37,483	66,962
Actuarial (gains)/ losses	48,135	(127,539)
Early retirement	9,862	3,763
Amounts paid	(41,005)	(76,337)
Reduction of liabilities with death subsidy (Note 39)	(13,745)	-
Correction of liabilities transferred to the Social Security	(44)	-
Contributions of the employees	2,297	2,313
Transfer of liabilities to the Social Security	-	(435,260)
Liabilities of the IFIC arising from the merger	-	1,044
	-----------	------------
Liabilities at the end of the year	794,508	751,127
	======	======

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

The cost of the year relating to pensions includes current service and interest cost, deducted from the estimated return from the assets of the Fund. In the years 2012 and 2011, costs with pensions are made up as follows (Note 39):

	2012	2011
Current service cost	398	2,237
Interest cost	37,483	66,962
Estimated return	(40,748)	(70,118)
Defined benefits plan	(2,867)	(919)
Defined contribution plan	39	37
London branch plan	603	429
Increase of liability with IFIC	-	1,044
Other	58	-
	(2,167)	591

In the years 2012 and 2011, the current service cost reflects the transfer to the Social Security General Regime of the serving employees covered by CAFEB and admitted in the sector before March 3, 2009 as set out under Decree Law No 1-A/2011, dated of January 3. As a result of this amendment, after the transition date, the retirement pension for which the Bank is responsible, is a complementary pension that results from the difference between the ACT pension and the Social Security pension.

As from January 1, 2009, employees hired by the Bank were integrated in the Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. The plan is supported by contributions of the employees (1.5%) and from the Bank (1.5%) over the amount of the effective monthly salary. For this purpose, each employee can choose the Pension Fund to which the Bank transfers its contribution.

Change in actuarial gains and losses in 2011 and 2012 was as follows:

Balance on December 31, 2010	338,967
Actuarial gains on pensions generated in 2011	(112,771)
Financial losses on pensions generated in 2011	301,625
Actuarial gains on healthcare benefits and death subsidy in 2011	(14,768)
Financial losses on healthcare and death subsidy in 2011	38,002
Balance on December 31, 2011 (Note 25)	551,055
Actuarial losses on pensions generated in 2012	37,239
Financial gains on pensions generated in 2012	(12,913)
Actuarial losses on healthcare and death subsidy in 2012	10,896
Financial gains on healthcare and death subsidy in 2012	(2,883)
Balance on December 31, 2012 (Note 25)	583,394

As a result of the change in the accounting policy described in Note 1.3. k), the accumulated actuarial gains and losses are deducted under the caption “Revaluation reserves”.

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

The actuarial deviation on pensions in 2012 and 2011 may be explained as follows:

	2012	2011
Changes in actuarial assumptions	60,058	(92,234)
Changes in the salary table in 2012/2011 with impact on pensions and salaries	(24,152)	(15,957)
Changes in the population	1,837	1,336
Mortality deviations		
. Due to departures	(5,227)	(9,700)
. Due to maintenance	3,636	6,720
. Survival pensions transferred to the Social Security	2,505	-
Transfer from early retirement to retirement	(1,418)	(2,936)
	37,239	(112,771)

In 2011, the changes in actuarial assumptions include the effect of an increase in the discount rate from 5.25% to 5.5%, on average, and the changes in the pensions and salaries growth rates from 1.75% to 1.35% and 3.2% to 2.35%, respectively.

The increase in estimated salaries and pensions was revised taking into account the current situation in Portugal and the consequent prospects of smaller increases in the future or even of maintenance the current amounts, particularly in the years 2013 and 2014.

The change in actuarial assumptions in 2012 includes the effect of the decrease in the discount rate from 5.5% to 4.5%, on average, and of the changes to the growth rates of pensions and salaries, for the years 2013 and 2014, from 1.35% to 0% and 2.35% to 0.5%, respectively.

The actuarial deviations in healthcare and death subsidy in 2012 and 2011 are explained as follows:

	2012	2011
Change in assumptions	13,460	(11,597)
Changes in salaries	(2,293)	(2,598)
Other	(271)	(573)
	10,896	(14,768)

On December 31, 2012 and 2011, the balance sheet amount related with the pension plan is made up as follows:

	2012	2011
Financing (deficit) / surplus (defined benefit plan)	(9,571)	7,117
Financing (deficit) (London branch)	(3,961)	(3,820)
	(13,532)	3,297

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

The effective salary growth in 2012 and 2011 for the purpose of the contributions to the Social Security relating to the employees of the former Totta was 2.46% and 1.18%, respectively.

There was no effective increase in the pensions and of the salary table in 2012 and 2011.

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. On December 31, 2012 and 2011, the number of participants in the Fund was as follows:

	2012	2011
Serving employees (1)	5,518	5,608
Pensioners	954	926
Retired and early retired staff	5,332	5,338
	---------	---------
	11,804	11,872
	=====	=====

(1) Of whom 177 and 157 employees are included in the new defined contribution plan as at on 31 December 2012 and 2011, respectively.

The main demographic changes in 2011 and 2012 were the following:

	Assets			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number on December 31, 2010	175	5,431	5,381	912
Exits:				
. Serving employees	(63)	(48)	-	-
. By death	-	-	(86)	(19)
. Other	-	-	-	(25)
Transfers	-	(36)	36	-
Entry of Totta IFIC employees	-	99	-	-
Entries	45	5	7	58
Total number as at December 31, 2011	157	5,451	5,338	926
Exits:				
. Serving employees	(18)	(55)	-	-
. Retirement	-	-	(77)	(32)
Transfers	-	(56)	56	-
Entries	38	1	15	60
Total number as at December 31, 2012	177	5,341	5,332	954

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

Changes in BST's Pension Fund during the years 2011 and 2012 were the following:

Net assets as at December 31, 2010	1,312,888
Contributions made by the Bank (cash)	245,000
Contributions made by the employees	2,313
Net return of the Fund	(269,509)
Pensions paid	(76,337)
Transfer to the Social Security	(456,111)
Net assets as at December 31, 2011	758,244
Contributions made by the Bank (cash)	8,959
Contributions made by the employees	2,297
Net return of the Fund	56,544
Pensions paid	(41,005)
Transfer to the Social Security	(102)
Net assets as at December 31, 2012	784,937

The rates of return of the Pension Fund in 2012 and 2011 were 7.65% and -20.53%, respectively.

Due to the negative trend in equity markets and credit in 2011 and taking into account the Fund's existing exposure, the return of the Pension Fund has been adversely affected.

On December 31, 2012 and 2011, BST's Pension Fund portfolio included the following assets:

	2012	2011
Debt instruments	309,217	385,693
Real estate investment funds	221,462	222,339
Securities investment funds	150,809	139,059
Real Estate	68,826	87,215
Deposits	33,936	125,255
Pending settlement	535	(201,469)
Equity instruments	152	152
	784,937	758,244

On December 31, 2011, the "Pending settlement" caption included amounts payable to the State of tEuros 201,575, referring to the transfer of part of the Bank's Pension Fund to the Social Security, as established in Decree Law no. 127/2011, of December 31.

On December 31, 2012 and 2011, the portfolio of the Pension Fund included the following assets with Santander Group companies:

	2012	2011
Leased property	22,791	22,966
Securities (including participating units in funds managed by the Group)	168,989	154,464
	191,780	177,430

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

In 2010 a life insurance policy was taken out with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from the new supplementary retirement plan for the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2012 and 2011, the premium paid by the Bank amounted to tEuros 583 (Note 39).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disablement.

For all the situations, the payments receivable by the beneficiaries are the accumulated balance in the supplementary plan on the date that these occur. In the event of the death of the beneficiary this amount will be further increased by 6,000 Euros.

On December 31, 2012 and 2011, 107 and 106 employees were covered by this plan, respectively.

Defined benefit pension plan – London branch

As at December 31, 2012 and 2011, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that covers the employees of the London branch were the following:

	2012	2011
Mortality table	AMC00/AFC00	AMC00/AFC00
Rate of return on the assets of the Pension Fund	5.02%	5.02%
Actuarial technical rate (discount rate)	4.25%	4.90%
Salary growth rate	2.80%	2.70%
Pension growth rate	1.90%	1.90%
Inflation rate	2.20%	2.70%

On December 31, 2012 and 2011, the liabilities with the defined benefit pension plan of the London branch and its coverage were as follows:

	2012	2011
Estimated liabilities for past services	35,303	29,260
Net assets of the fund	31,342	25,440
Non-financed amount – London branch	(3,961)	(3,820)

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

In relation to the specific pension plan of the London branch, the changes in the liabilities for past services in the years ending on December 31, 2011 and 2012 may be presented as follows:

Liabilities as at December 31, 2010	25,003
Current service cost	174
Interest cost	1,450
Actuarial losses	2,551
Amounts paid	(680)
Foreign exchange fluctuations	762
Liabilities a December 31, 2011	29,260
Current service cost	207
Interest cost	1,447
Actuarial losses	4,533
Amounts paid	(831)
Foreign exchange fluctuations	687
Liabilities as at December 31, 2012	35,303

Changes in the Pension Fund of the London branch during the years ending on December 31, 2011 and 2012 was the following:

Net assets on December 31, 2010	23,112
Net return of the fund	2,125
Contribution by the Bank	179
Pensions paid	(680)
Foreign exchange fluctuations	704
Net assets on December 31, 2011	25,440
Net return of the fund	2,916
Contribution by the Bank	3,219
Pensions paid	(831)
Foreign exchange fluctuations	598
Net assets on December 31, 2012	31,342

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

The costs of the defined benefit plan of the London branch in the years 2012 and 2011 are as follows:

	2012	2011
Current service cost	207	174
Interest cost	1,447	1,450
Estimated return	(1,051)	(1,195)
	603	429

The actuarial gains and losses of the London branch are as follows:

Actuarial losses on pensions in 2009	3,630
Financial gains on pensions in 2009	(1,315)
Actuarial gains on pensions in 2010	(817)
Financial gains on pensions in 2010	(45)
Actuarial losses on pensions in 2011	2,551
Financial gains on pensions in 2011	(930)
Foreign exchange fluctuations	138
Balance on December 31, 2011	3,212
Actuarial losses on pensions in 2012	4,533
Financial gains on pensions in 2012	(1,865)
Foreign exchange fluctuations	86
Balance on December 31, 2012 (Note 25)	5,966

On December 31, 2012 and 2011, the London branch's Pension Fund portfolio included the following assets:

	2012	2011
Debt instruments	26,649	21,763
Equity instruments	4,497	3,608
Deposits	196	69
Fund's net asset value	31,342	25,440

44. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolios, through twelve operations, with a total initial amount of tEuros 23,250,000. The loans were sold at their nominal value (book value) to Hipototta FTC Funds, with the exception of the following securitization operations (Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1), in which the credits were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus).

In April 2009, the former Totta IFIC securitized part of its leasing portfolio and long-term rental through an operation with a total initial amount of tEuros 1,300,000. The loans were sold at their nominal value (book value) to a securitization fund called LeaseTotta No. 1 FTC.

In October 2009 BST liquidated Hipototta No. 9 Ltd. which was established under the securitization operation of November 2008, the initial amount of the loans sold being tEuros 1,550,000. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 1,462,000.

In April 2010, BST liquidated Hipototta No. 6 Ltd, which was established under the securitization operation of October 2007, the initial amount of the loans sold being tEuros 2,200,000. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 1,752,357.

In July 2010, the BST securitized part of its mortgage loan portfolio, called Hipototta no. 11, for the total initial amount of tEuros 2,000,000. The loans were sold at their nominal value (book value) to Tagus.

In January and February 2011, BST entered into a Mortgage Retransfer Agreements with Hipototta No. 2 PLC, Hipototta No. 3 PLC and Hipototta no. 10 Ltd. under which repurchased the loans previously securitised, by the amounts of tEuros 880,636, tEuros 1,548,396 and tEuros 803,494, respectively and the Notes held in its portfolio related to these securitizations have redeemed at their nominal value.

In May and June of 2012, the BST entered into Mortgage Retransfer Agreements with Hipototta no. 11 and Hipototta no. 12. Under these agreements BST repurchased the previously securitised loans for tEuros 1,719,660 and tEuros 1,197,009, respectively, and was reimbursed relating to the Notes it held in the portfolio associated to these securitizations at the respective nominal value.

In March 2011, BST securitised part of its portfolio of commercial paper and loans to the companies through an operation called BST SME No. 1, with a total initial amount of tEuros 2,000,000.Additionally in June 2011 the Bank proceeded to the securitization of part of its consumer credit portfolio through an operation called Totta Consumer No. 1, with a total initial amount of tEuros 1,000,000. The credits from these operations were sold at their nominal value to Tagus. In March 2012, BST liquidated the BST SME no. 1. This liquidation took place through the “SME Receivables Retransfer Agreement”, under which the Bank purchased again the credits initially securitised for tEuros 1,792,480.

In August 2012, BST liquidated the Totta Consumer no. 1. This liquidation was carried out through the “Consumer Receivables Retransfer Agreement”, by means of which the Bank reacquired the loans initially securitized for tEuros 626,373.

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

Part of the funds Hipototta and Leasetotta 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 the loan contracts to the Hipototta and Leasetotta Funds and to Tagus. The Group holds no direct or indirect participation in Navegator or in Tagus.

To finance the operation, Hipototta and LeaseTotta FTC Funds issued participating units for the same amount of the loan portfolio purchased, which were fully subscribed by the Hipototta and LeaseTotta PLC/Ltd Funds, both based in Ireland.

The Hipototta and LeaseTotta FTC Funds pay all the amounts received from BST and from the Portuguese Treasury (“Direcção Geral do Tesouro”) to the Hipototta PLC/Ltd and Leasetotta No. 1 Limited, segregating the instalments between principal and interest.

To finance these operations, the Hipottota and the LeaseTotta PLC/Ltd. and Tagus issued bonds with different levels of subordination and rating and, consequently, of return. On December 31, 2012, the bonds issued and still active are as follows:

Hipottta nº 1 PLC

Issued debt	Amount – Initial	Amount – Actual	Rating – S&P	Rating – Moody's	Redemption date	Early redemption date	Remuneration – Up to early redemption date	Remuneration – After early redemption date
Class A	1,053,200	185,579	A-	Baa3	November of 2034	August of 2012	Euribor 3 m + 0,27%	Euribor 3 m + 0,54%
Class B	32,500	11,966	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 0,65%	Euribor 3 m + 0,95%
Class C	14,300	5,273	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 1,45%	Euribor 3 m + 1,65%
	1,100,000	202,818						
Class D	17,600	11,000			November of 2034	August of 2012	Residual income of the securitized portfolio	
	1,117,600	213,818						

Hipottta nº 4 PLC

Issued debt	Amount – Initial	Amount – Actual	Rating Fitch	Redemption date	Early redemption date	Remuneration – Up to early redemption date	Remuneration – After early redemption date
Class A	2,616,040	1,034,987	A	December of 2048	December of 2014	Euribor 3 m + 0,12%	Euribor 3 m + 0,24%
Class B	44,240	37,654	A	December of 2048	December of 2014	Euribor 3 m + 0,19%	Euribor 3 m + 0,40%
Class C	139,720	118,918	B	December of 2048	December of 2014	Euribor 3 m + 0,29%	Euribor 3 m + 0,58%
	2,800,000	1,191,559					
Class D	14,000	14,000		December of 2048	December of 2014	Residual income of the securitized portfolio	
	2,814,000	1,205,559					

Hipottta nº 5 PLC

Issued debt	Amount – Initial	Amount – Actual	Rating – S&P	Rating – Moody's	Redemption date	Early redemption date	Remuneration – Up to early redemption date	Remuneration – After early redemption date
Class A1	200,000	-			February of 2060	February of 2014	Euribor 3 m + 0,05%	Euribor 3 m + 0,10%
Class A2	1,693,000	900,658	A-	Baa3	February of 2060	February of 2014	Euribor 3 m + 0,13%	Euribor 3 m + 0,26%
Class B	26,000	26,000	A-	Ba1	February of 2060	February of 2014	Euribor 3 m + 0,17%	Euribor 3 m + 0,34%
Class C	24,000	24,000	A	Ba2	February of 2060	February of 2014	Euribor 3 m + 0,24%	Euribor 3 m + 0,48%
Class D	26,000	26,000	BBB	B3	February of 2060	February of 2014	Euribor 3 m + 0,50%	Euribor 3 m + 1,00%
Class E	31,000	31,000	BB	Caa2	February of 2060	February of 2014	Euribor 3 m + 1,75%	Euribor 3 m + 3,50%
	2,000,000	1,007,658						
Class F	10,000	10,000	CCC-	Ca	February of 2060	February of 2014	Residual income of the securitized portfolio	
	2,010,000	1,017,658						

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

Hipototta nº 7 Ltd

Issued debt	Amount Initial	Amount Actual	Rating S&P	Rating Moody's	Redemption date	Remuneration
Class A1	200,000	-			February of 2061	Euribor 3 m + 0,20%
Class A2	1,596,000	1,029,927	A-	Baa3	February of 2061	Euribor 3 m + 0,30%
Class B	60,000	60,000	A-	Ba1	February of 2061	Euribor 3 m + 0,60%
Class C	50,000	50,000	BBB-	Ba1	February of 2061	Euribor 3 m + 1,2%
Class D	44,000	44,000	BB-	Ba2	February of 2061	Euribor 3 m + 2,75%
Class E	50,000	50,000	B	Caa1	February of 2061	Euribor 3 m + 4,75%
	2,000,000	1,233,927				
Class F	20,000	20,000	CCC-	Ca	February of 2061	Residual income of the securitized portfolio
	2,020,000	1,253,927				

Leasetotta nº 1 Ltd

Issued debt	Amount Initial	Amount Actual	Rating DBRS	Redemption date	Remuneration
Class A	1,040,000	254,589	AA	April of 2042	Euribor 3 m + 0,30%
Class B	260,000	260,000		April of 2042	Euribor 3 m + 4,75%
	1,300,000	514,589			
Class C	65,000	65,000		April of 2042	Residual income of the securitized portfolio
	1,365,000	579,589			

The bonds issued by Hipototta no. 1 PLC and Hipototta no. 4 PLC bear interest payable quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta PLC No. 5 and Hipototta No. 7 Ltd bear interest payable quarterly on February 28, May 30, August 31 and November 30 of each year. The bonds issued by LeaseTotta no. 1 Ltd bear interest payable quarterly on January 30, April 30, July 31 and October 31 of each year.

BST has the option to early redeem the bonds on the above-mentioned dates. For all Hipotottas, for BST SME No. 1 and for Totta Consumer No. 1, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or less than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, Hipototta and Leasetotta PLC/Ltd have the option to make partial repayments of the Class A, B and C notes, as well as the Class D and E notes in the case of Hipototta PLC No. 5 and Hipototta No. 7 Ltd, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

Remuneration of the Class D bonds of Hipototta No. 1 and Hipototta No. 4, the Class F bonds for Hipottota No.5, Hipottota No.7 and the Class C bonds for LeaseTotta no. 1 Ltd are the last liabilities to be paid.

Remuneration of these classes of bonds corresponds to the difference between the income generated by the securitised loan portfolio and the sum of all the costs of the operation, namely:

- Taxation;
- Expenses and commission calculated on the value of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were launched, the estimated income of the securitised loan portfolios included in the calculation of the remuneration of the Class D bonds of Hipototta PLC No. 1 and 4 corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F notes of Hipototta PLC No. 5 it corresponded to an annual average of 0.9% of the total credit portfolio. For the Class F bonds of Hipototas No. 7 and the Class C bonds of LeaseTotta no. 1, it corresponded to an annual average rate of 0.7% of each of the loan portfolios.

In 2010 the Bank repurchased class A bonds from Hipototta no. 4 PLC, class A2 bonds from Hipototta no. 5 PLC and class A bonds from Hipototta no. 2 PLC. In 2012 the Bank repurchased class A bonds from Hipototta no. 4 PLC and class A2 bonds from Hipototta no. 5 PLC. As mentioned above, Hipototta no. 2 PLC, Hipototta no. 3 PLC and Hipototta no. 10 Ltd were liquidated in January and February 2011. Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1 were liquidated in March, May, June and August 2012, respectively.

When the securitizations were issued, subordinated loans were granted by BST to Hipototas, for facilities / credit lines in case of need for liquidity by Hipototas. There were also signed "Swap Agreements" between the Santander Group and the first issued Hipototas and between the BST and the remaining securitization vehicles to cover the interest rate risk.

Accounting recognition

In compliance with IAS 27 and SIC 12, for the purposes of the consolidated financial statements, the Hipototta FTC Funds and Hipototta PLC/Ltd were included in the consolidation perimeter (Note 4), given that the Bank has the majority of the risks and benefits relating to the operations of these entities. Consequently, the securitised mortgage loans were reflected in the balance sheet and part of the bonds issued by Hipototta PLC/Ltd, Leasetotta No.1 Limited and Tagus which are held by the Group, were eliminated in the consolidation process.

45. RELATED PARTIES DISCLOSURES

Related parties disclosures of the Bank with which it had balances or transactions in 2012 and 2011 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd	Cayman Island
Serfin International Bank & Trust	Cayman Island
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander, Asset Management, SGFIM, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 2 PLC	Ireland
HIPOTOTTA NO. 3 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
HIPOTOTTA NO. 8 Ltd	Ireland
HIPOTOTTA NO. 10 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 2 FTC	Portugal
HIPOTOTTA NO. 3 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
HIPOTOTTA NO. 8 FTC	Portugal
HIPOTOTTA NO. 10 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (HIPOTOTTA NO. 11)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (HIPOTOTTA NO. 12)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (BST SME NO. 1)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (TOTTA CONSUMER NO.1)	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the Group	
Open Bank Santander Consumer S.A.	Spain
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
ISBANP - Engenharia e Software Bancário, S.A.	Portugal
Banco Santander de Puerto Rico	Puerto Rico
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Internacional Miami	USA
Santander Bank & Trust Ltd.	Spain
Banco Santander Brasil, S.A.	Brazil
Banco Santander Chile, S.A.	Chile
Produban Servicios Informaticos Generales, S.L.	Spain
Portal Universia Portugal - Prestação de Serviços de Informática, S.A.	Portugal
Ingeniería de Software Bancário, S.L.	Spain
HBF Aluguer e Comércio de Viaturas, S.A.	Portugal
Ibérica de Compras Corporativas	Spain
Grupo Banesto	Spain
Transolver Finance EFC, S.A.	Spain
Union de Créditos Inmobiliários, S.A.	Spain
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Abbey National Treasury Services, PLC	United Kingdom
Santander Consumer Spain Auto 07-1	Spain
Santander Global Facilities	Spain
Fondo de Titulización de Activos Santander Empresas 1	Spain
Fondo de Titulización de Activos Santander Empresas 2	Spain
Fondo de Titulización de Activos Santander Empresas 3	Spain
Fondo de Titulización Santander Financiación 1	Spain
FTPYME Santander 2 Fondo de Titulización de Activos	Spain
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Alliance & Leicester	United Kingdom
Catter Allen International LTD	United Kingdom
Banco Banif, S.A.	Spain
All Funds Bank, S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Consumer Finance S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander de Titulizacion SGFT	Spain
Santander Investment, S.A.	Spain
Santander Investment Securities,Inc	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Konecta Portugal, Lda.	Portugal
Santander UK PLC	United Kingdom
Sovereign Bank	USA
Optimal Strategic Us Equity Irl Euro Fnd	Ireland
Banco Santander (Suisse), S.A.	Switzerland
UCI - Mediação de Seguros Unipessoal, Lda	Portugal
Santander Asset Management, SA, SGIIC	Spain
Retama Real Estate, SL	Spain

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

On December 31, 2012 and 2011, the balances with related parties were as follows:

	2012		
	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	8,372	-	8,539
Financial assets held for trading	262,786	-	5,825
Available-for-sale financial assets	-	-	5,973
Loans and advances to credit institutions	1,825,070	-	1,405
Loans and advances to customers	-	-	38,179
Hedging derivatives	247,437	-	-
Investments in associated companies	-	142,994	-
Other assets	14,553	4,018	16,186
Liabilities:			
Financial liabilities held for trading	1,835,739	-	69,014
Resources of other credit institutions	599,332	158,341	24,286
Resources of customers and other debts	85,938	9,545	1,818,110
Debt securities	165,547	-	298,674
Hedging derivatives	453,444	-	-
Subordinated liabilities	-	-	4,311
Other liabilities	10,663	-	2,840
Costs:			
Interest and similar charges	348,656	958	90,756
Charges with services and commission	880	-	3,081
Result of assets and liabilities at fair value through profit or loss	2,204,438	-	102,309
General administrative costs	-	-	36,922
Impairment on Investments in associates and branches excluded from the consolidation	-	160	-
Income:			
Interest and similar income	386,852	5	8,037
Result of assets and liabilities at fair value through profit or loss	1,559,475	-	80,279
Result of foreign exchange revaluation	360	-	-
Income from services and commission	275	-	85,648
Results of participations in associates and joint-ventures	-	11,864	-
Other operating results	-	-	199
Off-balance sheet Items:			
Guarantees provided and other contingent liabilities	15,784	-	523,224
Guarantees received	710	-	1,400
Commitments to third parties	515	784	561,030
Commitments assumed by third parties	-	-	301,417
Currency operations and derivatives	21,073,204	881	1,073,094
Responsibilities for services rendered	2,812,706	34,592	8,079,659

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

	2011		
	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	9,444	-	18,537
Financial assets held for trading	297,417	-	5,948
Available-for-sale financial assets	-	-	13,668
Loans and advances credit institutions	1,011,381	-	371,170
Loans and advances to customers	-	-	32,502
Hedging derivatives	136,090	-	-
Investments in associated companies	-	133,052	-
Other assets	21,016	5,395	23,014
Liabilities:			
Financial liabilities held for trading	1,440,410	-	68,602
Resources of credit institutions	668,304	103,227	391,231
Resources of customers and other debts	108,163	11,004	711,466
Debt securities	699,812	-	1,658,447
Hedging derivatives	277,632	-	-
Subordinated liabilities	-	-	4,328
Other liabilities	18,430	-	1,547
Costs:			
Interest and similar charges	326,109	234	83,914
Charges with services and commission	1,118	-	269
Result of assets and liabilities at fair value through profit or loss	2,901,332	-	200,887
Results of financial assets available for sale	75,247	-	-
Result of foreign exchange revaluation	2,418	-	-
General administrative costs	-	16	35,203
Results from the sale of other assets	2,817	-	-
Other operating results	-	-	1
Income:			
Interest and similar income	321,961	26	8,494
Result of assets and liabilities at fair value through profit or loss	2,281,194	-	162,403
Result of foreign exchange revaluation	-	-	715
Income from services and commission	588	721	96,663
Results of participations in associates and joint-ventures	-	12,893	-
Other operating results	-	-	176
Off-balance sheet Items:			
Guarantees provided and other contingent liabilities	475,879	-	32,935
Guarantees received	715	-	1,400
Commitments to third parties	1,946	389	116,684
Currency operations and derivatives	24,154,065	-	1,200,737
Responsibilities for services rendered	3,532,924	35,717	8,511,057

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

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

As at December 31, 2012 and 2011 the loans and advances to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 1,135 and tEuros 1,289, respectively. Fixed and variable remuneration at these dates amounted to tEuros 5,675 and tEuros 4,522, respectively (Note 39).

The Santander Group, which includes BST, also has a worldwide long term incentive plan, which is described in Note 46 and is divided into cycles. For the members of the Board of Directors, the amount recorded in the caption of staff costs in the reporting years ending on December 31, 2012 and 2011 is presented below:

	2012	2011
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	-	168
Fourth cycle – PI12 - assigned in 2009 exercisable in July 2012	87	286
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	225	366
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	15	8
	-----	-----
	327	828
	===	===

The cycles of the share plans linked to objectives of the members of the Board of Directors ended on the dates indicated below and shares were attributed at the following amounts per share:

Cycle	Maturity date	Number of shares attributed	Value per share
First	July 6, 2009	97,676	8.49 Euros
Second	July 8, 2010	136,719	8.77 Euros
Third	July 11, 2011	133,727	7.51 Euros
Fourth	July 9, 2012	35,850	4.88 Euros

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. k).

In the Shareholders’ General Meeting held on May 30, 2007, the BST’s shareholders approved the “Regulation for supplementary attribution of retirement pensions for age or disability” for the executive members of the Board of Directors of the former BTA that are executive members of the BST’s Board of Directors (Executive Committee) and were in office for more than fifteen years, consecutive or interpolated. Under this Regulation they will be entitled to a pension supplement equivalent to 80% of gross annual salary. The amount of the supplementary retirement pension shall be determined by the Compensation Committee when the time in office is less than fifteen years. For these situations, it is defined that the supplement of the pension will be 65% of gross annual salary, whenever the time in office is equal to or is more than ten years, and 75% of gross annual salary, whenever the time in office is equal to or is more than twelve years. This defined benefit plan is a supplementary plan dependent from the general Social Security system.

On December 31, 2012 and 2011, the liabilities with this plan amounted to tEuros 13,735 and tEuros 9,686, respectively, and were covered by a provision of the same amount recorded in the caption “Provision for pensions and other charges” (Note 22).

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

With regard to employment termination benefits, in accordance with Commercial Company Law ("Código das Sociedades Comerciais"), whenever the term of a member of the management or supervisory boards is terminated early by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

Statutory Auditors

The remuneration of the statutory auditors of the Bank and its subsidiaries in 2012, excluding VAT, was as follows:

Statutory audit and external auditor services rendered	892
Other assurance services	732
Tax consulting	133
Other	50

	1,807
	====

46. LONG-TERM INCENTIVE PLANS

The "Share Plan Linked to the Santander Group's Objectives" was approved In a Shareholders' General Meeting of Banco Santander. This plan is divided into cycles, and so far six cycles have been approved. BST is also included in this plan.

Each beneficiary of the plan has the right to receive a maximum number of Banco Santander, S.A.'s shares. The final number allocated is determined by multiplying the maximum number of shares initially allocated, by the sum of the coefficients indexed to the evolution of Banco Santander, S.A. in relation to other entities included in a predefined group. The comparison is measured in relation to two parameters: total shareholders' return and increase in earnings per share for the first three cycles, for the remaining cycles the comparison is measured by the total shareholders' return only.

The maturity dates of the cycles for the stock plans linked to objectives, the total number of shares granted and the value per share are as follows:

Cycle	Maturity date	Total number of shares granted	Value per share
First	July 6, 2009	326,681	8.49
Second	July 8, 2010	540,822	8.77
Third	July 11 2011	571,640	7.51
Fourth	July 9, 2012	200,897	4.88

As described in Note 1.3. n), recognition of the share incentive plans consists in recognizing the right of the Bank's employees to such instruments in the income statement for the year under the caption "Staff costs", as it corresponds to remuneration for services rendered. Management, hedging and implementation of the plans are provided by Banco Santander for all employees covered by the Plan worldwide.

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

In 2012 and 2011, the total cost of the Santander Group's Share Plans linked to objectives of all the Group's employees covered by it was as follows:

	2012	2011
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	-	633
Fourth cycle – PI12 - assigned in 2009 and exercisable in July 2012	575	1,150
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	1,473	1,473
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	1,056	532
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	3,104	3,788
	====	====

The employees are entitled to stocks upon their permanence in the Santander Group. The cost per share, as well as the dates to deliver the shares are summarised in the following table:

Stocks' plans	Number of shares	Cost per share (Euros)	Estimated date of delivery of the shares	Number of employees	Entitlement date
Plans in place as at December 31, 2010:					
PI11	662,021	5.4419	Jul/2011	311	2008
PI12	754,339	4.5112	Jul/2012	311	2009
PI13	778,723	5.5707	Jul/2013	310	2010
Change in 2011:					
PI11 - Reversals [a]	(1,750)	-	-	(1)	-
PI11 - Shares available	(571,640)	-	Jul/2011	(321)	-
PI11 - Shares not available [b]	(95,001)	-	-	-	-
PI12 - Reversals [a]	(15,250)	-	-	(5)	-
PI13 - Reversals [a]	(13,870)	-	-	(4)	-
PI11 - Inclusion of employees due to entry of companies [c]	6,370	-	-	11	-
PI12 - Inclusion of employees due to entry of companies [c]	7,970	-	-	12	-
PI13 - Inclusion of employees due to entry of companies [c]	10,590	-	-	13	-
PI13 - Corrections [d]	3,769	-	-	1	-
PI14 - Entitlement	609,358	4.5254	Jul/2014	309	2011
Plans in place as at December 31, 2011:					
PI12	747,059	4.5112	Jul/2012	318	2009
PI13	779,212	5.5707	Jul/2013	320	2010
PI14	609,358	4.5254	Jul/2014	309	2011
Change in 2012:					
PI12 - Shares available	(200,897)	-	Jul/2012	(320)	-
PI12 - Shares not available [b]	(471,823)	-	-	-	-
PI12 - Reversals [a]	(74,339)	-	-	(2)	-
PI13 - Reversals [a]	(76,339)	-	-	(2)	-
Plans in place as at December 31, 2012:					
PI13	702,873	5.5707	Jul/2013	318	2010
PI14	609,358	4.5254	Jul/2014	309	2011

Notes:
(a) Reversal of the rights granted to beneficiaries who have not completed the permanence requirements in the Santander Group established in the Regulation Plan.
(b) Difference between the maximum number of allocated shares and the number of shares actually delivered. The number of allocated shares results by applying a coefficient calculated according to the Santander Group's performance applied to the maximum number of shares allocated.
(c) Corresponds to employees from Totta IFIC integrated into the BST following the merger occurred in the first half of 2011
(d) Difference between the values indicated by Santander in Spain December 2010 (estimate) and March 2011 (actual).

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

For the share plans linked to objectives in force on December 31, 2012 (5^{th} and 6^{th} cycles), the fair value was determined in accordance with the following methodology:

- It was considered that the beneficiaries will remain in the Santander Group during the period of each plan;

- The value relating to the relative position of the Total Return to Shareholders (TRS) was determined at the vested date based on the report of an independent expert who carried out a stochastic valuation using a “MonteCarlo” model with 10,000 simulations performed to determine the TRS for each entity included in the group of comparables. The results (each one representing the delivery of a number of shares) are sorted on descending basis, calculating a weighted average and discounting the amount at a risk free interest rate.

	PI13	PI14
Volatility (*)	49.65%	51.35%
Annual dividend yield in recent years	6.34%	6.06%
Risk-free interest rate	3.330%	4.073%

(*) Historical volatility of the corresponding period (2 or 3 years)

Application of the simulation model results in a percentage of 62.62% for PI13 and of 55.39% for PI14, to which 50% of the value allocated to determine the accounting cost of the TRS incentive is applied. Since the valuation refers to a market condition, it is not subject to adjustment as from the allocation date.

47. DISCLOSURES IN ACCORDANCE WITH IFRS 7

BALANCE SHEET

Categories of financial instruments

On December 31, 2012 and 2011, financial instruments had the following book value:

	2012				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	321,628	63,695	-	385,323
Financial assets held for trading	2,265,495	-	-	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	-	93,735
Available-for-sale financial assets	3,527,449	-	21,398	(58,983)	3,489,864
Loans and advances to banks	-	3,097,422	-	-	3,097,422
Loans and advances to customers	49,565	27,895,746	-	(965,662)	26,979,649
Hedging derivatives	284,850	-	-	-	284,850
	6,221,094	31,456,398	295,856	(1,024,645)	36,948,703
Liabilities					
Resources of central banks	-	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,048,743	-	-	-	2,048,743
Resources of other credit institutions	-	1,949,574	-	-	1,949,574
Resources of customers and other debts	3,070,416	18,309,464	117,294	-	21,497,174
Debt securities	2,637,250	1,316,269	-	-	3,953,519
Hedging derivatives	455,911	-	-	-	455,911
Subordinated liabilities	-	4,311	-	-	4,311
	8,212,320	27,416,860	117,294	-	35,746,474

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

	2011				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from other banks	-	274,320	82,642	-	356,962
Financial assets held for trading	1,995,784	-	-	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	-	80,121
Available-for-sale financial assets	4,481,477	-	22,798	(64,670)	4,439,605
Loans and advances to banks	-	2,692,911	-	-	2,692,911
Loans and advances to customers	53,136	28,990,805	-	(671,914)	28,372,027
Hedging derivatives	167,302	-	-	-	167,302
	6,777,820	32,159,166	292,147	(736,584)	38,492,549
Liabilities					
Resources of central banks	-	4,913,234	-	-	4,913,234
Financial liabilities held for trading	1,663,299	-	-	-	1,663,299
Resources of other credit institutions	-	3,611,532	-	-	3,611,532
Resources of customers and other debts	1,832,183	17,912,285	99,636	-	19,844,104
Debt securities	4,574,638	2,819,227	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	282,889
Subordinated liabilities	-	4,328	-	-	4,328
	8,353,009	29,260,606	99,636	-	37,713,251

In 2012 there were no reclassifications of financial assets, except for the reclassification of the participating units of the “Lusimovest” and “Novimovest” Funds from the caption “Financial assets held for trading” to the caption “Available-for-sale financial assets” (Note 9).

There were no reclassifications of financial assets in 2011.

The financial assets and liabilities for which fair value hedge accounting was applied are valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

INCOME STATEMENT

In the years ending on December 31, 2012 and 2011, the net gains and losses on financial instruments were as follows:

	2012					
	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	3,217,416	(3,194,239)	23,177	-	-	-
Financial assets at fair value through profit or loss	18,497	-	18,497	-	-	-
Available-for-sale financial assets	318,338	(26,234)	292,104	427,590	-	427,590
Balances in central banks and other credit institutions	60,028	-	60,028	-	-	-
Loans and advances to customers	1,188,647	(532,224)	656,423	-	-	-
Hedging derivatives	452,599	(568,855)	(116,256)	40,944	-	40,944
Resources in central banks and other credit institutions	-	(90,889)	(90,889)	-	-	-
Resources of customers and other debts	43,685	(531,025)	(487,340)	-	-	-
Debt securities	187,022	(180,835)	6,187	-	-	-
Subordinated liabilities	-	(202)	(202)	-	-	-
	5,486,232	(5,124,503)	361,729	468,534	-	468,534
Guarantees given	23,082	(10,595)	12,487			
Credit lines	12,945	(4,975)	7,970			

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

	2011					
	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	4,104,748	(4,088,794)	15,954	-	-	-
Financial assets at fair value through profit or loss	4,206	(12,466)	(8,260)	-	-	-
Available-for-sale financial assets	312,449	(94,913)	217,536	-	(426,027)	(426,027)
Balances in central banks and other credit institutions	89,410	-	89,410	-	-	-
Loans and advances to customers	1,318,659	(432,638)	886,021	-	-	-
Hedging derivatives	700,882	(838,865)	(137,983)	52,083	-	52,083
Resources in central banks and other credit institutions	-	(183,645)	(183,645)	-	-	-
Resources of customers and other debts	40,281	(415,074)	(374,793)	-	-	-
Debt securities	103,676	(286,933)	(183,257)	-	-	-
Subordinated liabilities	-	(316)	(316)	-	-	-
	6,674,311	(6,353,644)	320,667	52,083	(426,027)	(373,944)
Guarantees given	28,990	(197)	28,793			
Credit lines	22,864	(2,683)	20,181			

The above amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the years ended on December 31, 2012 and 2011 corresponded to net gains of tEuros 5,652 and tEuros 5,295, respectively (Note 36).

In the years ending on December 31, 2012 and 2011, interest income and costs, determined in accordance with the effective interest rate method of financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2012			2011		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	1,719	-	1,719	4,522	-	4,522
Balances due from other banks	221	-	221	821	-	821
Available-for-sale financial assets	198,167	-	198,167	162,624	-	162,624
Loans and advances to credit institutions	58,089	-	58,089	86,767	-	86,767
Loans and advances to customers	982,961	(246)	982,715	1,066,794	(1,862)	1,064,932
	1,241,157	(246)	1,240,911	1,321,528	(1,862)	1,319,666
Liabilities						
Resources of central banks	-	(52,015)	(52,015)	-	(46,680)	(46,680)
Resources of other credit institutions	-	(38,873)	(38,873)	-	(136,965)	(136,965)
Resources of customers and other debts	8,417	(485,890)	(477,473)	8,373	(401,314)	(392,941)
Debt securities	-	(168,212)	(168,212)	-	(213,282)	(213,282)
Subordinated liabilities	-	(202)	(202)	-	(316)	(316)
	8,417	(745,192)	(736,775)	8,373	(798,557)	(790,184)
Guarantees given	19,906	-	19,906	18,767	-	18,767
Credit lines	7,191	-	7,191	5,468	-	5,468

In the years ending on December 31, 2012 and 2011, commissions income and costs, not included in the calculation of the effective interest rate, of financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2012			2011		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advances to customers	53,281	(12,050)	41,231	56,424	(14,345)	42,079
Liabilities						
Resources of customers and other debts	20,361	-	20,361	15,789	-	15,789

In 2012 and 2011 the Bank recognised financial income referring to “Interest and similar income” on overdue or impaired credit operations, amounting to tEuros 8,087 and tEuros 8,521, respectively (Note 29).

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

OTHER DISCLOSURES

Hedge accounting

On December 31, 2012 and 2011, hedging derivatives and financial instruments designated as hedged items are as follows:

	2012					
	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	43,084	43,446	6,100	49,546	43,085	(6,414)
Available-for-sale financial assets	2,075,000	2,118,833	321,577	2,440,410	2,075,000	(363,798)
Resources of customers and other debts	(3,154,198)	(3,181,058)	(45,294)	(3,226,352)	3,143,327	60,476
Debt securities	(2,612,943)	(2,646,979)	9,729	(2,637,250)	2,727,613	(2,590)
Cash flow hedge:						
Loans and advances to customers	3,974,694	3,974,694	-	3,974,694	2,950,000	141,265
	325,637	308,936	292,112	601,048	10,939,025	(171,061)

	2011					
	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	47,809	48,242	5,327	53,569	47,811	(5,567)
Available-for-sale financial assets	2,075,000	2,118,714	210,141	2,328,855	2,075,000	(245,972)
Resources of customers and other debts	(1,822,365)	(1,831,722)	(461)	(1,832,183)	1,811,861	2,600
Debt securities	(4,696,585)	4,637,506	(62,868)	4,574,638	3,780,998	46,660
Cash flow hedge:						
Loans and advances to customers	3,496,486	3,496,486	-	3,496,486	2,600,000	86,692
	(899,655)	8,469,226	152,139	8,621,365	10,315,670	(115,587)

Cash flow hedges

The expected cash flows by period that might affect the profit or loss for the year are as follows:

	2012					
	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	33,743	12,489	3,821	61,976	29,236	141,265

	2011					
	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	18,568	5,780	(8,270)	56,938	13,676	86,692

The gains and losses recognised on fair value hedging operations in the income statement of the years ended December 31, 2012 and 2011, are as follows:

	2012			2011		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	774	(774)	-	1,020	(1,020)	-
Available-for-sale financial assets	111,437	(111,437)	-	137,104	(137,104)	-
Resources of customers and other debts	(44,748)	45,026	278	(12,575)	12,448	(127)
Debt securities	90,199	(90,703)	(504)	27,889	(29,353)	(1,464)
	157,662	(157,888)	(226)	153,438	(155,029)	(1,591)

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

Fair value of financial instruments

On December 31, 2012 and 2011, financial instruments were made up as follows:

	2012		
	Valued at fair value	Not valued at fair value	Total
Assets			
Cash and deposits at central banks	-	352,365	352,365
Balances due from other banks	-	385,323	385,323
Financial assets held for trading	2,265,495	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	93,735
Available-for-sale financial assets	3,475,179	14,685	3,489,864
Loans and advances to credit institutions	-	3,097,422	3,097,422
Loans and advances to customers	49,546	26,930,103	26,979,649
Hedging derivatives	284,850	-	284,850
	6,168,805	30,779,898	36,948,703
Liabilities			
Resources of central banks	-	5,837,242	5,837,242
Financial liabilities held for trading	2,048,743	-	2,048,743
Resources of other credit institutions	-	1,949,574	1,949,574
Resources of customers and other debts	3,070,416	18,426,758	21,497,174
Debt securities	2,637,250	1,316,269	3,953,519
Hedging derivatives	455,911	-	455,911
Subordinated liabilities	-	4,311	4,311
	8,212,320	27,534,154	35,746,474

	2011		
	Valued at fair value	Not valued at fair value	Total
Assets			
Cash and deposits at central banks	-	387,837	387,837
Balances due from other banks	-	356,962	356,962
Financial assets held for trading	1,995,784	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	80,121
Available-for-sale financial assets	4,423,500	16,105	4,439,605
Loans and advances to credit institutions	-	2,692,911	2,692,911
Loans and advances to customers	53,568	28,318,459	28,372,027
Hedging derivatives	167,302	-	167,302
	6,720,275	31,772,274	38,492,549
Liabilities			
Resources of central banks	-	4,913,234	4,913,234
Financial liabilities held for trading	1,663,299	-	1,663,299
Resources of other credit institutions	-	3,611,532	3,611,532
Resources of customers and other debts	1,832,183	18,011,921	19,844,104
Debt securities	4,574,638	2,819,227	7,393,865
Hedging derivatives	282,889	-	282,889
Subordinated liabilities	-	4,328	4,328
	8,353,009	29,360,242	37,713,251

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

The financial assets and liabilities for which hedge accounting has been applied to are included as valued at fair value, being subject to fair value adjustments on the hedged risk only.

On December 31, 2012 and 2011, 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:

	2012					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	Net book value
Assets						
Financial assets held for trading	233,413	-	2,032,082	-	-	2,265,495
Financial assets at fair value through profit or loss	90,279	1,344	2,112	-	-	93,735
Available-for-sale financial assets	3,665,652	52,586	(512,366)	321,577	(52,270)	3,475,179
Loans and advances to customers	43,084	381	-	6,100	(19)	49,546
Hedging derivatives	-	-	284,850	-	-	284,850
	4,032,428	54,311	1,806,678	327,677	(52,289)	6,168,805
Liabilities						
Financial liabilities held for trading	-	-	2,048,743	-	-	2,048,743
Resources of customers and other debts	2,999,936	25,186	-	45,294	-	3,070,416
Debt securities	2,612,943	34,036	-	(9,729)	-	2,637,250
Hedging derivatives	-	-	455,911	-	-	455,911
	5,612,879	59,222	2,504,654	35,565	-	8,212,320

	2011					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	Net book value
Assets						
Financial assets held for trading	286,984	-	1,708,800	-	-	1,995,784
Financial assets at fair value through profit or loss	91,202	1,340	(12,421)	-	-	80,121
Available-for-sale financial assets	5,127,661	83,631	(939,956)	210,141	(57,977)	4,423,500
Loans and advances to customers	47,809	437	-	5,327	(5)	53,568
Hedging derivatives	-	-	167,302	-	-	167,302
	5,553,656	85,408	923,725	215,468	(57,982)	6,720,275
Liabilities						
Financial liabilities held for trading	-	-	1,663,299	-	-	1,663,299
Resources of customers and other debts	1,822,365	9,357	-	461	-	1,832,183
Debt securities	4,454,614	57,156	-	62,868	-	4,574,638
Hedging derivatives	-	-	282,889	-	-	282,889
	6,276,979	66,513	1,946,188	63,329	-	8,353,009

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

The methods used to determine fair value are based on market prices on active markets or other valuation techniques, such as discounted cash flows. On December 31, 2012 and 2011, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedging operations, by valuation methodology, is made up as follows:

	2012			
	Method of determining fair value			
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2)	Other valuation techniques (Level 3)	Total
Assets				
Financial assets held for trading	233,612	2,031,883	-	2,265,495
Financial assets designated at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,207,474	227,682	40,023	3,475,179
Loans and advances to customers	-	49,546	-	49,546
Hedging derivatives	-	284,850	-	284,850
	3,534,821	2,593,961	40,023	6,168,805
Liabilities				
Financial liabilities held for trading	-	2,048,743	-	2,048,743
Resources of customers and other debits	-	3,070,416	-	3,070,416
Debt securities	-	2,637,250	-	2,637,250
Hedging derivatives	-	455,911	-	455,911
	-	8,212,320	-	8,212,320

	2011			
	Method of determining fair value			
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2)	Other valuation techniques (Level 3)	Total
Assets				
Financial assets held for trading	287,010	1,708,774	-	1,995,784
Financial assets designated at fair value through profit or loss	80,121	-	-	80,121
Available-for-sale financial assets	3,615,430	804,088	3,982	4,423,500
Loans and advances to customers	-	53,568	-	53,568
Hedging derivatives	-	167,302	-	167,302
	3,982,561	2,733,732	3,982	6,720,275
Liabilities				
Financial liabilities held for trading	-	1,663,299	-	1,663,299
Resources of customers and other debits	-	1,832,183	-	1,832,183
Debt securities	-	4,574,638	-	4,574,638
Hedging derivatives	-	282,889	-	282,889
	-	8,353,009	-	8,353,009

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

In accordance with IFRS 7, 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 quotes published in active markets, comprising mainly government debt, private debt, real estate investment funds and shares.

- Level 2 – Financial instruments recorded at fair value are based on internal valuation models using observable market data as significant inputs. This category includes some securities included in the portfolio of financial assets available for sale and derivative instruments used for hedging and trading. It should be pointed out 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 flows models use the interest rate curves applicable to each currency observable in the market ("present value method").

  For derivative financial instruments, the main valuation techniques were 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
Currency Options	Black-Scholes Model, Monte Carlo Model
Equity Options	Black-Scholes Model, Heston Model
Interest Rates 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

- Level 3 – In this level the Bank classifies the valuation of financial instruments that use internal models with some inputs that do not correspond to observable market data. Some unquoted securities for which the Bank uses market data extrapolations were classified in this category.

  The most representative interest rate curves by maturity and currency are the following:

	31/12/2012		31/12/2011	
	EUR	USD	EUR	USD
Overnight	0.50%	0.30%	1.00%	0.30%
1 month	0.12%	0.19%	1.10%	1.55%
3 months	0.19%	0.25%	1.40%	1.85%
6 months	0.32%	0.46%	1.65%	2.15%
9 months	0.43%	0.62%	1.83%	2.25%
1 year	0.55%	0.77%	1.98%	2.40%
3 years	0.47%	0.48%	1.39%	0.88%
5 years	0.76%	0.83%	1.74%	1.28%
7 years	1.11%	1.25%	2.07%	1.69%
10 years	1.55%	1.76%	2.38%	2.06%

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

On December 31, 2012 and 2011, the book value and fair value of the financial instruments valued at amortised cost or historical cost was the following:

	2012		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	352,365	352,365	-
Balances due from other banks	385,323	385,323	-
Available-for-sale financial assets	14,685	14,685	-
Loans and advances to banks	3,097,422	3,279,009	181,587
Loans and advances to customers	26,930,103	24,481,609	(2,448,494)
	30,779,898	28,512,991	(2,266,907)
Liabilities			
Resources of central banks	5,837,242	4,936,307	900,935
Resources of other credit institutions	1,949,574	1,986,334	(36,760)
Resources of customers and other debts	18,426,758	18,619,478	(192,720)
Debt securities	1,316,269	1,062,612	253,657
Subordinated liabilities	4,311	4,299	12
	27,534,154	26,609,030	925,124

	2011		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	387,837	387,837	-
Balances due from other banks	356,962	356,962	-
Available-for-sale financial assets	16,105	16,105	-
Loans and advances to banks	2,692,911	2,889,517	196,606
Loans and advances to customers	28,318,459	26,139,361	(2,179,098)
	31,772,274	29,789,782	(1,982,492)
Liabilities			
Resources of central banks	4,913,234	4,883,949	29,285
Resources of other credit institutions	3,611,532	3,534,077	77,455
Resources of customers and other debts	18,011,921	18,070,005	(58,084)
Debt securities	2,819,227	1,740,447	1,078,780
Subordinated liabilities	4,328	4,263	65
	29,360,242	28,232,741	1,127,501

If at December 31, 2012 the fair value of most of the debt issued subject to hedging operations included in the debt securities issued had been determined, namely the second and third mortgage bonds issues, the valuation would be less than the respective book value by, approximately, tEuros 28,227 (tEuros 596,042 on December 31, 2011).

The main assumptions used in the calculation of the fair value, by type of financial instrument, were the following:

- Future cash flows of applications and resources of credit institutions were discounted using the interest rate curves of the money market.

- The fair value of variable rate loans was determined by considering the average spread of the production in the last quarter of the year, for the purpose of discounting the future portfolio cash flows. In the case of fixed rate loans, future cash flows were discounted at the average rates used by the Bank in the last quarter of the year;

- The fair value of demand deposits from clients was considered to be equal to their book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the year for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the year;

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates for the residual term of each issue.

The Bank records in the balance sheet the initial gains on financial instruments valued at fair value through other valuation techniques, namely derivative operations agreed with customers classified internally as “Retail clients”.

This procedure was introduced following customer segmentation and, within the terms of IAS 39, considering that in the case of other valuation techniques used for the measurement of fair value of derivative operations with customers classified internally as “Retail clients”, not all the valuation data used can, unquestionably, be considered as observable in the market.

The Group classifies clients internally in accordance with the following criteria:

- Major clients – Corporate and institutional entities (financial sector entities, namely banks and insurance companies and public sector companies);

- Retail clients.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes identification, measurement, integration and evaluation of different credit risk exposures and analysis of return in relation to risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group Risk Area, which is responsible for managing the special client vigilance system, credit risk segmentation based on the characteristics of customers and products and for the scoring systems (applicable to mortgage loans, consumer credit and credit cards) and ratings used by the Bank.

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

Counterparty risk consists of the potential credit risk on transactions in financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks with certain customer segments, perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating variables relating to the credit quality of each counterparty in the quantitative control.

On December 31, 2012 and 2011, the maximum exposure to credit risk and corresponding book value of the financial instruments is made up as follows:

	2012		2011	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	352,365	352,365	387,837	387,837
Balances due from other banks	385,323	385,323	356,962	356,962
Financial assets held for trading	2,265,495	2,265,495	1,995,784	1,995,784
Financial assets at fair value through profit or loss	93,735	93,735	80,121	80,121
Available-for-sale financial assets	3,489,864	3,489,864	4,439,605	4,439,605
Loans and advances to credit institutions	3,097,422	3,097,422	2,692,911	2,692,911
Loans and advances to customers	26,979,649	32,979,164	28,372,027	34,382,026
Hedging derivatives	284,850	284,850	167,302	167,302
Investments in associated companies	142,994	142,994	133,052	133,052
	37,091,697	43,091,212	38,625,601	44,635,600
Guarantees given (Note 28)	1,345,643	1,345,643	2,058,818	2,058,818

The maximum exposure in “Loans and advances to customers” as at December 31, 2012, includes tEuros 1,496,610 and tEuros 4,502,905 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 1,217,742 and tEuros 4,792,257 on December 31, 2011, respectively).

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

Loans granted

The Bank periodically reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, the Bank segments the credit portfolio in accordance with the type of product and type of customer involved in the operations (Note 11). In this respect, on December 31, 2012 and 2011, loans granted to customers without objective evidence of impairment are made up as follows:

	2012	2011
Consumer credit	1,048,143	1,111,840
Mortgage loans	14,823,138	15,384,875
Other loans and advances to individuals	412,023	435,914
Credit cards of individuals	235,682	250,675
Total credit without objective evidence of impairment granted to individuals	16,518,986	17,183,304
Loans and advances to large companies	1,540,037	1,361,928
Loans and advances to medium-sized companies	3,934,174	4,684,117
Loans and advances to small companies	582,817	652,240
Leasing	803,190	1,045,821
Factoring	942,936	1,271,079
Credit cards	12,529	12,144
Loans and advances to financial institutions	-	1
Commercial paper	1,451,056	655,200
Total credit without objective evidence of impairment granted to companies	9,266,739	9,682,530
Guarantees given	1,254,586	19,888,260
Total credit granted without evidence of impairment	27,040,311	46,754,094

The risk analysis for clients or economic groups where the Bank has an exposure of more than 500,000 Euros are made by risk analysts that follow customers and are supported by a mandatory internally developed rating model approved by regulators. The risk level inherent to the customer is implied in the allocation of internal rating levels, which can go from 1 to 9, a probability of default to a year that the bank monitors and calibrates in a constant and regular form. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Partners/Management;
. Access to credit;
. Profitability;
. Generation of funds;
. Solvency.

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Partners/Management	15%	15%
Acess to credit	10%	10%
Profitability	15%	55%
Generation 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 each weighting parameter, is subsequently introduced into the Bank's IT system.

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

In general terms, the Bank's internal rating classification may be described and classified in the following manner:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with moderate credit risk;
Rating 7 – 9: Customer with low credit risk.

On December 31, 2012 and 2011, the loans granted to companies without objective evidence of impairment, is made up as follows by internal rating:

	2012		2011	
	Credit granted	Guarantees given	Credit granted	Guarantees given
Rating 7 - 9	82,325	22,249	369,368	41,815
Rating 4 - 6	5,008,549	973,574	6,142,092	1,214,133
Rating 1 - 3	759,243	115,581	697,212	85,918
	5,850,117	1,111,404	7,208,672	1,341,866
Without Rating	1,953,037	107,950	1,806,513	160,073
	7,803,154	1,219,354	9,015,185	1,501,939
Credit cards of companies	12,529	-	12,144	-
Financial institutions	-	35,628	1	486,885
Commercial paper	1,451,056	-	655,200	-
	9,266,739	1,254,982	9,682,530	1,988,824

With regard to loans granted to individuals without objective evidence of impairment, provisions obtained from the impairment model in effect in the Bank as at December 31, 2012 and 2011 amounted to tEuros 56,185 and tEuros 37,437, respectively, corresponding to percentages on those dates of 0.34% and 0.22%, respectively.

On December 31, 2012 and 2011, loans granted to customers with objective evidence of impairment, were made up as follows:

	2012	2011
Performing loans	1,072,211	1,409,667
Overdue loans		
. Up to 90 days	46,934	54,267
. Between 90 and 180 days	97,166	97,880
. Over 180 days	882,487	529,589
	1,026,587	681,736
	2,098,798	2,091,403
Guarantees given	91,057	70,558

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

As at December 31, 2012 and 2011, overdue credit or impaired credit determined by specific analysis guaranteed by mortgage, pledged deposits at the Bank, debt securities issued by the Bank or with no guarantee is made up as follows:

	2012		2011	
	Outstanding principal	Value of guarantee/collateral	Outstanding principal	Value of guarantee/collateral
Guarantees in excess of the principal due	368,871	963,298	982,399	2,107,478
Guarantees lower than the principal due	350,710	82,764	584,012	204,475
Without guarantee	1,303,597	-	926,700	-
	2,023,178		2,493,111	

As at December 31, 2012 and 2011, the book value of executed guarantees and other collateral relating to credit granted amounted to tEuros 272,476 and tEuros 215,390, respectively, and are made up as follows:

	2012	2011
Non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	245,156	177,737
. Participation units	18,663	-
. Equipment	5,558	3,982
Other assets received as settlement of defaulting loans (Note 17)	104,672	89,888
Financial assets available for sale	22,121	40,784
	396,170	312,391
Impairment of non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	(71,078)	(53,639)
. Participation units	(4,000)	-
. Equipment	(3,574)	(2,785)
Impairment of other assets received as settlement of defaulting loans (Note 17)	(22,921)	(18,456)
Impairment of financial assets available for sale	(22,121)	(22,121)
	(123,694)	(97,001)
	272,476	215,390

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

As at December 31, 2012 and 2011, the book value referring to debt instruments is made up as follows, by external rating, in accordance with Standard & Poor's rating:

	2012	2011
Other financial assets at fair value through profit or loss		
Rating S&P		
BBB+ / BBB / BBB-	-	80,121
BB+ / BB / BB-	93,735	-
	93,735	80,121
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	7,948	1,628,499
BBB+ / BBB / BBB-	981,608	1,578,621
BB+ / BB / BB-	1,658,576	209,729
B+ / B / B-	291,757	-
Without external rating	339,241	954,434
	3,279,130	4,371,283
	3,372,865	4,451,404

In cases in which Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch are presented.

LIQUIDITY RISK

The liquidity risk management policy is decided by the top level area in the organization structure responsible for Asset and Liability Management (ALM) and the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

The Group's financing policy considers the evolution of the balance sheet components, the structural position of terms to maturity of assets and liabilities, the net inter-bank indebtedness level given the credit lines available, dispersion of the maturities and minimization of funding activity related costs. In this respect, the medium term bonds issued to retail banking clients contribute to the structural adequacy.

Under its liquidity policy, as at December 31, 2012 the Bank has a Euro Medium Term Notes (EMTN) program, of which tEuros 160,530 has been issued.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

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

The contractual projected cash flows of financial instruments (not discounted) as at December 31, 2012 and 2011 were as follows:

	2012							
	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	210,893	265	811	2,152	2,155	189,963	-	406,239
Balances due from other banks	385,323	-	-	-	-	-	-	385,323
Financial assets held for trading	2,265,495	-	-	-	-	-	-	2,265,495
Financial assets at fair value through profit or loss	-	-	94,901	-	-	-	-	94,901
Available-for-sale financial assets	2	3,394	328,007	1,380,559	408,460	2,049,478	254,623	4,424,523
Loans and advances to credit institutions	1,121,616	62,420	41,207	1,621,882	367,855	88,395	-	3,303,375
Loans and advances to customers	502,799	2,746,191	4,504,003	4,864,323	3,258,002	15,457,201	-	31,332,519
Hedging derivatives	284,850	-	-	-	-	-	-	284,850
Investments in associates	-	-	-	-	-	-	142,994	142,994
	4,770,978	2,812,270	4,968,929	7,868,916	4,036,472	17,785,037	397,617	42,640,219
Liabilities								
Resources of central banks	800,116	-	-	5,115,850	-	-	-	5,915,966
Financial liabilities held for trading	2,048,743	-	-	-	-	-	-	2,048,743
Resources of other credit institutions	382,424	980,845	27,004	325,569	277,780	-	-	1,993,622
Resources of customers and other debts	6,157,636	3,934,261	4,749,942	4,967,092	1,954,508	467,408	-	22,230,847
Debt securities	(9,730)	37,907	1,158,565	1,757,213	252,846	866,583	-	4,063,384
Hedging derivatives	455,911	-	-	-	-	-	-	455,911
Subordinated liabilities	-	4,325	-	-	-	-	-	4,325
	9,835,100	4,957,338	5,935,511	12,165,724	2,485,134	1,333,991	-	36,712,798

	2011							
	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	186,840	508	1,535	4,076	4,081	290,803	-	487,843
Balances due from other banks	356,962	-	-	-	-	-	-	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	-	1,995,784
Financial assets at fair value through profit or loss	-	-	4,909	94,901	-	-	-	99,810
Available-for-sale financial assets	34,652	1,095,018	239,605	1,439,120	881,861	2,317,414	132,061	6,139,731
Loans and advances to credit institutions	1,318,976	587,418	6,965	79,838	659,418	364,647	-	3,017,262
Loans and advances to customers	320,687	3,160,729	5,293,895	6,481,685	4,245,405	14,734,212	-	34,236,613
Hedging derivatives	167,302	-	-	-	-	-	-	167,302
Investments in associates	-	-	-	-	-	-	133,052	133,052
	4,381,203	4,843,673	5,546,909	8,099,620	5,790,765	17,707,076	265,113	46,634,359
Liabilities								
Resources of central banks	-	2,517,830	-	-	2,475,600	-	-	4,993,430
Financial liabilities held for trading	1,663,299	-	-	-	-	-	-	1,663,299
Resources of other credit institutions	898,441	1,767,346	52,556	196,904	700,795	95,203	-	3,711,245
Resources of customers and other debts	5,659,027	5,445,875	4,596,317	2,387,104	2,141,908	199,668	-	20,429,899
Debt securities	62,919	100,261	1,825,804	3,692,185	693,491	1,655,971	-	8,030,631
Hedging derivatives	282,889	-	-	-	-	-	-	282,889
Subordinated liabilities	-	4,350	-	-	-	-	-	4,350
	8,566,575	9,835,662	6,474,677	6,276,193	6,011,794	1,950,842	-	39,115,743

The projected cash flows of the financial instruments were determined based on principles and assumptions used by the Group to manage and control liquidity resulting from its operations, namely the following:

- The projected cash flows of assets and liabilities with variable remuneration related to 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 investments in associates and equity instruments recorded as available-for-sale assets, which were considered of undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rate (cash, balances due from banks, equity instruments classified as available-for-sale financial assets and investments in associates) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Group 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 dates, 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 asset's value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity security prices, precious metals and commodities.

The standard methodology applied for the Santander Totta Group's trading activity is Value at Risk (VaR). Historical simulation with a 99% confidence level and a time horizon of one day is used as the basis, statistical adjustments having been applied, to enable the more recent occurrences that affect the level of risk assumed to be included rapidly and effectively. This measure is only used in the Group's treasury management, the Bank using specific sensitivity measures.

The VaR calculated represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

In addition, other measures are carried out that enable additional risk control to be maintained. In abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios with different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of scenarios tries to identify the potential risk in extreme market conditions and scenarios at the limits of probability, not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being made of changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measures and equivalent positions. In the case of interest rate it uses the BPV – estimated impact on results of parallel changes in interest rate curves. Because of the unusual nature of derivative operations, specific sensitivity measures are carried out daily, namely calculation of sensitivity to changes in the underlying prices (delta and gamma), volatility (vega) 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 protecting the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables all the factors relating to balance sheet market risks to be controlled, namely the risk resulting directly from change in the yield curve, given the existing indexing and re-pricing structure that determine the sensitivity of the financial margin and sensitivity of the asset value of balance sheet instruments.

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

Interest rate risk

On December 31, 2012 and 2011, financial instruments by exposure to interest rate risk, are as follows:

	2012				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	-	385,323	-	385,323
Financial assets held for trading	-	-	233,639	2,031,856	2,265,495
Other financial assets at fair value through profit or loss	90,279	-	3,456	-	93,735
Available-for-sale financial assets	2,880,140	551,079	58,645	-	3,489,864
Loans and advances to credit institutions	1,717,489	1,347,731	32,202	-	3,097,422
Loans and advances to customers	1,639,586	25,224,780	115,283	-	26,979,649
Hedging derivatives	-	-	-	284,850	284,850
	6,327,494	27,265,192	1,039,311	2,316,706	36,948,703
Liabilities					
Resources of central banks	-	5,800,016	37,226	-	5,837,242
Financial liabilities held for trading	-	-	-	2,048,743	2,048,743
Resources of other credit institutions	1,512,634	272,851	164,089	-	1,949,574
Resources of customers and other debts	16,251,049	4,912,351	333,774	-	21,497,174
Debt securities	2,629,994	1,300,370	23,155	-	3,953,519
Hedging derivatives	-	-	-	455,911	455,911
Subordinated liabilities	-	4,275	36	-	4,311
	20,393,677	12,289,863	558,280	2,504,654	35,746,474

	2011				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from other banks	-	-	356,962	-	356,962
Financial assets held for trading	-	-	287,032	1,708,752	1,995,784
Other financial assets at fair value through profit or loss	91,202	-	(11,081)	-	80,121
Available-for-sale financial assets	4,190,407	828,000	(578,802)	-	4,439,605
Loans and advances to credit institutions	2,248,983	305,621	138,307	-	2,692,911
Loans and advances to customers	2,141,904	26,135,221	94,902	-	28,372,027
Hedging derivatives	-	-	-	167,302	167,302
	8,672,496	27,469,972	474,027	1,876,054	38,492,549
Liabilities					
Resources of central banks	-	4,900,007	13,227	-	4,913,234
Financial liabilities held for trading	-	-	-	1,663,299	1,663,299
Resources of other credit institutions	2,850,564	617,229	143,739	-	3,611,532
Resources of customers and other debts	14,403,256	5,177,142	263,706	-	19,844,104
Debt securities	4,838,286	2,432,154	123,425	-	7,393,865
Hedging derivatives	-	-	-	282,889	282,889
Subordinated liabilities	-	4,274	54	-	4,328
	22,092,106	13,130,806	544,151	1,946,188	37,713,251

Financial instruments – structural balance (excluding assets and liabilities held for trading)

The methodology used for the calculation of the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities, based on changes of 100 basis points (bp's) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- all assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;

- the assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each sensitive operation (contract);

- operations are sub-grouped by re-pricing/maturity date for each previously defined group;

- the intended time intervals for measurement of the interest rate gaps are defined;

- for each group, the flows are re-grouped based on the intervals created;

- for each product considered to be sensitive, but which does not have a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- the total inflows and outflows are calculated for each interval and the difference between them, corresponding to the interest rate risk gap, is determined for each interval.

The interest rate gap enables an approximation to be made of the sensitivity of the asset value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- the volumes remain constant in the balance sheet and are automatically renewed;

- the movement in interest rates are assumed to be parallel, while the possibility of actual changes for different terms of the interest rate curve is not considered; and

- different elasticity between the various products is not considered.

In terms of variation in net asset value, increases in interest rates assume a decrease in the amount of the intervals 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 constant during the period under analysis;

- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- New business features (term, spread, indexing factor and other) – the conditions applied in the budget for each product are used. When these features cease to be within market conditions for certain products, the average conditions in place in the last month or new commercial directives for each product under review is used.

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

As at December 31, 2012 and 2011, the impact in the value of financial instruments sensitive to interest rate of changes of 100 basis points (bp's), over a time frame of one year, correspond to:

	2012		2011	
Assets	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
Cash and deposits at central banks	1,379	(759)	1,954	(1,954)
Available-for-sale financial assets	3,855	(2,472)	2,503	(2,499)
Loans and advances to credit institutions	19,133	(11,033)	3,076	(3,077)
Loans and advances to customers	202,472	(110,796)	203,667	(203,378)
	226,839	(125,060)	211,200	(210,908)
Hedging derivatives	(36,845)	21,261	(37,970)	37,966
Liabilities				
Resources of central banks	57,222	(39,964)	47,278	(47,278)
Resources of other credit institutions	21,464	(13,221)	11,853	(11,844)
Resources of customers and other debts	80,401	(48,644)	88,286	(84,198)
Debt securities	10,131	(6,191)	18,692	(18,654)
	169,218	(108,020)	166,109	(161,974)

Financial instruments held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;

- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);

- Exponential deterioration factor: Enables the amount of change in market factors to be exponentially weighted over time, by giving less weight to more distant observations in time. The exponential deterioration factor applied is calculated periodically by Market Risk Methodology.

In any case, the values of VaR are those which are greater when the calculation is made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk currency. VaR results are reported in US Dollars in order to allow accumulation of different units; and

- The time window of market data: A 2 year time window is used or at least 520 items of data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile assumes that the set of 520 observations considered all have the same weight. The VaR Weighted Percentile assumes the granting of a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, the volatility and correlation between them, are well reflected in the historical period selected.
In addition, a complete revaluation of the portfolio requires valuation for each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

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

On December 31, 2012 and 2011, the VaR associated to the interest rate risk corresponds to:

	2012	2011
VaR Percentil 99%	(9)	(34)
VaR Weighted Percentil 99%	(13)	(25)

Foreign exchange risk

The profile defined for foreign exchange risk is very conservative and is based on the hedging policy adopted. Implementation of the policy is a responsibility of the Treasury Area so that the risks involved are maintained at a low level, this being achieved mainly through currency swaps. Exchange risk limits are established and monitored by the Market Risk Area.

On December 31, 2012 and 2011, financial instruments by currency are as follows:

	2012			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	346,048	3,736	2,581	352,365
Balances due from other banks	357,445	12,559	15,319	385,323
Financial assets held for trading	2,263,593	1,871	31	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,481,916	7,948	-	3,489,864
Loans and advances to credit institutions	2,704,835	352,396	40,191	3,097,422
Loans and advances to customers	26,912,436	37,617	29,596	26,979,649
Hedging derivatives	284,180	670	-	284,850
	36,444,188	416,797	87,718	36,948,703
Liabilities				
Resources of central banks	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,046,582	2,085	76	2,048,743
Resources of other credit institutions	1,576,925	366,025	6,624	1,949,574
Resources of customers and other debts	20,491,407	826,056	179,711	21,497,174
Debt securities	3,953,519	-	-	3,953,519
Hedging derivatives	454,133	1,778	-	455,911
Subordinated liabilities	4,311	-	-	4,311
	34,364,119	1,195,944	186,411	35,746,474

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

	2011			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	382,103	3,631	2,103	387,837
Balances due from other banks	320,314	23,126	13,522	356,962
Financial assets held for trading	1,988,164	7,472	148	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	80,121
Available-for-sale financial assets	4,429,999	9,606	-	4,439,605
Loans and advances to credit institutions	2,295,560	378,576	18,775	2,692,911
Loans and advances to customers	28,281,995	51,966	38,066	28,372,027
Hedging derivatives	166,846	456	-	167,302
	37,945,102	474,833	72,614	38,492,549
Liabilities				
Resources of central banks	4,913,234	-	-	4,913,234
Financial liabilities held for trading	1,655,678	7,473	148	1,663,299
Resources of other credit institutions	3,126,454	475,918	9,160	3,611,532
Resources of customers and other debts	18,794,630	891,766	157,708	19,844,104
Debt securities	7,393,865	-	-	7,393,865
Hedging derivatives	282,079	810	-	282,889
Subordinated liabilities	4,328	-	-	4,328
	36,170,268	1,375,967	167,016	37,713,251

On December 31, 2012 and 2011, the VaR associated to foreign exchange risk corresponds to:

	2012	2011
VaR Percentil 99%	(11)	(16)
VaR Weighted Percentil 99%	(9)	(9)

Equity risk of assets

Financial instruments held for trading

On December 31, 2012 and 2011, the Bank had no equity risk of its financial instruments held for trading, therefore the VaR related to this risk is zero.

48. CAPITAL MANAGEMENT

BST endeavours to have significant financial stability through maintenance of an adequate equity ratio – relationship between Eligible Equity Funds capital and assets weighted by risk - above 8%, which is the minimum legal ratio requirement established under Bank of Portugal Notice no 5/2007..

The dividend distribution policy is subject to the maintenance of a capital base that enables the Bank to sustain the development of its operations within its risk policies.

As from June 2009, BST has used the mixed method for credit risk, namely the advanced method (IRB) for some portfolios and the standard method for other portfolios (sovereign risk, cards and small businesses). The cards portfolio began to be treated in accordance with the IRB method as from March 2011 and the small business portfolio as from December 2012. Sovereign risk and manual operations are treated using the standard method.

As from December 2010, BST has used the mixed method for market risk, namely internal models for most of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

In June of 2012, BST started to use the standard method for determining the requirements of operating risk, before which it used the basic indicator method.
The following table summarizes the composition of regulatory capital and ratios of the Bank, at the end of 2012 and 2011 (amounts in millions of Euros):

	Dez12 (*)	Dez11
A - BASE OWN FUNDS (TIER I)	2,069	2,141
Share Capital	943	943
Reserves and Retained earnings (excluding Minority Interest)	967	976
Minority Interest	449	475
IAS adoption impacts (transitory regime)	28	57
Deductions to base own funds	-318	-310
B - COMPLEMENTARY OWN FUNDS (TIER II)	0	0
Perpetual subordinated liabilities	4	4
Terms subordinated liabilities	0	0
Revaluation Reserves	24	23
Other elements/deductions to complementary own funds	-28	-27
C - DEDUCTIONS FROM TO OWN FUNDS	-7	-6
D - TOTAL OWN FUNDS (A+B+C)	2,062	2,135
E - ASSETS WEIGHTED BY RISK	18,127	20,783

CAPITAL RATIOS	Dez12 (*)	Dez11
TIER I (A/E)	11.4%	10.3%
CORE CAPITAL	9.9%	9.1%
TIER II (B/E)	0.0%	0.0%
CAPITAL ADEQUACY RATIO (D/E)	11.4%	10.3%

(*) In accordance with Instruction 16/2004 of the Bank of Portugal, excluding the income generated in 2012, the capital adequacy ratio is 11.4%, TIER I is 11.4% and Core Tier I is 9.8%.

BST's solvency ratios increased during 2012. The Tier I and the core capital ratios increased from 9.1% and 10.3% in December 2011 to 9.9% and 11.4%, respectively, in December 2012. The equity adequacy ratio also reached 11.4% in December 2012. The contributing factors to this improvement were the incorporation of the results for 2012 and the deleveraging process carried out by the Bank.

49. NOTE ADDED FOR TRANSLATION

These financial statements are a translation of the financial statements originally issued in Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 49)

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
Bonds issued											
Bonds											
Latin America	EUR	2,175	-	2,175	35	33	2,243	Floating	20-Mai-2011	20-Mai-2014	Basket of Funds
Latin America Top 3	EUR	99,997	-	99,997	2,120	1,481	103,598	Floating	1-Ago-2011	31-Out-2014	Index FTSE Latibex Top
AutoCallable 80-20	EUR	1,611	-	1,611	-	(217)	1,394	Floating	7-Jun-2011	7-Jun-2013	Basket of shares
AutoCallable 80-20 2nd series	EUR	2,950	-	2,950	-	(147)	2,803	Floating	30-Ago-2010	30-Ago-2013	Basket of shares
AutoCallable 85-15	EUR	570	-	570	-	(58)	512	Floating	1-Ago-2011	31-Out-2014	Index FTSE Latibex Top
USA	EUR	74,607	-	74,607	1,688	892	77,187	Floating	30-Jun-2011	30-Jun-2014	Index Standard & Poor's 500
Europe 155	EUR	1,920	-	1,920	-	(14)	1,906	Floating	28-Jun-2010	28-Jun-2014	Stock exchange index
Europe 5	EUR	7,424	-	7,424	-	(11)	7,413	Floating	8-Mar-2010	8-Mar-2013	Basket of shares
Europe 5 2nd series	EUR	3,094	-	3,094	-	(3)	3,091	Floating	25-Mai-2010	25-Mai-2013	Basket of shares
Performance Mais	EUR	63,096	6,367	56,729	60	3,131	59,920	Floating	24-Nov-2009	24-Nov-2014	Basket of indexes
Performance Mais II	EUR	13,731	-	13,731	4	699	14,434	Floating	22-Dez-2009	15-Jan-2015	Basket of indexes
Rendimento Europeu	EUR	99,795	12,434	87,361	411	5,004	92,776	Floating	6-Ago-2009	6-Ago-2014	Stock exchange index
Rendimento Global	EUR	3,767	-	3,767	-	(1)	3,766	Floating	18-Jan-2010	18-Jan-2013	Basket of shares
ST Diversificaçao Invest 2º amortização Clientes	EUR	28,008	8,977	19,031	1,593	2,434	23,058	Floating	17-Mar-2009	28-Mar-2013	EUR/USD
ST Diversificaçao Invest 3º amortização Clientes	EUR	19,817	786	19,031	-	-	19,031	Floating	17-Mar-2009	28-Mar-2015	Basket of indexes
ST Diversificaçao Invest 4º amortização Clientes	EUR	23,913	4,882	19,031	-	-	19,031	Floating	17-Mar-2009	28-Mar-2017	Basket of indexes
Top Germany	EUR	65,042	-	65,042	1,224	1,893	68,159	Floating	14-Fev-2011	13-Fev-2015	Basket of shares
Top Germany February 2011	EUR	57,892	-	57,892	1,316	1,469	60,677	Floating	9-Mar-2011	9-Mar-2015	Basket of shares
Appreciation China	EUR	56,379	-	56,379	980	1,262	58,621	Floating	11-Abr-2011	2-Abr-2015	Index FTSE China 25
Appreciation Dollar	EUR	3,645	-	3,645	-	(4)	3,641	Floating	12-Abr-2010	12-Abr-2013	EUR/USD
Appreciation Performance 5 years	EUR	21,533	-	21,533	243	319	22,095	Floating	30-Set-2010	30-Set-2015	Basket of indexes
Appreciation Performance 5 years OCTOBER 2010	EUR	9,994	-	9,994	108	105	10,207	Floating	2-Nov-2010	2-Nov-2015	Basket of indexes
		660,960	**33,446**	**627,514**	**9,782**	**18,267**	**655,563**				
Covered bonds											
Covered Mortgage Bonds 2nd Issue	EUR	1,000,000	125,750	874,250	4,956	36,591	915,797	3.25%	21-Out-2009	21-Out-2014	Fixed interest rate
Covered Mortgage Bonds 3rd Issue	EUR	1,000,000	-	1,000,000	18,583	3,826	1,022,409	2.625%	15-Abr-2010	15-Abr-2013	Fixed interest rate
Mortgage Bonds IV - 1st Tr	EUR	750,000	750,000	-	-	-	-	4.375%	12-Jan-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 2nd Tr	EUR	600,000	597,700	2,300	37	-	2,337	3.305%	21-Jan-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 4th Tr	EUR	225,000	225,000	-	-	-	-	2.610%	16-Fev-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 5th Tr	EUR	175,000	175,000	-	-	-	-	3.185%	30-Mar-2011	30-Mar-2014	Fixed interest rate
Mortgage Bonds V	EUR	1,250,000	1,250,000	-	-	-	-	2.690%	23-Mai-2011	23-Mai-2014	Fixed interest rate
Mortgage Bonds VI - 1st tranche	EUR	250,000	250,000	-	-	-	-	2.697%	4-Nov-2011	4-Nov-2014	Fixed interest rate
Mortgage Bonds VII - 1st tranche	EUR	380,000	380,000	-	-	-	-	2.697%	4-Nov-2011	4-Nov-2014	Fixed interest rate
Mortgage Bonds VIII - 1st tranche	EUR	250,000	250,000	-	-	-	-	2.705%	4-Nov-2011	4-Nov-2014	Fixed interest rate
		5,880,000	**4,003,450**	**1,876,550**	**23,576**	**40,417**	**1,940,543**				
Bonds issued on securitization operations											
Hipototta 1 - Class A - Notes	EUR	185,579	150,884	34,695	55	-	34,750	Floating	25-Jul-2003	25-Nov-2034	Euribor 3m+0.27% (until early reimbursement in August 2012); Euribor 3m+0.54% (after early reimbursement date)
Hipototta 1 - Class B - Notes	EUR	11,966	11,966	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Euribor 3m+0.65% (until early reimbursement in August 2012); Euribor 3m+0.95% (after early reimbursement date)
Hipototta 1 - Class C - Notes	EUR	5,273	5,273	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Euribor 3m+1.45% (until early reimbursement in August 2012); Euribor 3m+1.65% (after early reimbursement date)
Hipototta 1 - Class D - Notes	EUR	11,000	11,000	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Residual return generated by securitized portfolio
Hipototta 4 - Class A - Notes	EUR	1,034,987	514,752	520,235	(1,252)	-	518,983	Floating	9-Dez-2005	30-Dez-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	37,654	37,654	-	-	-	-	Floating	9-Dez-2005	30-Dez-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	118,918	63,595	55,323	1	-	55,324	Floating	9-Dez-2005	30-Dez-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-Dez-2005	30-Dez-2048	Residual return generated by securitized portfolio

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 49)

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
Hipotota 5 - Class A2 - Notes	EUR	900,658	245,141	655,517	(401)	-	655,116	Floating	22-Mar-2007	28-Fev-2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipotota 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Fev-2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipotota 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-Mar-2007	28-Fev-2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipotota 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Fev-2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipotota 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-Mar-2007	28-Fev-2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipotota 5 - Class F - Notes	EUR	10,000	10,000	-	-	-	-	Floating	22-Mar-2007	28-Fev-2060	Residual return generated by securitized portfolio
Hipotota 7 - Class A2 - Notes	EUR	1,029,927	1,029,927	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Euribor 3m+0.30%
Hipotota 7 - Class B - Notes	EUR	60,000	60,000	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Euribor 3m+0.60%
Hipotota 7 - Class C - Notes	EUR	50,000	50,000	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Euribor 3m+1.2%
Hipotota 7 - Class D - Notes	EUR	44,000	44,000	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Euribor 3m+2.75%
Hipotota 7 - Class E - Notes	EUR	50,000	50,000	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Euribor 3m+4.75%
Hipotota 7 - Class F - Notes	EUR	20,000	20,000	-	-	-	-	Floating	10-Mar-2008	28-Fev-2061	Residual return generated by securitized portfolio
Leasetotta - Class A - Notes	EUR	254,589	254,589	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Euribor 3m+0.30%
Leasetotta - Class B - Notes	EUR	260,000	260,000	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Euribor 3m+4.75%
Leasetotta - Class C - Notes	EUR	65,000	65,000	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Residual return generated by securitized portfolio
		4,270,551	**3,004,781**	**1,265,770**	**(1,597)**	**-**	**1,264,173**				
Other											
EMTN's	EUR	160,530	-	160,530	1,123	(68,413)	93,240				
		160,530	**-**	**160,530**	**1,123**	**(68,413)**	**93,240**				
TOTAL DEBT SECURITIES ISSUED		**10,972,041**	**7,041,677**	**3,930,364**	**32,884**	**(9,729)**	**3,953,519**				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2012 (Note 23)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex II originally issued in Portuguese - Note 49)

		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 date	Early repayment as from
Subordinated Perpetual Bonds 2000	EUR	270,447	270,447	-	154	154	-	-	2.07%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	4,275	-	4,275	36	-	36	4,311	2.35%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds BSP 2001	EUR	13,818	13,818	-	116	116	-	-	2.35%	Perpetual	February 23, 2011
		288,540	284,265	4,275	306	270	36	4,311			

Consolidated Reports and Opinions

BANCO SANTANDER TOTTA, S.A.

Consolidated Financial Statements as at December 31, 2012 together with the Legal Certification of Accounts and Audit Report

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Euros – tEuros)

(Translation of a report originally issued in Portuguese – Note 49)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Directors' Report and in the accompanying consolidated financial statements of Banco Santander Totta, S.A. and subsidiaries ("Bank" or "BST") for the year ended December 31, 2012, which comprise the consolidated balance sheet as at December 31, 2012 that presents a total of tEuros 38,527,243 and total shareholders' equity of tEuros 2,325,091, including consolidated net income attributable to the shareholders of BST of tEuros 88,068, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards as endorsed by the European Union and that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code ("Código dos Valores Mobiliários"); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position or their comprehensive income.

3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the auditing standards (“Normas Técnicas e Directrizes de Revisão/Auditoria”) issued by the Portuguese Institute of Chartered Accountants (“Ordem dos Revisores Oficiais de Contas”), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used, application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Directors' Report is consistent with the other consolidated documents of account, as well as the verifications established in items 4 and 5 of article 451 of the Commercial Companies Code (“Código das Sociedades Comerciais”). We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco Santander Totta, S.A. and subsidiaries as at December 31, 2012, the consolidated income and comprehensive income from their operations, changes in their consolidated shareholders' equity and their consolidated cash flows for the year then ended in conformity with the International Financial Reporting Standards as endorsed by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Report on other legal requirements

6. It is also our opinion that the financial information contained in the Director's Report is consistent with the consolidated financial statements for 2012 and that the report on corporate governance practices includes the items required for the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Lisbon, February 26, 2013

Deloitte & Associados, SROC S.A.
Represented by Maria Augusta Cardador Francisco

EXPLANATION ADDED FOR TRANSLATION
(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC, S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)