

2011 Annual Report

 Santander Totta



2011 Annual Report

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Main Indicators

	Dec-11	Dec-10	Var.
Balance Sheet and Results (million euro)			
Net Assets	40,115	46,078	-12.9%
Net Loans	28,372	29,774	-4.7%
Customers' Resources	27,922	28,069	-0.5%
Own Funds + Minority Interests + Subordinated Liabilities	1,968	2,671	-26.3%
Net Interest Income (excluding dividends)	543.5	673.6	-19.3%
Fees and Other Income	328.8	344.5	-4.5%
Operating Income	882.0	1,075.8	-18.0%
Net Operating Income	375.2	559.6	-32.9%
Income Before Taxes & Minority Interests	120.9	412.3	-70.7%
Net Income (recurrent)	128.0	323.9	-60.5%
Net Income	47.1	399.2	-88.2%
Ratios			
ROE	2.3%	18.6%	-16.4 p.p.
ROA	0.1%	0.9%	-0.8 p.p.
Efficiency Ratio (including depreciation)	57.5%	48.0%	+9.5 p.p.
Solvency Ratio*	10.3%	10.1%	+0.2 p.p.
Tier I*	10.3%	10.2%	+0.1 p.p.
Core Capital *	9.1%	8.8%	+0.3 p.p.
Non Performing Loans (+ 90 days) Ratio	2.16%	1.43%	+0.7 p.p.
NPL and Doubtful Loans Ratio	2.21%	1.44%	+0.8 p.p.
Credit at Risk Ratio	2.84%	1.80%	+1.0 p.p.
NPL Coverage (+ 90 days)	107.1%	115.1%	-8.0 p.p.
NPL and Doubtful Loans Coverage Ratio	104.5%	113.8%	-9.4 p.p.
Credit at Risk Coverage Ratio	80.5%	93.5%	-13.0 p.p.
Other Data			
Employees	5,774	5,859	-85
Employees in Portugal	5,720	5,800	-80
Branches	715	758	-43
Total Branches and Corporate Centers in Portugal	681	716	-35

* With results net of payout

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 ⁽¹⁾
Members	António José Sacadura Vieira Monteiro Carlos Manuel Amaral de Pinho Eduardo José Stock da Cunha João Baptista Leite ⁽²⁾ José Carlos Brito Sítima José Urgel 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
Alternate Member	Pedro Manuel Alves Ferreira Guerra

Auditors

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

Executive Committee

Chairman	António José Sacadura Vieira Monteiro ⁽³⁾
Members	José Carlos Brito Sítima João Baptista Leite ⁽²⁾ 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

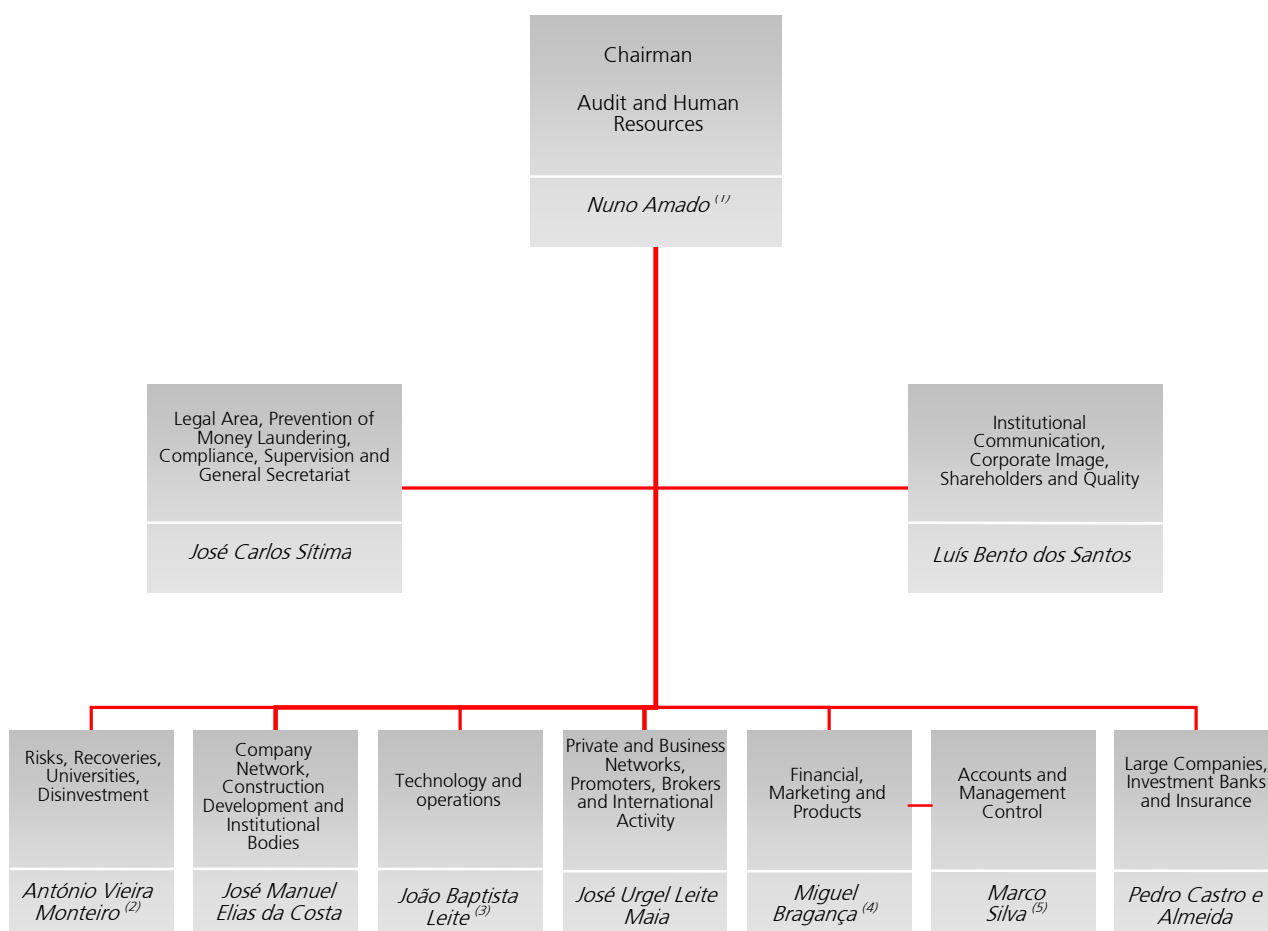
(1) On 13/01/11 left the Vice-Chairmanship to become Chairman of the Board of Directors

(2) Co-opted on 14/07/11

(3) Promoted from Member to Chairman of Executive Committee on 31/01/12

Nuno Manuel da Silva Amado renounced office on 27/01/12
Miguel de Campos Pereira de Bragança renounced office on 11/02/12

Organization Chart (in 2011)



(1) Renounced office on 27/01/12 and was substituted by **António Vieira Monteiro**

(2) Promoted from Member to Chairman of Executive Committee on 31/01/12

(3) Co-opted on 14/07/11

(4) Renounced office on 11/02/12

(5) Co-Director in the Executive Committee.

Relevant Facts in 2011

Prizes awarded in 2011

- Best Bank in Portugal – Global Finance (Apr/11)
- Best Bank in Portugal – Euromoney (Jul/11)
- Bank of the Year in Portugal – The Banker (Dec/11)
- Best Large Bank – Most Solid Large Bank – Exame (Dec/11)



- “Best Foreign Exchange Provider” – Global Finance
- “Euromoney Structured Retail Products Awards 2011” in the categories “best distributor” and sub-category of “best distribution performance in Portugal”
- “Best Contact Centre “ in the banking sector in the APCC 2011 Prize range
- OCI Prize in the innovation category for the programme “You Are the Santander Programme”

Other relevant facts in 2011

January

- Santander Totta and Lisbon Technical University reward best students
- Universia launches the Science Today journal, the Myway site and a University radio
- Santander Totta promotes talk shows on “>Limitless Mathematics”

February

- Santander Totta launches Ferrari Card
- Santander Totta has already attributed 3,400 mutually guaranteed credits to Higher Education students
- Santander Totta signs Shelter Protocol with CAIS
- Presentation of Annual Results

March

- Santander Totta supports *Job Party*
- Santander Totta sponsors Boavista Circuit

April

- Santander Totta launches the new campaign of “Salary Solutions” with the “Idols” as protagonists
- Santander Totta elected “Best Bank of the Year” in Portugal by Global Finance magazine
- Research on “Work in times of crisis” wins Santander Totta/NOVA Scientific Merit Prize
- Santander Totta is the main sponsor of the Estoril Conferences
- “You Are Santander” rewarded on innovation with the OCI prizes

May

- Santander Totta facilitates easy adherence to the Bank on the Internet
- Visão, Jornal de Negócios and Público are the winners of the 2011 Economic Journalism Prize
- “They reached at the top and are neither doctors nor engineers”, creative work by Público newspaper wins 2011 Grand Prize of Economic Journalism

June

- Santander Totta wins prize for “Best Contact Centre of the Banking Sector” for the third consecutive year
- “You Are Santander Week” – the Bank provides a different week for its staff, with the theme “You are the key factor”
- Santander Totta staff take part in the “red nose” initiative, and were able to support two “Clown Doctors” in Portuguese hospitals for a full year
- Santander Totta invested 5.5 million euros in Social Responsibility in 2010, a 27% increase over 2009
- Gala award of the Primus Inter Pares Prize (8th edition)

July

- Santander Totta launches “Super Protection Savings” campaign addressed to Portuguese savers
- Santander Totta elected “Best Bank in Portugal” by Euromoney magazine
- Santander Totta supports solidarity project of the Higher School of Agriculture for planting and donation of agricultural products

August

- Santander among the 10 safest Banks in the World
- Stress Tests in Santander Group

September

- Santander Totta strengthens support to the university segment with special matriculation campaign
- Santander Totta is the official sponsor of the 2011 Green Festival
- Santander Totta elected “Best Bank in Portugal” in the distribution of structured products
- “Solidarity Flame Campaign” to support the Portuguese Cancer League

October

- Global Finance awards the prize “Best Bank of the Year in Portugal”, in Washington
- Launching of the *Redecem* Site by the Quality area
- 4th Conference on Feminine Management

November

- Younger Santander Totta Customers share gifts with unprotected children through the Red Cross
- Award of the Santander Totta / House of Latin America Scientific Prize
- Santander Totta organizes the 1st *international desk* conference with the countries where the Santander Group is active
- Santander Totta presents support programme for Exporting SMEs

December

- “The Banker” magazine elects Santander Totta as the “Bank of the Year in Portugal”
- For the third consecutive year, Santander Totta is elected as “Best Bank” and “Most Solid Large Bank” in Portugal, by Exame magazine prizes
- Santander Totta promotes scientific research and academic merit in Lisbon Technical University
- 8th Edition of Everyone’s Bread, under the theme “Sharing Bread with Others is Ageless” brings together more than 400 volunteers

Rating

Santander Totta is subject to rating notations by Fitch Ratings, Moody's and Standard & Poor's.

Throughout the 1st half of 2011 the three agencies downgraded several times the risk notations of the Portuguese Republic.

On July 15, Moody's lowered the rating notations of a number of Portuguese banks, once again as a consequence of 4 level downgrading of Portugal's rating notation, to Ba2. The rating notation of the Bank's long term debt lowered one level, to Baa1.

On 7 October, and again following Portugal's rating downgrading, Moody's downgraded the Bank's long term debt to Baa2, but maintained the short term debt rating at P-2.

On 12 October, Fitch decided to review the Bank's rating after having reviewed the rating of Santander Bank, changing the notation of its long term debt from AA to AA-. On 6 December, after the downgrading of the notations of the Portuguese Republic, this agency also reviewed the Bank's long term rating from AA- to A and that of the short term debt from F1+ to F1.

At year end, the rating notations of Bank Santander Totta's long term debt, as compared with those of the Portuguese Republic were the following: **Fitch: A** (Portugal: BB+), **Moody's: Baa2** (Portugal: Ba2) and **S&P: BBB-** (Portugal: BBB-).

Agency	Rating Notations
FitchRatings	
short term	F1
long term	A
Moody's	
short term	P-2
long term	Baa2
Standard & Poor's	
short term	A-3
long term	BBB-

Corporate Information

Santander is a commercial bank with chartered offices in Spain and is active in 10 main markets. Santander is the foremost Bank in the Euro zone and one of the 15 world's largest in market capitalisation. Founded in 1857, it has 1,383 billion euros in managed funds. Santander has more than 102 million customers, 14,760 branches – more than any other international bank – and 193,000 employees. 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 north eastern United States. Santander Consumer Finance operates in the main markets of the Group and in the northern countries. In 2011, Santander recorded a net recurring result of 7,021 million euros.

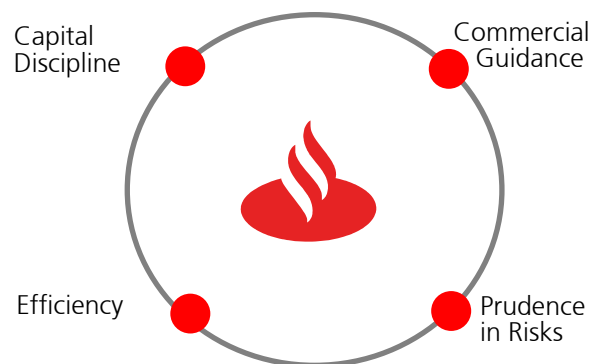
Santander Totta, in line with the Santander Group, is ruled by the following corporate values:

Dynamism	Initiative and agility to discover and exploit business opportunities ahead of its competitors and flexibility to adapt to market changes
Solidity	The solidity of the accounts and the prudent risk management are the best guarantees of the capacity for growth and value generation for long term shareholders
Leadership	Leadership vocation with one of the best teams and constant guidance towards the customer and results
Innovation	Constant search for products and services that answer new customer needs that allow obtaining increases in profitability higher than those of our competitors

Commercial guidance and professional ethics

A Strategy for the continuous improvement in capturing, satisfying and binding customers through a wide offer of products and services and better service quality

The customer is the fundamental axis of Santander Totta's business model



Corporate Social Responsibility

Santander Totta, in line with the Group's policy, has as the main axis of its Social Responsibility the support of learning and the promotion of knowledge and merit, especially in the Universities, since it considers this to be one of the prime movers of the development of society. The Bank also has an active policy in the areas of social solidarity and environment, emphasizing culture and the promotion of health and sports, conscious that only the commitment with the society in which it is inserted can increase the corporate social conscience of the economic protagonists, promoting a fairer and more harmonious society.

In 2011, total investment in Portugal in activities directly related with corporate social responsibility amounted to approximately 6.6 million euros, a 19.5% increase over the previous year.

Universities and Universia

The Bank has currently 43 covenants established with Higher Education institutions. In 2011, investment in Higher Education amounted to more than 4 million euros in direct support provided through these covenants. The new covenants subscribed were with: ISLA (Higher Institute of Languages and Administration); ISVOUGA (Entre Douro e Vouga Higher Education Institute); ISPGaya (Gaia Higher Polytechnic Institute) and ESAI (Higher Institute of Real Estate Activities).

Programme of International Mobility

In 2008, Banco Santander Totta, represented by the Chairman of the Santander Group, D. Emilio Botín, subscribed an important and innovatory "Programme of Portuguese-Brazilian Santander University Student Grants", the largest programme of Portuguese-Brazilian mobility existing in Portugal.

In 2011, the programme of international mobility, via the programmes of Portuguese-Brazilian and Iberian-American grants, provided opportunities to 170 students of 12 private and public Portuguese higher education institutions to enjoy a mobility experience in Brazil or in a Latin American country.

Approximately 300 scientific and merit prizes were awarded in 2001, of which the most prominent were:

- **Santander Totta/ Lisbon New University Scientific Merit Prize** (aims to distinguish research projects developed by young researchers);
- **University of Coimbra Santander Totta Prize** (this is a 25 thousand euro prize that rewards an individuality with an outstanding scientific or cultural career);
- **University of Lisbon Santander Totta Prize** (this award distinguishes and rewards, with 25 thousand euros, an individuality with Portuguese nationality, whose scientific and/or cultural work have received recognition for its merit and notably contributed towards the progress and enhancement of science and/or culture and to the country's international projection);
- **UT/ Santander Totta Scientific Prize** (the objective of this prize is to provide visibility to scientific research activity and encourage the practice of publishing results in good quality magazines. The 2010 edition distributed 13 prizes and 25 honourable mentions);
- **UTL Santander Totta Prize for Best Students** (these prizes aim to reward the 2nd year students of Lisbon Technical University who have distinguished themselves in the context of their global training in the scientific, academic, cultural and civic activities);
- **UBI/Santander Totta Scientific Prize** (this prize aims to distinguish UBI's researchers/teachers who have evidenced outstanding scientific merit in the last three years in the scientific areas of the five faculties);
- **Economic Journalism/ Lisbon New University Prize** (The 5th edition of the EJP has now been completed. This is a joint initiative of Santander Totta and Lisbon New University, which aims to recognize the best three journalistic works: company and business management, financial markets and, a novelty in this edition, entrepreneurial sustainability. The "Grand Prize" was awarded to the work "They reached the top but are neither doctors nor engineers", in category "company and business management". In the "financial markets" category the prize was awarded to the article in *Jornal de Negócios* "Company results always seem acceptable", by journalists André Veríssimo and Paulo Moutinho. In its turn, in the category of "entrepreneurial sustainability", the award went to article "Life in the Large Dams", by journalist Alexandra Correia, of *Visão* magazine);
- **Primus Inter Pares Prize** (the Primus Inter Pares Prize, launched in 2003 by Banco Santander Totta and

Expresso newspaper, and that has the support of the Manuel Violante Foundation since 2010, through McKinsey, once again awarded the three best university prizes in the country in the Economics, Management or Engineering courses. The winners of the 8th edition of the prize were, in the first place, José Salgado, a Management graduate by Lisbon New University and with a Master's degree in Finance from ISCTE; placed 2nd and 3rd, respectively, were Maria Fernandes, a graduate in Economics by Lisbon New University and a Master's degree also in Economics from Portuguese Catholic University, and José Alguém, with a graduate and a Master's degree in Management from Lisbon New University. The winners will have the possibility of taking an MBA course in a prestigious university, such as INSEAD, IESE, IE Business School, ISCTE, ISEG and The Lisbon MBA. Should the MBA be obtained abroad a 7500€ grant will also be awarded).



- Santander Totta/House of Latin America University Programme** (the objective of the University Programme Santander Totta/House of Latin America is to reward merit and encourage the training of Latin American university students in Portugal, contributing towards a culture of rigour and excellence. It comprises a scientific prize, with two categories, one being Social and Human Sciences and the other Technology and Natural Sciences and two annual university grants. The prize consists of the award of 5 thousand euros to each of the prize winners in each category. The grants consist of the payment of accommodation, for one year in the City of Lisbon Foundation university residence to Latin American students taking a masters' degree. The 2011 edition had approximately 40 candidates, the winners being Brazilian students Marcus de Martini and Ricardo Pereira, of the prizes in category Social and Human Sciences and in category Technology and Natural Sciences respectively. The jury also considered as outstanding the doctorate thesis of Brazilian student Mariana Bay Frydberg. In this edition, grants were awarded to Juliana de Souza Guimarães and Carolina da Costa Santos, also from Brazil).



Universia

In 2011, Universia updated the strategic bases of its Master Plan, guiding it towards collaboration between university and business enterprises, employment for university graduates, dissemination of knowledge and the future of higher education. The objective is to institute links between the university and business enterprises, positioning lecturers as agents of entrepreneurial change and encouraging a direct relationship between talent and employment, aiding the search for first employment.

The Universia network developed several initiatives for collaboration, amongst which a support for the competition "Count on Us" undertaken by Santander Totta with the objective to reward the best works in the areas of music, writing, video and education. In the beginning of the new school year it supported the Division of Portuguese Universities during the matriculation campaign in the issue of the TUI card in 26 universities. It also subscribed an agreement with a mobile telephone operator which allowed students to benefit from more favourable tariffs.

The Employment and Entrepreneurialism Virtual Exchange (BVEE) became available for the whole year and since November 2010 until November 2011 offered more than 1,800 positions of employment. The Exchange also opened a new area intended for volunteering work.

In 2011, Universia set up a sole employment platform, common to all universities, allowing a more effective and efficient share of information.

Project Netversia distributed 130 portable computers to 65 university libraries that can be used free of charges by lecturers and students.

In 2011, Universia launched the Innoversia Site in Portugal and efforts were made to bring together national researchers. The site was set up to bring together companies that need innovatory solutions for their research requirements and the researchers, scientists and qualified persons that are able to develop these. It also initiated a training cycle directed towards vice-chancellors, directors, managers and other officers of Universities included in the network. The 1st edition of these executive seminars took place in May, in Miami, whose main theme was "Institutional Leadership and Development", and was able to bring together more than 70 university representatives from 15 different countries.

Universia Portugal developed the 2nd edition of the Fotouniversia competition and the 3rd edition of the U>Rock Universia intended to capture new talents and to develop participative and creative activities between young university students.

In 2011, collaboration covenants were subscribed with the Institute of Higher Military Studies and with the Setúbal and Porto Polytechnic Institutes, resulting in Universia being the representative of approximately 70% of the national Portuguese higher educational collective body: 279,255 students, 22,603 lecturers and 27 higher education institutes.

Social Solidarity

“Bring Around” Programme

The “Bring Around” programme is organized by Entreatajuda (social solidarity institution intended to support other institutions in organization and management, with the aim to improve performance and efficiency), in partnership with the Association of Portuguese Banks and the Catholic University, aiming for greater efficiency and improved capacity to require the needs of the less favoured families.

Santander Totta joined the “Bring Around” programme to enhance the capacity of the participating social solidarity institutions to access the micro credit financing lines, as well as attending to and communicating with families requiring attention.

Santander Totta makes micro credit available through a covenant subscribed with the Institute for Employment and Professional Training (IEFP), within the “Line of Support to Entrepreneurialism”, as well as existing covenants with several Municipalities comprised in the FINICIA Programme, coordinated by the Institute for the Support of Small and Medium Sized Enterprises (IAPMEI).

Red Nose Operation

During the week “You Are Santander”, the Bank’s staff collects funds to bring some happiness to children in hospital care, through clown doctors. In one sole morning 20,000 ‘red noses’ were sold by staff from central departments and commercial network, with sufficient funds to finance two clown doctors in several Portuguese hospitals for one year.



Everyone’s Bread

Santander Totta in partnership with CAIS (Association for the Support of the Homeless and to the Needier Population) organized, for the 8th consecutive year in Lisbon and 2nd in Porto, this social solidarity event which is already considered a tradition of the Christmas festivities in these two cities and a successful volunteering project promoted by the Bank.

Under the theme of this edition, “Sharing Bread with Others is Ageless”, inspired on the “European Year of Aging and Solidarity Amongst Generations”, which will be celebrated in 2012, more than 400 volunteers from the Bank’s staff baked and distributed bread, together with hot chocolate and good feeling, to all those that visited the “Everyone’s Bread” tent.



“Solidarity Flame” Campaign

The Bank subscribed a covenant with the Portuguese Cancer League, within the scope of the commemorations of the 70th anniversary of this institution, which resulted in the launching of the “Solidarity Flame” campaign.

For each new user of the Bank’s Facebook page, a “Solidarity Flame” was handed to the League that corresponded to 0.50€. At the end of the initiative the value resulting from the new fans amounted to 10,389.50€, which the Bank increased to reach a final value of 20,000€ awarded to the League.

Collecting Foodstuff for the Food Bank

Following the renewed appeal from the Food Bank Against Hunger, faced with an ever greater demand from needy families, the collecting of foodstuff was again elected as a solidarity objective. The Bank’s Human Resources Department proposed to the staff that they should purchase 1€ tokens or 5€ baskets for the purchase of basic foodstuff, intended for the needy families aided by the Food Bank.



Christmas in a Shoebox

Due to the success reached in the two previous editions, the solidarity initiative "Christmas in a Shoebox" was launched for the 3rd consecutive year.

The challenge made was simple. Staff that took part in the initiative gave a shoebox to each of their own children and suggested they should fill it with the presents they would like to give to a boy or a girl with the same age. This allowed, in a very simple way, to bring a little bit of happiness to children and youths that live in sheltering homes.

Half Marathon and Mini Marathon Sport Zone/Santander Totta

The cities of Porto and Vila Nova de Gaia welcomed the 5th Sport Zone marathon and the Santander Totta mini marathon, which were once again sponsored by the Bank. There were approximately 400 of the Bank's employees and 8,000 participants in the contests. From its very beginning the contests promote social content supporting social solidarity institutions. The Vítor Baía Foundation was the institution supported this year.



Campaign with the Red Cross

Santander Totta established a partnership with the Red Cross through which the Bank, for each "Growth Account" opened (a monthly allowance account intended for children from birth to 13 years of age), offers a gift to a child in a vulnerable position supported by the Red Cross. The campaign was based upon a sharing concept and anticipated the Christmas season, endeavouring to sensitize children and their families to the fact that, in addition to the importance of saving, it is necessary to know how to share, above all with children in greater need.

Institute of Social Entrepreneurialism (IES)

Santander Totta is a founder member of the IES, which arose from a partnership between a group of social entrepreneurs with INSEAD and Cascais County Council. Its intent is to support social entrepreneurs strengthening the impact of their initiatives to provide answers to the growing social and environmental challenges.

Mutual Aid Covenant

Santander Totta and Mutual Aid subscribed a covenant that foresees the handing over of pictures from the Bank's artistic heritage to the institution for these to be later distributed among other social support institutions.

Higher School of Agriculture (ISA) Solidarity Project

ISA students, with the support from volunteers from the Bank's staff, harvested two hectares of chick peas, planted by the faculty's students, to be distributed by the Food Bank Against Hunger, an initiative included in the "Provide Solidarity" project.



CEBI Foundation

Santander Totta is a founder member of the CEBI Foundation since 1995 and supports this private institution for social solidarity, taking part in its Founder's Assembly and represented in its Board of Directors. The main activity of this institution is the promotion of education, covering 1,600 students, from infant care to 9th year of schooling. Some 400 of these benefit from grants and social promotion.

Environment

Green Festival and Everything is Connected Conference

Santander Totta sponsored the 4th edition of the Green Festival, within the scope of which it organized the 3rd conference "Everything Is Connected – Sciences, Arts, Knowledge, Complexity and Cooperation". Under the theme that all is interconnected it brought together renowned individualities in Science and Humanities, amongst whom the psychologist, consultant and specialist in emotional intelligence and leadership Martyn Newman.

In addition to the usual stand, where the Bank promotes products and services related with the protection of the environment and animation through several challenges, draws and pastimes, as a means to sensitize visitors to environmental issues, the Bank organized the circuit "Santander Totta – Efficiency Prize" and invited all the visitors to drive an electric car efficiently, thus bringing to mind the challenges of energy efficiency which we must all consider.



Campaign for reducing consumption

Within the scope of its energy efficiency plan Santander Totta launched an internal campaign with the topic “give the planet a pause”, which intends aiding the reduction of energy consumption and the emission of greenhouse gases, again calling to mind what each one can carry out for this objective to be achieved..

There are several measures currently implemented or in process. The installation of presence detectors to control lighting, the installation of regulatory systems that adjust internal lighting in accordance with external sunlight and the installation of a vinyl film on the southern façade of the central building are instances of measures to reduce consumption.

Data-Centres also have free cooling systems in operation that allow, especially in winter, reduction of consumption, and photovoltaic plants have also been installed in several branches and are foreseen in the plans for new facilities.

The first results in the measurements of consumption have been very positive, with reductions of energy consumption in all the Bank’s buildings, as well as in the majority of its branches.

Culture

Estoril Conferences

The Bank was the main sponsor of the 2nd edition of the Estoril Conferences based upon the topic “Global Challenges, Local Answers” that had the objective of creating a nucleus of international reflection on the challenges of globalization, focusing mainly on the debate over and the search for solutions over the global themes that affect local dynamics.

Present amongst the speakers were internationally renowned names such as Mohamed Elbaradei, Nouriel Roubini, Dominique de Villepin, Larry King or Francis Fukuyama.

More than 150 customers of Santander Totta’s several business areas were invited to take part in these conferences, as well as in the side events, with round

tables and workshops on sustainability, ethics and leadership.



Financial Literacy

Santander Totta, through the Shareholder’s Office, was present in Infovalor 2011 – III Savings & Investment Fair.

The aims of the Fair were to promote saving, make known the various options of investment, contribute towards a better awareness of risk levels and returns of the several applications and increase trust between customer and institution.

“Limitless Mathematics”

With the support of Santander Totta, the Mathematics Department of the Faculty of Science of Lisbon University organized, during the first half of 2011, a fortnightly open cycle of lectures open to the public.

The main objective of the lectures, “Limitless Mathematics”, was to show, somewhat attractively, but with the necessary rigour, how Mathematics is a ‘limitless’ subject, covering differing areas of science and culture, and thus providing a deeper understanding of the world that surrounds us.

National Conservatory Ballet School

Within the promotion of culture, Santander Totta supported, for the third consecutive year, the Ballet School of the National Conservatory (EDCN), through sponsoring the final annual performance of the students of this school.

Sintra Festival

In the 46th edition of the Sintra Festival, Santander Totta again sponsored this great artistic quality event, nationally and internationally renowned, and a reference of the Portuguese cultural scene. The Bank sponsored the performance “Leslie Howard with the Gulbenkian Choir” that took place in one of the most beautiful halls of the National Palace of Queluz. Company Area, Institutional, Private Network and Business customers were invited to attend the show.

Arts Festival

The Quinta das Lágrimas in Coimbra staged the 3rd Arts Festival, organized by the Inês de Castro Foundation, and dedicated to "Passion". The festival comprised numerous forms of artistic expression: music, painting, theatre, literature, cinema and photography. Banco Santander

Totta sponsored the gastronomy cycle, with the presence of several renowned chefs, and the concert by the Gulbenkian orchestra with conductress Joana Carneiro, inviting customers to attend the events.

Business Environment

International Economy

Economic activity, in 2011, suffered a relatively general slowdown, a trend that became especially pronounced in the second half of the year, with the deterioration of the euro zone sovereign debt crisis, resulting in this economic area ending the year in a recessive situation.

The slowdown started to become evident immediately upon the beginning of the year, when the impacts of the stimulus measures adopted in 2009/10, during the economic and financial crisis, commenced evanescing. At that time, however, the world economy kept to a fairly solid growth rate, with homologous variation rates above the long term trends.

In the second quarter of the year the slowing down signs became more pronounced, also as a result of the adverse impacts caused by the terrible earthquake in Japan, with material and human damages that affected the production of many Japanese companies and subsequent export capacity, and with contagious effects on the world economy. As a consequence, Japan again entered into recession with its GDP contracting 2.7% in the first quarter.

World Economic Growth			
	2009	2010	2011
World	-0.7	5.3	3.9
Advanced Economies	-3.7	3.2	1.6
USA	-3.5	3.0	1.7
Euro Area	-4.3	1.9	1.4
United Kingdom	-4.9	2.1	0.7
Japan	-6.3	4.4	-0.7
Developing Countries	2.8	7.5	6.2
Africa	2.8	5.3	5.1
Asia	7.2	9.7	7.8
China	9.2	10.4	9.2
Central and Eastern Europe	-3.6	4.8	4.9
Middle East	2.6	3.5	4.2
Latin America	-1.7	6.2	4.5
Brazil	-0.6	7.5	2.7

Source: IMF (April 2012)

The trend would become more pronounced during the third quarter of the year. Even if this slowdown in the Summer's activity is already a regular pattern in the annual cycle, the steepness of the downturn brought about deeper fears that the world economy would be in

the process of entering another recession, a sentiment that was stronger in the USA.

The more reduced level in economic activity continued throughout the fourth quarter of the year, with implications for 2012, with a weaker starting point for the creation of wealth than had been previously estimated.

The intra-regional dynamics of economic growth was in line with that of prior years. Emerging markets continued to drive the economy, although slowing down as compared to 2010. In Latin America the economy will have grown at a rate lower than its medium term trend, with a bigger slowdown in Brazil.

In Asia, in spite of the deceleration, the economy will have largely converged towards its respective medium term trend, China standing out by overtaking the euro zone in 2011 as the world's second largest economy. China maintained relatively solid growth rates in spite of some volatility, and without a pronounced effect from the adverse shocks caused by Japan's earthquake. At year's end some of the initial fears relative to growth being sustainable were reduced, insofar as the deceleration in the economic activity was less pronounced than expected. Even so, the Chinese authorities adopted a number of measures intended to support activity, including the reversal of some of the increases in the cash reserve coefficients implemented in the first half of the year (from 19.5% to 21.5% and later to 21.0%)

In the USA activity was substantially lower than expected in the first quarter, an evolution that became more pronounced by the downward revision to the growth rates of the past few years. Growth was seen to recover in the next quarters and the resulting higher estimates for 2011 removed the pre-recessive scenario that had governed the sentiment of investors during the Summer, with special reference also to the trend affecting the employment rate which was starting again to increase, once the effect of contracting temporary employees for the Census had been dissipated. As a result, families, during that period, kept to low levels of expenditure, thus contrasting with prior stages of recovery, and confidence was also kept at much lower levels.

Economic data relative to the last quarter of 2011 showed acceleration in activity, particularly pronounced at the end of the quarter, which was accompanied by a decrease in the employment rate to the lowest levels reached since 2008.

Within this framework, the Federal Reserve kept its reference interest rates unaltered, at the historical minimums set in 2008 and, within the new communication strategy, stated that this situation should continue until mid 2013 (previously the commitment was that interest rates would be kept at minimum rates during a prolonged period of time).

This change in communication, with a formal announcement of a time reference, aimed to anchor investors' expectations, and was adopted as an alternative to a new programme of acquisition of public debt ("Quantitative Easing"), the second stage of which ("QE2") was concluded at the end of the 2nd quarter of 2011. On this date, attending to the signals of the slowing down of activity, which materialized with the review of lower growth projections by the monetary authority, there were expectations that an extension to the programme could be instituted or that a new programme of quantitative measures would be announced, which however the Federal Reserve removed due to the resulting lower risks for the economy.

In the euro zone the economy maintained very high growth rates during the first quarter, but with significant differences between the countries. Germany had the most dynamic economy and, in the 1st quarter of 2011 even grew at a rate higher than in 2000, due above all to exports, benefiting from the dynamics of the world economy, especially those of the emerging markets. In spite of the lowering in the unemployment rate, private consumption continued weak.

	GDP	Inflation
Euro Area	1.4	2.7
Germany	3.1	2.5
France	1.7	2.3
Spain	0.7	3.1
Italy	0.4	2.9

Source: IMF (April 2012)

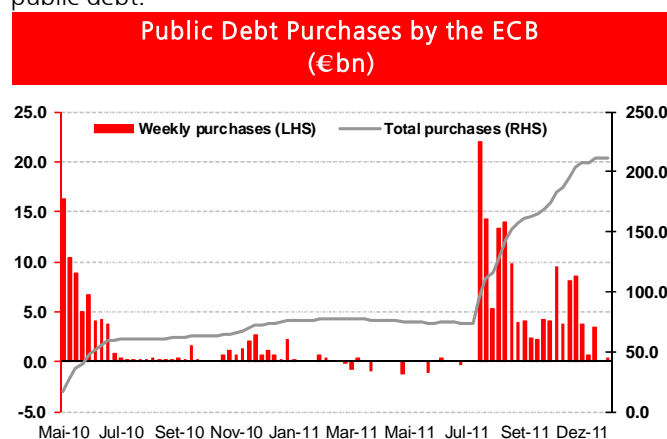
Due to the worsening of the sovereign debt crisis growth began to decelerate from the second quarter on, with virtual stagnation in 3Q2011 and with signs that the whole of the Monetary Union would have ended the year in a recessive situation, which could become extensive, in line with the more recent estimates, to the first months of 2012.

The pressures associated to the sovereign debt crisis in the euro zone continued very strong, with two moments outstanding. The first occurred in March/April, with Portugal requesting financial aid within the scope of the European Financial Stability Facility, after the Portuguese parliament refused the update of the Growth and Stability Programme.

The second moment took place already in June/July, with the assessment of the Greek programme and the need for action to avoid the risk of non-compliance from 2013 onwards. The peak of uncertainty was the "contagion" to Spain and Italy, with a pronounced increase in market interest rates, although inserted in a frame where the sovereigns and remaining issuers of these countries maintained access to the financial markets. France would also be affected, with some rating agencies threatening to remove the maximum "AAA" notation, which would be materialized by Standard and Poor's already in January 2012.

Italy reacted, presenting a programme of reduction in public expenditure, with the explicit objective of showing a global balanced situation in 2014. Additionally, under heavy pressure, Prime Minister Berlusconi resigned and was replaced in his office by Mario Monti, leading a technocratic Government empowered to implement measures for budgetary adjustment, and with wide support in both chambers of Parliament. In Spain, the Government of Rodriguez Zapatero announced new measures of budgetary containment and anticipated general elections for 20 November, which returned a majority to a Government led by the Popular Party (PP). After taking office, and already in 2012, the Government announced a new plan for the reduction of the budget deficit, the value of which for 2011 was reset at a higher level, from 6% to 8.9% of GDP.

The sovereigns kept their access to financing, even if at high interest rates, with Italian yields largely overtaking 7%, which led the ECB to a new wave in its Programme of Debt Markets, within which it mostly acquired Italian public debt but also, even if at a lesser degree, Spanish public debt.



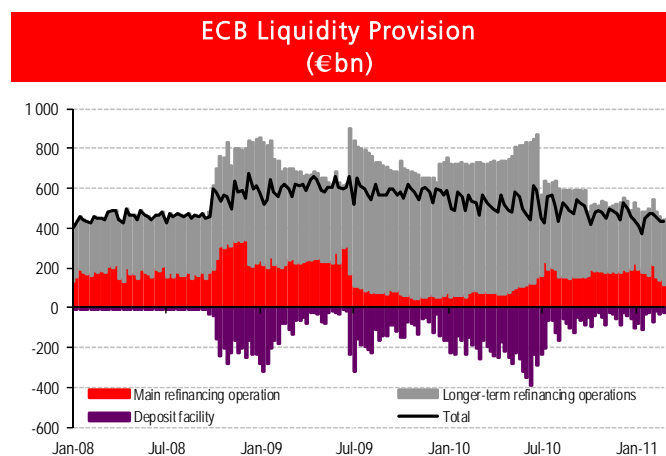
Source: ECB

The ECB's answer to economic and financial developments in the second half of the years was wider. In the two final months it lowered the refinancing rate, recovering the 1% level, and thus cancelling the two rises occurred during the Summer. The worsening of the

economic environment within a framework of high but stable inflation, and the lower growth reviews for 2012 provided the necessary margin for the ECB to take these decisions.

More important were the measures intended to support the operation of the European financial markets, specially the banking market. The worsening of the debt crisis in the Summer resulted in the lack of access to short term markets, such as the commercial paper market in the USA, by French and Italian banks which, as a result, resorted more actively to the ECB.

As such, the ECB announces, in November, two very long term lending facility operations (up to 3 years, with the option of anticipating repayment after the 1st year). In the first operation, European banks made ample use of these funds, amounting to 489 billion euros, which, in a large measure, are being deposited with the ECB. According to the Chairman of ECB, Mario Draghi, these funds were procured especially by banks with greater debt repayments in 2012, and thus endeavoured to find alternative means of financing, avoiding the need for greater deleveraging and, in particular, the risks of sudden deleveraging, which could have deeper economic impacts.



Source: ECB

Additionally, the ECB announced a widening of the set of eligible assets for use in liquidity lending facilities, through the reduction of the minimum rating accepted for securitizations, to A-. At the beginning of 2012, the ECB should announce additional measures related to the use of credit rights as collateral by the banking sector.

European authorities have also held several meetings during the Euro summits but, in the market's view, their decisions were more reactive than active, which increased the uncertainty related to political risk, and that was one of the most relevant issues during the period of heaviest pressure, in the Autumn of 2011.

The Euro summit held on 21 July, approved a new plan of aid to Greece, amounting to 109 billion euros, and which also involves the private sector, on a "voluntary" basis, the total of which was initially estimated at approximately 50 billion euros. This participation consists of the exchange, immediate or at maturity of the securities currently held, by new 30 year maturity debt issues, at the current market price (which already presupposes a loss), of which the nominal value is guaranteed by public debt with an "AAA" rating: Final agreement was only reached in February 2012.

The ICAP Market Committee announced that this voluntary debt exchange would not be a "credit event", that would activate the credit default swaps, but the rating agencies lowered the Greek rating notation and announced they would place the sovereign at the "selective default"/"restrictive default" level, during the debt exchange period.

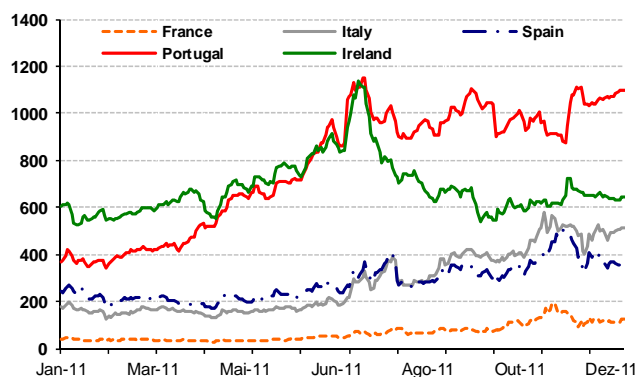
European leaders equally approved an extension to the maturity dates of the loans, up to a maximum of 30 years, and the lowering of the interest rates being practised, up to 200 bp. These last decisions are already applicable to Portugal and Ireland, constituting an aid to the process of budgetary consolidation, especially through the dynamics of the public debt.

In the Euro Summit held on 9 December, the authorities acted more proactively, with an agreement accepted by 26 countries (the United Kingdom did not agree to take part in a framework of greater budgetary cooperation), within which a New Pact is established through an intergovernmental treaty, whereby the countries strengthen integration of budgetary policies. Additionally, the coming into force of the Financial Stability Mechanism was anticipated to July 2012, when this had been foreseen to take place in July 2013.

Financial markets remained highly volatile with credit spreads reaching historical maxima of the post-Euro period in the Autumn, when the uncertainty over the sustainability of the euro zone reached its climax. At the end of November, on the eve of the decisive Summit, the specialized media commented that the end of the euro was nigh, in its current form.

Portuguese spreads as compared to Germany reached a peak in the Summer, when the theme of debt renegotiation was beginning to be heard and Portugal had not yet reached the beginning of its adjustment programme, when it was being felt that the a restructuring of the debt could be requested. The evolution of the Irish spreads had been very similar, but these had decreased substantially since the end of Summer, with signs of economic recovery and the topic of the resolution of the insolvent Irish institutions coming off the reach of the highlights.

10 Year Bond Yield Spreads (bp)

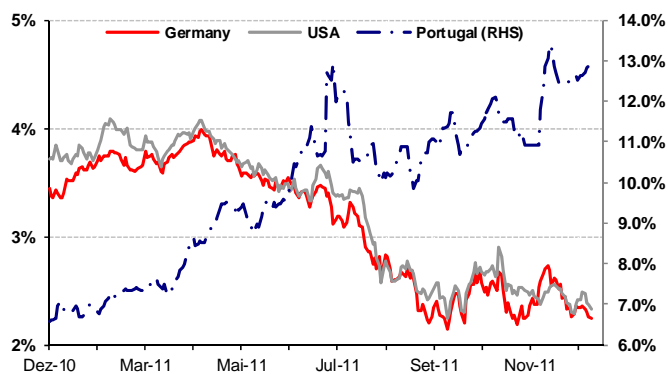


Source: Bloomberg

The sights of the investors, as commented, were focused on Italy and, at a lesser degree, on Spain. The political developments in the third largest European economy, which peaked with the resignation of Prime Minister Berlusconi, accentuated the increasing rate of the spreads, in face of fears of a formal aid request, thus placing 10 year spreads at 500bp as compared to Germany.

Spanish spreads suffered a less pronounced increase, ending the year below 400bp, although having tentatively reached the 500bp level in the Summer, which could have resulted in an increase of "haircuts" applicable to the Spanish debt in repurchase agreements settling through Clearnet.

10 Year Bond Yields



Source: Bloomberg

In their turn, German yields, as well as North American, witnessed new minimums within a framework of aversion to risk and flight to quality. The German 10 year yield ended the year at approximately 1.8% (thus implying a negative real yield).

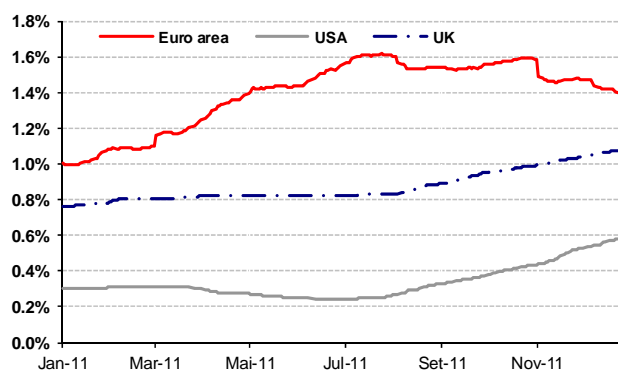
In the USA the evolution of the long terms interest rates was not much different. In spite of retreats in the

reduction process of budgetary control, without a Congressional agreement, and which resulted in the loss of the S&P "AAA" rating, expectations that the Federal Reserve would continue supporting the market through the acquisition of public debt in the secondary market, and the demand from non-resident investors, yields fell to approximately 1.8% minimums.

In turn, short term interest rates increased, although ending the year with different dynamics. In the euro zone, the removal of the increase in reference interest rates by the ECB at year end resulted in a decrease of the 3 month Euribor to approximately 1.3%, compared to the 1.6% maximums seen during the Summer, when new increases in the refinancing rates up to approximately 2% were still being anticipated.

In the USA, rates increased later in the year with the signs of recovery in economic activity, in spite of the Federal Reserve's commitment to maintain rates unaltered until 2013.

3-Months Interest Rates

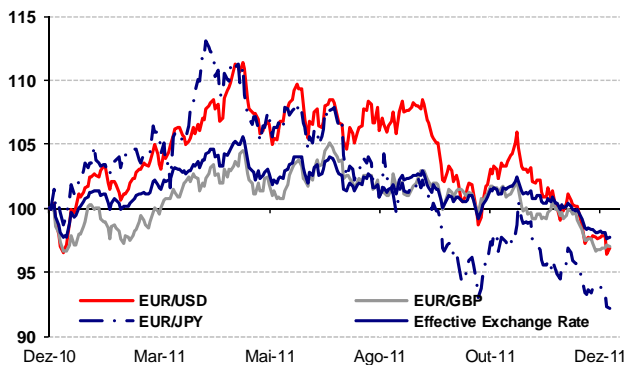


Source: Bloomberg

The evolution of the main exchange rates reflected in a large measure the dynamism of the actions of the central banks and the movements associated to the developments caused by the euro zone debt crisis.

The euro/dollar rate would come down to 2010 minimums, lower than 1.3 dollars per euro, after having registered maximums above 1.48 dollars in May, when the ECB was in the full cycle of increasing the reference interest rates. This trend would be reversed during the Summer, with the worsening of the debt crisis and the fears of the demolition of the Monetary Union. The aversion to risk associated to these developments resulted in the devaluing of the euro also in relation to the yen and the pound sterling. In relation to the yen, at the end of December, the euro was quoted at a minimum of more than 10 years ago, at less than 100 yens per euro.

Main Exchange Rates (Dec-2010 = 100)

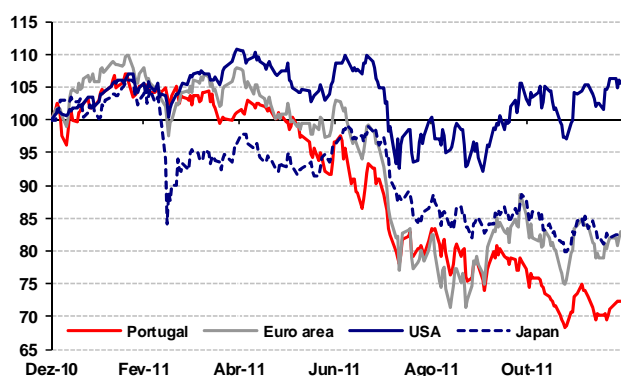


Source: Bloomberg

Equity markets devalued, as a result of a greater risk aversion, accentuated by developments in Europe, as well as by the progressive signs of deceleration in economic activity. Only in the USA would the markets close on a positive basis, a repeat of the 2010 evolution, due to the signs of regeneration of economic activity during the second half of the year.

In the euro zone, the financial sector was particularly affected, due to the result of the stress tests carried out by the European Banking Authority – EBA, in the Summer, and which resulted in increased capital needs, in addition to the objective of complying with a Tier 1 core ratio of 9% in June 2012, due to the requirement for the creation of an additional buffer to insulate equity capital from potential losses resulting from the exposure of the banks to the sovereign debt¹.

Equity Markets (Dec-2010 = 100)



Source: Bloomberg

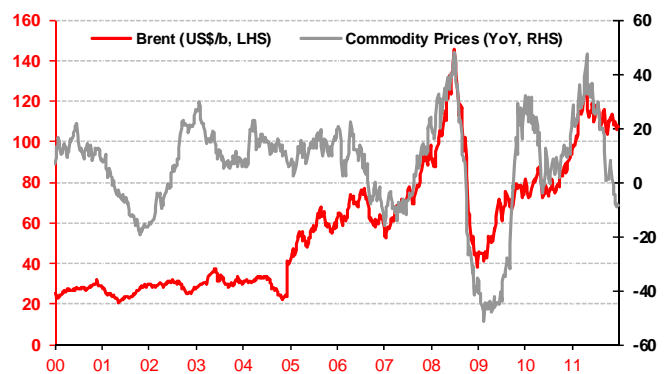
In accordance with EBA, European banks require 114.7 billion euros, of which 39.4 billion are intended to set up the sovereign debt buffer.

¹ Exposure to the sovereign debt includes, in addition to the position in public debt at 30 June 2011 (assessed at 30 September 2011 market prices) the credit portfolio of General Government bodies and State owned companies.

The evolution in raw material prices reflected in large measure the growth dynamics of the world economy. Primarily, at the beginning of the year, most raw materials recorded an increasing trend, to the highest levels since 2008, as was the case with oil.

The acceleration of economic activity fed the expectations of a greater growth in demand. As a result, oil, for instance, recorded an increase in price to US\$120 per barrel, and it was generally accepted that new maximums would be reached. However, the larger deceleration in the activity, which became greater from the second quarter onwards, would be reflected in a decrease in prices, which closed at approximately US\$110 per barrel at year end.

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



Source: Bloomberg

The remaining commodities followed a not very dissimilar trend, whether in the case of cereals or in that of basic metals. The decreasing trend was more pronounced in the second half year, in line with the global trend in the slowing down of activity.

Only gold stood out, again due to its role of active refuge in a framework of high aversion to risk, which reached its peak at the end of Autumn, due to the already referred fears as to the sustainability of the euro zone. On that date gold reached an historical maximum of US\$1,921 per oz. The more active intervention of the European authorities would reverse this trend, with gold retreating to US\$1,550 per oz.

Portuguese Economy

The financial environment of the Republic controlled attentions during the whole of the first half year. In spite of the disclosure of the budgetary data that validated the reduction trend of the budget deficit in line with the objectives laid down in March, the Government presented an update of the Programme for Stability and Growth (‘‘PEC IV’’), with new measures relative to expenditure for

2011 and details concerning the measures for complying with budgetary targets in 2012 and 2013 (year in which the deficit should fall to 2% of GDP).

This update of the PEC was rejected by Parliament, after which the Prime Minister offered his resignation to the President, who accepted it and called early elections to be held on 5 June. The perception by investors that Portugal was not fully committed to the reduction of the budgetary deficit resulted in a double trend: successive downgrading of the rating of the Republic by the rating agencies, to the notation limit of "investment grade", which was reflected in the banks' ratings, and an increase in the long term interest rates to the highest levels since the creation of the euro.

The early legislative elections held on 5 June resulted in the election of a new Government with a clear parliamentary majority. The PSD/CDS coalition controls 134 members of Parliament. PS, which became the largest opposition party, also supports the conditioning measures contained in the Memorandum of Understanding that it subscribed when Government. In spite of the ending of the negotiations and of the existing clear majority (in excess of 80%) that supports the adjustment measures, the financial framework for the Republic and for the financial sector remained much stressed.

Consequently, the access to the financial markets by the Republic and by the banks recorded a significant reduction, after which the Government, on 6 April, requested financial aid within the scope of the European Financial Stability Facility/IMF.

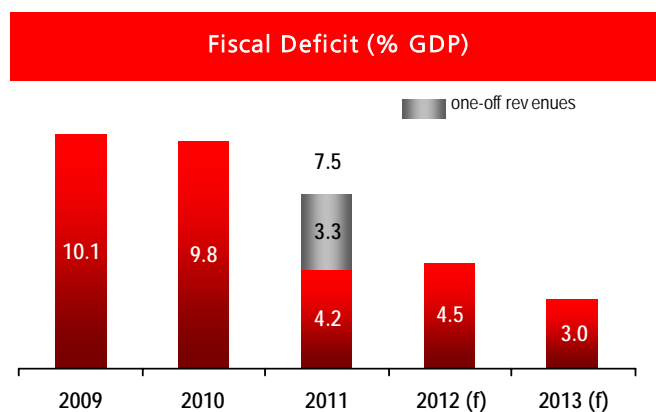
Negotiations between the Portuguese Government and the international institutions (European Commission, International Monetary Fund and European Central Bank) were concluded in May, and the Memorandum of Understanding, comprising the conditioning measures to be complied with, within the scope of the financial aid programme, agreed and subscribed.

The plan was established on an overall basis and aims at three main objectives: (i) increase the growth potential of the Portuguese economy, through an ambitious programme of structural reforms; (ii) restore the sustainability of the public accounts, through a reform of the public sector and of a wide process of cutting down public expenditure; and (iii) strengthen the resilience of the financial sector, through the reinforcement of capital equity and financial collaterals, within the scope of a process of deleveraging and financing to be implemented until 2014.

Within the structural reforms special regard is assumed by those relative to the labour market, with respect to the

reduction in dismissal compensation and review of unemployment payments.

The budgetary target for 2011 was reviewed upward to 5.9% of GDP, due partly also to the enlargement of the perimeter of consolidation of the Public Administration Bodies, which now includes several State owned companies in the transport sector and other public bodies. However, further reductions in expenditure were necessary, whilst with regard to revenue a special contribution was adopted in the case of the 13th month of salary in the income of individuals, equivalent to 50% of income net of Income Tax and Social Security in excess of 485 euros (minimum national salary).



Source: Ministry of Finance

The final value of the 2011 deficit will have been slightly in excess of 4% of GDP, with the greatest reduction resulting from the transfer of part of the pension funds of the banking sector to Social Security, an amount of approximately 5 billion euros (3.3% of GDP).

This transfer was necessary to cover new non recurrent costs, such as those related to the worsening of the budgetary situation of the Madeira Autonomous Region (with the literal insolvency of a road building Public Private Partnership and the assuming of past costs of the Regional Health Service), as well as the capital endowment of the BPN bank that is in the process of being privatized.

Excluding the non recurrent factors in both revenue and expenditure, the underlying budgetary balance estimated for 2011 would be approximately 6.9% of GDP.

To comply with the new budgetary target of 4.5% of GDP defined for 2012, the Government announced an additional set of measures, within which stand out the elimination of one to two subsidies (Christmas and holiday bonus) for public servants and pensioners with monthly incomes in excess of 600 euros (both subsidies are eliminated in the case of incomes in excess of 1,100 euros), and changes in direct taxes (reduction of personal

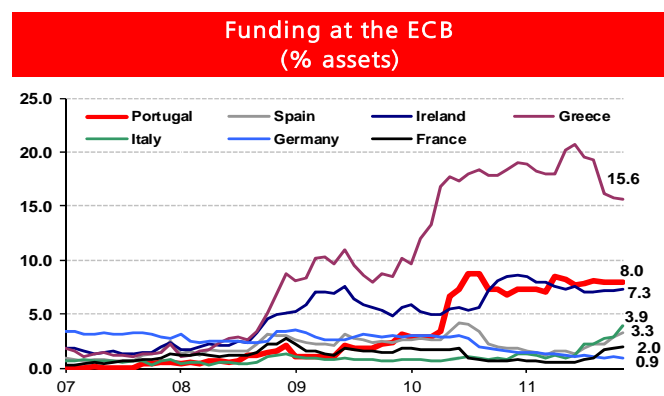
allowances and fiscal benefits in the case of Income Tax) and in indirect taxes (reduction in the number of goods and services subject to the reduced and intermediate VAT rates).

The financial sector benefited from the setting up of a re-capitalization fund, amounting to 12 billion euros, and from the increase in the line of State guarantees to the debt issue of 35 billion euros. As a counterpart, it had to design a deleveraging and financing plan, to be implemented until 2014. These plans were submitted to the Bank of Portugal at the end of July and are subject to quarterly updates.

Credit spreads widened to new maximum levels, with 3 year interest rates for the Portuguese public debt at times in excess of 20%. Even so, the Treasury maintained the issue of Treasury Bills with 3 month maturities, with average placing rates very near 5%.

Moody's downgraded the Republic's rating to Ba2, in the "high yield" level, due to the risks of contagion with the Greek situation, since there were no changes in the local framework, with Portugal having financing ensured under an adjustment programme and a parliamentary majority in support of the Programme.

The financial sector would also be the target of downgrading of the risk notations, with three institutions awarded a Ba2 rating, at the level of the Republic, but below "investment grade" and one with a Ba3 rating. Only Santander Totta kept a rating above that of the Republic, with a Baa2 notation.



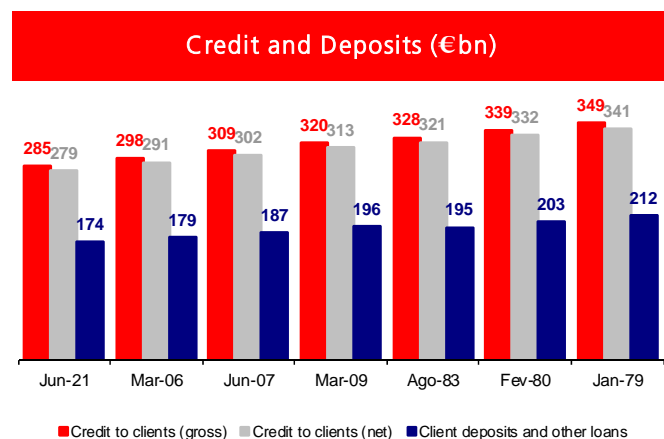
Source: ECB

In spite of the more adverse framework, insofar as downgrading and devaluation of the public debt reduce the value of the eligible assets, the financial sector maintained the amount of financing obtained with the ECB, at approximately 47.5 billion euros (below the 49 billion euros in April/May).

This situation resulted in a higher growth in deposits, including those of private individuals, inasmuch as banks

commenced a deleveraging process through the transfer of customer's resources in mutual funds and insurance to deposits.

This deleveraging strategy impacted on the evolution of interest rates practised by the sector, which climbed rapidly, to become some of the highest in the euro zone. To put a stop to a deposits war in the offing, the Bank of Portugal, at the end of the year, published legislation to penalize, in terms of regulatory capital, deposits with spreads above 300bp relative to the respective Euribor reference rates.

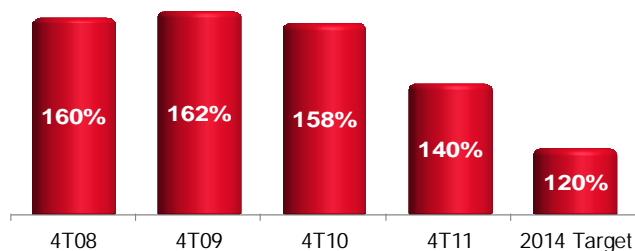


Source: Banco de Portugal

Credit continues to decelerate, due to a reduction in demand, related to the recessive economic environment, as well as due to the enforcement of more restrictive conditions relative to supply, and with credit spreads reflecting the deterioration of the access conditions of the banking sector to the wholesale markets and the increase in the interest rates practised for deposits.

Even so, deleveraging allowed a reduction in the credit/deposits ratio to 139% already in September, without a very pronounced reduction in credit. The banking sector endeavoured, in this process, to protect the productive sectors of the economy, with a more focused reduction in the mortgage and consumption segments that in that of enterprises.

Loan to Deposit Ratio



Source: Banco de Portugal

The quality of the credit portfolio worsened, as is shown by the more pronounced rise in the ratio of non-performing loans, especially in the corporate segment.

Within the scope of the measures of the adjustment programme, the banks had to publish a new ratio of credit at risk, in line with international practice, by including in addition to overdue credit the credit to become due and also restructured credits, in which a re-capitalization of interest had occurred without reinforcement of guarantees. In September 2011, the ratio of non complying credit was 4.5%, whilst the ratio of credit at risk was 6.8%.

The Portuguese economy entered into recession in the 1st quarter of 2011, with the second consecutive negative variation, an evolution that would deepen in the following quarters, although less pronouncedly than initially estimated.

In 2011, GDP suffered a 1.6% contraction, in accordance with the most recent information, lower than the initially estimated 2%, when the Memorandum of Understanding was published, and with a less adverse evolution arising from exports.

Macroeconomic Data

	2009	2010	2011
GDP	-2.9	1.4	-1.6
Private Consumption	-2.3	2.1	-3.9
Public Consumption	4.7	0.9	-3.9
Investment	-13.3	-3.6	-14.0
Exports	-10.9	8.8	7.4
Imports	-10.0	5.4	-5.5
Inflation (average)	2.7	-0.9	3.6
Unemployment	9.5	10.8	12.8
Fiscal Balance (% GDP)	10.1	9.8	4.2
Public Debt (% GDP)	83.0	93.3	107.8
Current Account Balance (% GDP)	-10.1	-8.9	-5.2

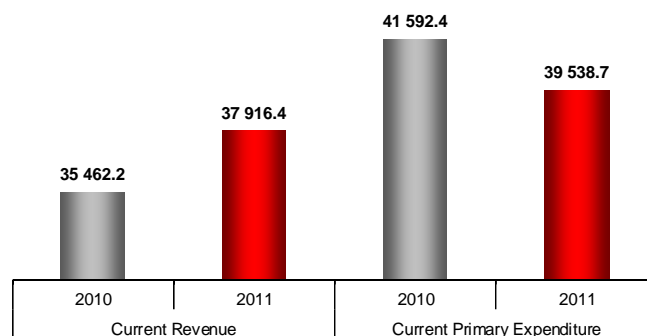
Source: INE, Banco de Portugal, Ministério das Finanças

Households continued adjusting their expenditure to the reduction of available income and the rise in unemployment (which rose to 14% in the 4th quarter of 2011), with retail sales falling by 9.4% in real terms, in the 4Q2011. Data relative to the Christmas shopping season points towards an approximately 3% reduction, by value, which will mainly reflect the sales discounts, since the number of transactions processed by SIBS (Interbank Credit Card Servicing Company) was practically unaltered.

The major adjustment of household expenditure was felt in automobile sales, which fell more than 30% in homologous terms.

Public expenditure continued being reduced, in spite of a slight moderation in the 2nd quarter, due to the electoral cycle.

Current Revenue and Current Primary Expenditure (€bn)



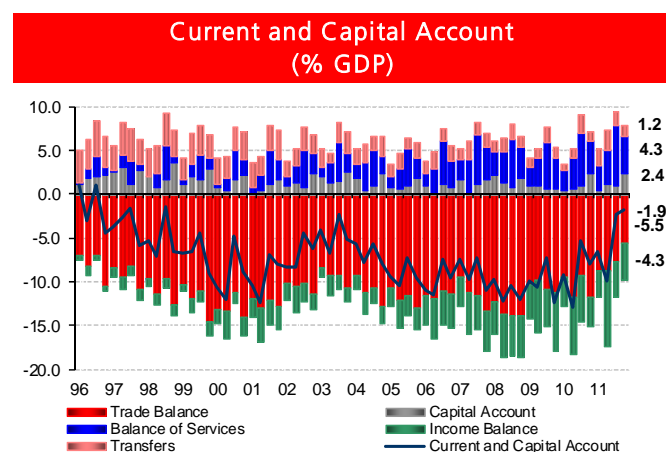
Source: Ministério das Finanças

Available information relative to the 2011 budgetary deficit, in terms of cash, shows that the reduction was largely explained by a lowering in the primary current expenditure, whilst revenue evolved favourably in spite of the shrinkage of internal demand. However, due to the non recurrent effects that penalized the budgetary performance in the first half year, it was necessary to recur to the transfer of the banking sector's pension funds to social security as a means to ensure the targets agreed with the international institutions.

Investment will have had a pronounced effect on the shrinkage due to the increase in uncertainty related to the request for external aid, and consequent impact on the reduction in demand, within the framework of economic adjustment in progress. On another hand, the worsening of the conditions in the financial markets will have resulted in more restrictive conditions in granting credit, which contributes additionally to the reduction in capital expenditure.

External demand continued evolving very favourably, with exports growing by 16%, in nominal terms, in the first ten months of the year. As referred, exports recorded a much stronger growth than estimated, especially considering the deceleration of the economy from the second quarter of the year onwards, showing general improvement in both product groups and export markets, which confirms the benefits obtained by the restructuring of the manufacturing sector in the latter years.

Imports fell, reflecting the greater fall in internal demand, especially in terms of private consumption.



Source: Banco de Portugal, INE

One of the main external imbalances of the economy, the external deficit, was pronouncedly reduced in 2011, a particularly visible trend in the year's second quarter, in the balance of payments of goods and services. The deficit in the current and capital balance of payments fell less, due to the adverse performance of the incomes balance, showing continuing high deficit, due to the increase in interest paid by the Portuguese economy, in a framework of high external indebtedness.

Main risks and uncertainties for 2012

The main risks and uncertainties that may affect the activity in 2012 are twofold, one international, the other domestic.

International risk factors are the economic and financial perspectives in the euro zone. Economic activity should continue recessive until the second quarter, due to the impact of the measures for budgetary consolidation implemented in several countries (Italy, France and Spain), which could also have contagion effects on Germany.

Budgetary performance in the first months of the years will be determining to remove the fears of a spiral of budget deviations that demand new measures and worsen the recessive scenario.

On the other hand, the uncertainty over the stability of the euro zone should remain high, at least until the economic and financial conditions in Greece are made clear. The agreement as to the restructuring of the debt should be implemented until the end of the first quarter and could be contagious as to market expectations that another country under adjustment process would have to adopt identical measures.

The expeditious subscribing of the new intergovernmental agreement resolved in the 5 December Summit and the coming into force of the new Financial Stability Facility, in July, should contribute towards the reduction in institutional uncertainty.

Still at international level, the uncertainty over the sustainability of public accounts spread to other countries, such as the USA. In spite of the recent decision over the increase in the debt limitations, the perspectives of a slow reduction in the deficit will remain a recurring topic affecting market feelings. The estimates for a stronger growth and low long term interest rates do not appear sufficient to prevent the dynamism of public debt to continue unsustainable, due to the very high primary deficits. The budgetary situation of States and municipalities is an additional risk factor.

Domestically, the main uncertainties are related to the strict compliance with the conditioning measures comprised in the Memorandum of Understanding, which will be the target of quarterly assessments by the international institutions. The Government strengthened measures aiming to comply with the budgetary target of 4.5% of the GDP for 2012, and should act at the level of expenditure immediately in the initial months of the year, in order to obviate possible risks related to the impact of the economic shrinkage on fiscal revenue.

In the financial sector the risks are linked to compliance with the targets established in the programme of deleveraging and financing. In 2011, deleveraging was carried out especially through capturing deposits. If this trend cannot be continued there is the risk of greater credit shrinkage. On another hand, the economic cycle will have an impact on non compliance and, consequently, appears as a risk factor for the compliance of the 10% target for the Core Tier 1 ratio in 2012, also considering that the national banks will have to cover the capital needs found within the scope of the effort test exercises carried out by the EBA.

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

Business Areas

Commercial Banking

Individuals & Small Businesses

2011 was a year when the commercial network was largely involved in the implementation of a new model of commercial management, named "READY". This model allows the setting up of commercial dynamics capable of answering a new context based upon a system that aims towards proactive commercial work guided towards current and potential customer requirements.

Santander Totta's main strategic priorities were kept essentially focused on capturing deposits, within the adequacy of the credit spreads and the control of the commercial gap.

In a recessive economic scenario, control of non performing loans became a fundamental day-to-day topic for the commercial teams.

In a framework of heavy competitiveness with respect to capturing deposits, Santander Totta made available a set of diversified products and solutions, materialized via the campaigns "Integrated Solutions", "Strategic Savings Solutions" and "Spring Growth Savings".

The "Integrated Solutions" campaign, launched in 2010, is based upon attractive savings products, such as "Triumph PPR" and the "Super Savings Idols" account, products related on the Bank's sponsorships of TV programmes. Already in 2011, the "Strategic Savings Solutions" (in euros and dollars) was launched, corresponding to traditional savings products with several maturities and yields, intended both for the capture and retention of resources.

During the 2nd quarter of 2011, the "Spring Growth Savings" campaign was launched, comprising a set of traditional medium/long term savings products, with diversified liquidity and yield features, amongst which the "Premium Yield Deposit" stands out, a 3 year term deposit with a minimum 4% TANB (Gross Annual Nominal Rate) that may have higher yields in the 2nd and 3rd year depending on the movements in the Euribor.

In the 3rd quarter the "Super Protection Savings" provided continuity to the "Super Savings Idols" campaign. This is an income and savings account that,

due to its features, was made very welcome by customers.

In the 4th quarter, due to market conditions and the limitations imposed by the Bank of Portugal, there was a slight fall in the rate of capturing resources; however the focus was maintained on traditional savings products.

With reference to campaigns and actions of capturing and binding customers, a campaign was launched in January named "Salary Solutions", to capture salaries/pensions, based upon the exemption of commissions on the main day-to-day services and on the offer of a wide selection of gifts of recognized labels. In April, this campaign was strongly supported by a communications campaign in the media, which included TV and external actions.

In December, yet another campaign was launched to capture salary domiciling, with gift offerings. Equally launched were campaigns and accounts specifically guided towards other segments, namely Youth/Juniors: campaigns "Growing Account", "Já Ká Conta" and "Special Youth TD", and for residents abroad.

In a continuing strategy to adequate the offer and services dedicated to the Premium segment, the Bank adjusted the segmentation criteria of these customers. As such, the adequacy of the offer to the features of this segment is more realistic and has the potential for an increase in their level of satisfaction.

Following on the above the "Premium Line" was launched, a welcoming communications line exclusively dedicated to Premium customers. Also extended, until the end of 2011, was the period of free adhesion of non financial services, Premium club and Premium by Time Management, thus favouring the increase in global experience that a Premium customer has with Santander Totta.

With reference to credit granted, the deleveraging effort of the banking sector, the generalized increase in spreads and the fall in the customers' confidence levels resulted in this period being marked by a heavy fall in the production volumes of home loans.

In this context several adjustments were carried out throughout 2011 to the spreads grid, aiming not just to reflect the higher costs of finance as well as increasing

the price differential as a function of the risk related to each loan.

Home loans diminished 2.6% in 2011, and a 5.9% decrease was also recorded in consumer credit.

In the Business segment, a strategy was kept to largely focus the capture of new customers, in the binding of current customers and in the increase in the carrying out of related transactions.

The Bank dedicated special regard to factoring and confirming, conquering a market share of approximately 20%. Also launched was the campaign "Business Customers 2011", with special focus given to "Super Business Account Plus", "Business Current Account Plus", "Salary Batch Payments", POS and GPC (Payments and Collections Manager), with gift offerings to new or reactivated customers.

Santander Totta strengthened its position as a company supporting Bank, as a result of great dynamism in the segment. The usual participation in the Expofarma (Pharmaceuticals Exhibition/Fair), in the health sector, is an outstanding feature.

In this business segment and considering the difficulties being faced by the economy, the Bank tried to set up preventive devices to minimize risks in non performing loans.

In the Private Banking area, the lack of confidence in the markets which was already being felt in 2010, was joined by a deep mistrust over the future of the Portuguese economic and financial situation, This, associated to the lack of liquidity in the financial system, increased still further customers' appetite for low risk and high liquidity assets.

Santander Totta's solid image and the commercial referencing action led to a 14% growth in new customers in Private Banking, without calling into question the effort in retaining based on the commitment to provide a service guaranteeing confidentiality, proximity and trust.

The offer continued evolving in the sense of providing availability of a large variety of products and services, in an openly designed model, towards which greatly contributed the linking with the Global Area of the Santander Group. As a result Private Banking grew by 10% in balance sheet resources and maintained its assets under management, in spite of the adverse performance of the markets.

In February 2012, the Bank was distinguished by Euromoney magazine as the best bank in Portugal in the Private Banking area, within the scope of "Euromoney's Private Banking Awards". The choice derives from "a

qualitative and quantitative analysis of private banking services by region and service areas", based upon profitability, asset management, customer relations and services provided.

Companies

The commercial strategy of the Companies' area, in spite of exercising control and diminishing the commercial gap, continued a sustained increase in the area's profitability. It maintained the programme of keeping the price of credit adequate to the scarcity of monetary liquidity and intensified the rational capture of resources. It should also be referred that investment continues in increasing new customers that value more than ever their partnership with a bank as solid as Santander Totta.

In the "SME Invest Lines", which have assumed, in the last two years, growing importance due to the world economic crisis and to the heavy credit restrictions practised by the banks, Santander Totta has kept up a policy of support for the Portuguese entrepreneurial sector, which is evidenced by the market share in the concession of such lines (approximately 18%) and in the placing of more than thirteen thousand operations amounting to 1.4 billion euros. It should also be noted that, in the 2nd quarter of the year, Santander Totta launched, in association with the official authorities, the Export Invest Line, intended to support export financing, namely to support the production of items with lengthy manufacturing periods.

These operations are exempt from all commissions usually charged by banks when formalizing credits, may be settled at any time without any related cost and have very appealing terms and conditions for entrepreneurs.

Following the closing down of the SME Invest Line VI, the official authorities launched the SME Invest Line VI Amendment (2nd Tranche), to which the Bank also became associated, and in which Santander Totta is the leader, having reached a 22% market share in the amount of credit granted.

The increase in the term of all the operations contracted under the Invest Lines and the introduction of a one year grace period was made possible in the 2nd half year; considering the credit restrictions that companies are facing at this time, this decision allows an improvement in their liquidity.

Throughout the year, Santander Totta promoted the renegotiation of the lines covenanted with different bodies with the aim to adjust the spreads, in order to reflect the changes occurred in the financial market.

Promoters and Brokers

With the objective to obtain profitable results from resources and uniformity in methodologies of accompanying and energizing various segments, restructuring was carried out in the commercial teams that are now simultaneously managing External Promotion and Promoter Shops.

Equally reinforced were initiatives that allowed greater proximity with partners, namely through providing performance prizes and additional campaign incentives in the quarterly road-shows, and merit prizes to the best external promoters that became distinguished due to their commitment with the Bank and to their performance throughout the year.

On another hand, the Bank's main strategic business variables were kept permanently in sight, through incentive plans and quarterly campaigns aiming to increase the capture of customers with salary accounts and resources.

Santander Totta was present, once again, in SIL – Portuguese Real Estate Exhibition, the year's main event of the real estate sector that for the first time, this year, took place simultaneously with another exhibition that covered an enlarged market sector, and which allowed to involve external promoters as well and to promote the Bank's savings solutions. It also took part in the conferences of the main real estate franchising brokerage networks.

Cards and POS

2011 stood out due to the overriding concern in capturing customers, in their growing binding and in the excellence of the services provided.

Several initiatives were taken throughout the year to achieve portfolio profitability and to promote the use of debit/credit cards. Through invoicing and revolving campaigns it was possible to reward the regular use of Santander Totta cards with gift offerings and discounts.

The above mentioned measures were always accompanied by several procedural initiatives. Greater simplicity and swiftness in the sending of the new PIN number, flexibility in forwarding cards and availability of a more convenient solution for customers in the case of stolen or lost cards – are some of the instances. Fraud monitoring also saw its spectrum enlarged, through improvements in the relationship with police authorities, SIBS and Paywatch.

An outstanding feature in 2011 was the launching of the Ferrari credit card, intended for the Affluent segment. New cards were also developed, designed for specific

customer profiles, such as those designed for Porto County Council or the new Maestro University cards. Changes were also brought about in the features of several cards, maintaining or improving their competitiveness in market terms, such as the case in the Light, Business or Premium Travel cards. In effect, the coordination of these measures allowed the increase in the number and in the use of these cards, with homologous invoicing increasing by 2%, with values always above the market's and, at the same time, a reduction in the total number of cards cancelled by the customers.

With respect to acceptance, Santander Totta continues occupying a position of a relevant market player, with a 16% market share, present in the main retail chains and in many sectors of activity. New customers were mustered in the domestic market, specifically in the State, clothing, transport and oil sectors, and many of the existing partnerships were enlarged.

In spite of the recessive economic situation, a 3% increase was recorded in customers' transaction levels, above that of the market. The several campaigns launched throughout the year with customers in various business sectors and with inactive customers, and even the renegotiation of several existing covenants, in parallel with the setting up of new internal management tools, such as profitability simulators or the retention platform, were relevant factors in the results that were reached.

Transaction Banking

International Business and Correspondent Banks

In the beginning of 2011, plans were implemented to energize products for companies and businesses, jointly with the commercial area, which now has available specialist teams that, in collaboration with customer and product managers, developed programmes directed towards customer capture and business energizing. Campaigns and contests were designed with the aim to accompany and control commercial activity.

In parallel, a computer based corporate platform was adopted, with the intent to optimize synergies within the Group, increasing productivity and reducing costs. This new platform was introduced in the treatment of international transfers and cheques drawn on foreign banks, with significant improvements.

In partnership with Santander Spain, Santander Hong Kong and with Bank Caixa Geral Totta de Angola, several measures were taken, such as joint visits, to capture customers that carry out their activities in those countries and with the aim to provide them with the best support solutions for their business.

Santander Totta is nowadays recognized as one of the main providers of international business services in Portugal, having consolidated its presence with companies, namely by enlarging its documentary credit confirmation line originating in Angola.

In mid year, aiming to promote or reactivate agreements and partnerships with other international banks, the Corresponding Banks and International Business areas carried out several commercial actions with an international banking network, which resulted in obtaining better tools to support companies' international activities.

The Santander network in Europe (Spain and United Kingdom) and in other continents, namely Africa and Latin America, was used to promote this type of agreements and commercial actions, maximizing the competitive advantages of Santander Totta as part of a Group with a strong international positioning and global dimension.

In the last half of the year, the "Export Solution" was launched. This is a programme for the support of national exporting companies that is based on a set of products and solutions, in suggesting partners in vital internationalization areas, an offer for the training of selected customers and the support of specialists employed by the Bank.

Cash Management

During 2011, the plans were implemented to energize products for the Companies and Businesses segments. These plans enjoyed the involvement of teams of specialists/energizers that, jointly with customer and product managers, developed specific programmes directed towards capturing customers and energizing businesses.

Santander Totta continued offering exclusive products and consolidated the launching of the GPC-Payments and Collections Manager and of Home Deposit. Both tools are intended for the management of company treasuries.

Customer Service

Currently one of the strongest differentiation weapons in the market is the after sales service. This important method of binding is nowadays as important as the quality of the product itself. The commercial angle of this area was consolidated, with several visits carried out to the main customers jointly with the commercial area, supporting and strengthening the commercial relationship with the companies.

Intense investment continued being carried out in new means of following up and controlling the resolution of

incidents, improving answering times and satisfying companies' requirements.

Supplementary Channels

Selfbanking

In the Selfbanking area, the strategy was based on the optimization of the current stock of ATM's – in the Cash Dispensing Network – with the renegotiation and re-installation of this equipment in locations with a higher record of transactions. This activity allowed the Bank to increase its share compared to the previous year, strengthening its position in the market.

Within the scope of the internal network, preference was given to the quality of services provided to the customer, through the automatic devices of control and assessment of equipment availability. The solution of automating deposits, currently covering 70% of the branch network, has been allowing a strengthening of the results from the migration of transaction feasibility to Selfbanking.

Netbank

In the Internet channels, NetBank Private and Companies, 2011 was characterized by the launching of new functionalities, of which stand out the "Easy Access" and the confirming. Improvements were recorded in the availability and performance of the sites and in the traffic increase, with the number of individual visitors up by 20%.

In NetBank Private, the possibility of placing term deposits online was launched. Netbank frequent users recorded an 11% growth in 2011.

In NetBank Companies security was reinforced with the subscribing of transactions for users that sign individually, in cases where two signatures are necessary and for some transactions where the use of two distinct types of signing codes is required: OTP by SMS and Matrix Card.

Functionalities of confirming were increased in both cases of customer and supplier, it now being possible to offer a simultaneously global and detailed view of the whole business transaction. It is now possible for confirming suppliers to carry out the *online* advance on invoices (even for non customers of the Bank). Also launched was SEPA DD – Launching in SEPA format of online collections for customers and it is now possible for customers of NetBank Companies to carry out payments to the State in excess of 100,000 euros. Frequent users of Netbank Companies recorded an increase in excess of 8% in the year.



Telephone Banking

During 2011, the Santander Totta Contact Centre was considered, for the 3rd consecutive year, the best Contact Centre in Portugal in the financial sector, an award attributed by the Portuguese Association of Contact Centres.

The total number of customer contacts with Contact Centre operators was slightly larger than in the previous year.

Alterations were carried out to the access means to the Superline that strengthen security and simplify the access of customers to their accounts. Customers' attendance by Chat was reinforced and there are currently many more points for requesting contact in the Bank's site.

"Support4U" was also launched, a specialized attendance service for the university segment, which has several telephone lines available, chat, e-mail and attendance in the social networks.

The "Premium Line" was also set up, which places at the disposal of Premium customers a set of fixed and mobile telephone numbers that will be attended by specialized operators and with a set of services still greater than that of the Superline.

To be noted also is the placing, in November, at the disposal of customers with a POS, of a specialized telephone attendance service.

International Activity

The deterioration of the economic environment brought about a generalized movement of changes in the governments of community countries and the introduction of austerity measures and strong restrictions to indebtedness. A significant deterioration of market liquidity was equally confirmed, as well as the rating notations attributed to the Portuguese Republic and, by contagion, to the main banks. This resulted in a negative repercussion on decisions to invest or apply funds in Portugal by some of the customers residing abroad.

Economic activity evidenced a negative performance, with degrading levels of employment both in Portugal and in the ain economies where Portuguese communities reside and work.

The strategy followed in the international activity was focused on the reinforcement of the proximity with customers resident abroad, communicating the security and solidity of the Bank and of the Group it comprises, endeavouring to consolidate the offer of services and solutions closely linked to the commercial network in Portugal. With this objective, meetings were held with

customers, and in Caracas and Canada larger sized events were organized directed towards Portuguese individual customers and entrepreneurs.

The offer of the "Super Account Residents Abroad" of diversified savings products was kept up, in spite of the market's instability and evolution. Resources were singled out by a growth in deposits in detriment of more complex products although it was possible to maintain some volume in financial insurance and applications with interesting risk levels and yields, in USD and CAD. Also made available with success, in Euro offers, were products that intended to relate yield to the strengthening of customer fidelity and respective binding.

The London branch, taking into account the situation in the real estate market, has been focusing its activity in supporting the commercial relationship with Portuguese residents in the United Kingdom and following up the credit portfolio. Following the measures already taken and considering the situation in the market, the means and devices for the control of that credit portfolio were reinforced.

The Porto Rico branch developed its activity with stability in a "Banking at a Distance" business model, offering through specific channels much diversified applications exclusively intended for non-residents.

The volume of business in the area of residents abroad grew by 3% essentially benefiting from ensuring customer fidelity and their increase in countries outside the European Community.

In a difficult environment, operating income recorded a positive performance together with a significant growth in the number of new customers. The evolution of the credit portfolio evidenced a slightly positive variation.

In spite of the disruption created by the downgrading of rating notations and by the request for international aid in the first half of 2011, only a small reduction occurred in global terms in the value of transfers to Portugal.

Global Banking and Markets

Equity

Notwithstanding the worsening of the financial crisis and the uncertainty in the financial markets, the marketing of structured products with the retail and private segments evolved favourably throughout the year, by the issue of term deposits and treasury notes to an amount of approximately 600 million euros.

To be noted, in September, the Bank was attributed by Euromoney and www.StructuredRetailProducts.com, the Euromoney Structured Retail Products Awards 2011, in Portugal, in the category of "best distributor" and in the sub-category "performance of structured products".

Cash Equities

The Cash Equities activity was particularly difficult in 2011. The volumes and valuations of the equity markets fell generally in Europe and in Portugal, with a substantial increase in the aversion to risk. A brokerage trend was also witnessed, with a significant fall in the assets managed by fund management companies, with such assets being typically transferred to bank deposits. In this context, Santander Totta was able to increase brokered share volumes by 6.8%, as compared to 2010, thanks to a dynamic service with the national and international institutional segment which was complemented by a greater focus on the private segment.

Fixed Income Sales

In the Fixed Income Sales area, the year was characterized by a dynamic adaptation of strategies to the high market volatility, maintaining the appetite for simple risk management structures and giving special attention to the following up of the portfolio structures.

Reference should be made to the launching of several initiatives that contributed towards strengthening the offers of products to customers, namely the restructuring of the exchange business, strengthening and improved availability in investment solutions and the preparation for the preventive adoption of CVAs ("Counterparty Valuation Adjustment"). Particularly with respect to the exchange flow business, both the increase in customer numbers and transactions carried out, and the award of the "Global Finance - Best Foreign Exchange Bank in Portugal" Prize reflect the recognition of rendering sound services.

Corporate Finance

In the Corporate Finance area intense activity continued being developed in 2011. Outstanding in this year were the successful completion of the financial consultancy to the company Secil in the acquisition of Lafarge Concrete and the completion of the financial consultancy work for the Impresa Group in the value assessment of SIC, Medipress and AEIOU.

Notable as well were the consultancies to Eletrobrás in the privatization of EDP and to Galp Energia in the disposal of a share in Galp Gás Natural Distribuição, the holding that owns the main regulated companies managing the infrastructure of natural gas distribution in Portugal.

During this period the portfolio of Mergers and Acquisitions operations was also reinforced and several consultancy processes for transactions are under way and should be concluded in the next few months.

Custody

Santander Totta's activity in the area of Institutional Custody, notwithstanding all the conditionings in the financial markets and the economic situation in Portugal, maintains 2nd place in the national ranking of Custodians, with approximately 22.8% market share in volume of assets under custody, in accordance with data made available by CMVM (Stock Exchange Regulator).

Asset Management

Investment Funds

2011 was characterized by great instability in the financial markets, with a worsening of the situation already occurring in 2010, which contributed to a strong aversion to risk by the investors and had a natural impact in the demand for financial instruments such as investment funds. This effect was inflated by the offer of interest rates on deposits at very attractive levels.

Although a reduction occurred in the assets under management, Santander Asset Management, as far as security investment funds are concerned, ended 2011 as the 4th largest management company in Portugal, with a 12.9% market share. To be noted the launching of fund groups "Santander Management Private" and "Santander Management Premium", for the higher segments.

Outstanding in terms of performance is the best fund of the year in the class of North American equities – "Santander Equities America" with 5.7% – and the best fund in the class of fixed rate debentures Europe – "Multirate Fixed" with 6.8%.

In real estate management funds, 2011 was characterized by an active asset management via the renegotiation of many of the rental contracts in order to minimize the impacts of the economic recession – losing the smallest possible number of lessees and finalizing several projects of real estate promotion.

Asset management and pension funds

Portfolios managed by Sociedade Gestora de Patrimónios Santander Gest recorded an approximately 55% decrease in volume.

For Santander Pensions, returns were negative reflecting the disturbances occurred in the markets. Volumes under management, at the end of 2011, amounted to 760.3 million euros.

Outlook for 2012

The difficult and complex environment in which we live and the great uncertainty that still surrounds the economic and financial dynamics in 2012, either in Portugal or in all of the Euro Zone, will condition the activities of Santander Totta.

The Portuguese economy is following a programme of adjustment of macroeconomic imbalances, after formalizing the request for economic and financial aid from the international institutions (IMF/EU/ECB). The aim of this programme is to increment the growth potential of the Portuguese economy through structural reforms, restore the sustainability of public accounts and strengthen the resilience of the financial sector, through the reinforcement of capital funds and financial collaterals, within a process of deleveraging and financing to be implemented until 2014.

This programme will necessarily have a shrinkage effect in the Portuguese economy in 2012, the forecast being a decrease of 3.1% in GDP (in accordance with the latest available data from the Bank of Portugal). Simultaneously the banks will have to comply with the targets of the referred programme, through implementing a gradual process of deleveraging in order to reach a 120% credit/deposit ratio by the end of 2014 and equally decreasing financing with the Euro system. The implementation of the programme will have a negative impact in the business volume, efficiency and profitability of the banking sector.

Considering that, in addition to the extremely demanding objectives laid down, some uncertainty remains with reference to the policies that will be pursued in the Euro Zone to combat the sovereign crisis of the peripheral countries, Santander Totta will pursue a very selective and prudent policy with respect to granting credit, and of largely focusing the capture of deposits and controlling the quality of the risk of the credit portfolio.

This cautious management of the balance sheet aims to reconcile the maintenance of profitability levels that protect the capital demanded by the regulators with support to the national productive sector, which is understood by the Bank to be crucial to allow the Portuguese economy to recover its growth potential, through a model based on the sector of transactional goods and resumes a trajectory of sustainability of its public accounts.

Business Support Areas

Human Resources

The positioning of proximity that Santander Totta maintains with the business and the strategic decisions that the Bank took set the course of the activities of Human Resources in 2011.

The complexity associated to the difficult economic and social context that characterized the year demanded a more individualized follow up of the employees and an agile and adequate response to the variables that appeared from time to time and which required allying the strategy and the course defined by the Executive Committee to the employees' aspirations and motivations.

In the scope of proximity to the areas and to the business a means of action was kept up with a reinforcement of a model for following up the teams. The Human Resources managers assumed an eminent role in providing direct support to the area managers and to the employees' career development. Their actions were based on the close following up of the employees with the consequent management of the opportunities placed before them.

This model was of maximum importance to guarantee a stable team and a swift response to the teams' needs and with a consequent reflection on the quality of the service rendered to customers.

The more than 1,000 employees interviewed by the Human Resources managers and the approximately 300 visits carried out to branches show the effort developed in the sense of being aware of and managing the Bank's internal potential.

The mobility and careers policy followed by the Bank continued to merit special regard, with the dissemination of 65 internal recruiting opportunities, 35 of which for the commercial networks and 30 for the central services, which involved examining 400 internal applications. Twenty five movements were carried out of employees from the central services to the commercial network, thus revealing the consistent strategy in reinforcing the Bank's commercial functions.

The relevance given to recognition of merit and individual contribution of the employees towards the Bank's success is equally expressed in the 364 new salary levels attributed and to the fact that 96% of the employees

received variable remunerations, in line with the adjustments governed by the results.

In the field of proximity with the business' requirements, the Training area provided a relevant contribution, having carried out approximately 160,000 hours of training. The online training was notably dynamic, especially in the more technical areas, through the E-Learning and Training Management platform, common to all the Bank's professionals – the Santander Learning – with a total of 36,214 hours and 5,216 assistants in the training actions.

The development of commercial and product competences and the support in the preparation of branch teams with regard to the "Ready/Arte" tools are particularly notable totalling more than 96,000 training hours.

Development programmes were also set up for Premium managers and for P&N network Companies' managers, aiming to adapt training and development actions to the identified individual needs.

In the development area, 2 editions were carried out of the "Programme Santander Future", a programme exclusively dedicated to employees with two years seniority, with the objective to develop competences in strategy, negotiation and networking.

In the field of collaboration with the Universities, Santander Totta took part in several employment fairs, Jobpartys and Bank presentations, and enjoined several Managers to collaborate by visiting their former universities to relate their professional history.

The "Responsible Family Oriented Company" (EFR) certification awarded at the end of 2010 led to increased responsibility in the sense of guaranteeing the application of the existing measures and strengthening and developing new initiatives that allow a more balanced reconciliation between professional and personal life.

Also developed were initiatives aiming to reinforce the advantages of working in Santander and to promote dialogue between the departmental heads and their teams, which are the relevant lines of the Programme "You Are Santander".

The internal recognition of this programme, expressed through the results obtained in the "What is the Climate Like", and the external recognition evidenced by the successive prizes that have been awarded to Santander Totta, stands out in the panorama of Managing of People in Portugal (APG/2008 Prize, RH Magazine/2009, Most Responsible Family Oriented, the 2010 EFR Certification and the OCI Innovation in Communication Prize in 2011), interprets the results obtained in terms of the Bank being "an excellent place to work in".

The holding of a further edition of the "You Are Santander Week", which this year was given the motto "You Are the Key Component", was the peak of this programme, bringing together a set of activities that involve all employees and synthesize the spirit related to this "label", with the "Day of the Employee" deserving special merit, the "Direct Contact" with the Directors visiting branches and the central services in the various districts of the country, and the "Mega Interchange" that allows employees to become aware of practices in other services..

"Resist and Strengthen" was the central theme of the 4th edition of the "Feminine Management" conference, with the presence of approximately 200 feminine Officers, an initiative dedicated to all the women that have responsible management duties in distinct areas of the Bank, and has the objective to discuss current topics related to the business. The "Feminine Management" conferences are a relevant marker in the diversity of gender policy and a time to strengthen the pride and the sense of belonging in the Santander Group.

Employee's children continue receiving special attention, with continued existence of the "Best Students" prize that distinguished 20 employees' children that completed the 12th year of secondary school with average marks in excess of 16/20. Also carried out were the already usual holiday occupational programmes, including Easter and Christmas, in which 60 children with ages between 6 and 10 took part.

In order to allow easier access to improved family living conditions, the Bank decided, in line with practices already followed in the last few years, to consider favourably all the requests submitted within the scope of the contest for home loans at the ACT rate, and made available for the purpose a total amount of approximately 64 million euros.

As already referred in the chapter Corporate Social Responsibility, the launching of a "Volunteer Programme" for which employees may dispose of 2 hours per month out of their working schedules in order to take part in volunteer projects, such as the "Red Nose Operation", the "Provide Solidarity" programme, the re-editions of the initiatives "Christmas in a Shoebox" and

the "Collection of Foodstuff for the Food Bank", embodied the solidarity actions carried out in 2011.

Maintaining the strategy of measuring the levels of internal satisfaction every 2 years, the 4th measurement took place in 2011, via the questionnaire "What is the Climate Like", which recorded a 71% participation from all the employees and in which 97% stated being proud of working in Santander Totta.

Results showed in the following table evidence a consistent and continual improvement from year to year.

Dimensions	2011	2009	2007	2006
Credibility	85%	83%	78%	74%
Dynamics	64%	59%	56%	52%
Team Spirit	81%	76%	69%	59%
Impartiality	65%	63%	57%	49%
Innovation	81%	80%	75%	70%
Leadership	80%	77%	73%	71%
Pride	92%	89%	71%	64%
Quality	85%	82%	75%	68%
Respect	76%	73%	64%	64%
"Santander És Tu"	89%	87%	na	na
Conciliation	66%	na	na	na

Technology and Business Systems

Included in the Corporate Division of Technology and Operations, the Technology and Business Systems area of Santander Totta is responsible for the availability and management of the Bank's technological infrastructure and processes, permanently guaranteeing the adequacy of the technological platforms (hardware, software, communications, etc), of business processes and operational control in order to efficiently support the Bank's activity, with controlled levels of operational and technological risk.

A relevant feature in 2011 was the completion of the implementation programme of the Partenón/ Alhambra corporate platform, a fundamental marker for the global strategy of the Santander Group to have a uniform technological platform for all the group's units. In addition to completing the implementation of the platform, the teams were kept focused and efforts concentrated in its stabilization, considering the complexity and dimension implied by such a transformation.

On another hand, priority was given to the quality of the technology service, with efforts directed towards the system's performance, focusing on the reduction of consumption and increase in the online systems availability and reduction of indices of either online or

batch incidences. Several projects were carried out in these three angles with very positive quantifiable results.

Efforts were equally guided in order to align technology with business requirements, investing in support platforms and transaction products in remote channels, such as for instance the reformulation of the support platform for the factoring and confirming operation and its availability in Netb@anco, the Payments and Collections Manager, the easy access to Netb@anco and the upgrade of the mobile banking platform with layouts adjusted to each of the operating systems of the mobile devices. On the other hand, support was provided to regulatory initiatives, such as the Bank of Portugal audits, adapting of the payments system to the new SEPA European framework and to compliance projects linked to the improvement of control systems within the scope of money laundering operations.

The internal governance and control model was worked on and strengthened with additional controls: results of this task were clearly positive in the audit carried out by tripartite financial aid institutions (IMF/EU/ECB) to the Santander Totta model and information systems, which did not include any reserves or recommendations.

With preference to compliance, operational continuity and quality, a set of additional measures were developed and implemented in 2011 that aimed to improve the efficient and sustainable management of information technologies, with the objective of gradually reducing the operational risk levels of the activity and to guarantee the sustainability and continuity of the business. Outstanding in this issue was the carrying out of several "Disaster Recovery" tests, aiming to ensure the repositioning of information systems in case of disaster and to assemble infrastructures to support the "Business Continuity Plan".

Several projects were launched in the area of operational processes that aim to improve processes and to increase efficiency, as for instance the project for the operational and functional optimization of the Companies Network and *Private Banking*, the rationalization and automation of processes in the Recoveries area and consequent optimization of its operational model and several projects for the improvement of operational control and reduction of operational risk. The compliance project deriving from the FATCA North American regulation was commenced.

A programme was launched, in the unit "Network Means", with the objective to identify control and operational weaknesses in the Private and Business and Companies branches, and to establish with these a training and operational improvement programme, in parallel with the launching of initiatives to promote improvements in the current operational and control processes. Approximately half of the network branches were personally visited by this team, following which

several training, support and improvement initiatives were launched.

Quality

Quality of service is one of the mainstays of Santander Totta's management.

Following the PEC 2010 project, the Department of Experience with customers was set up in 2011. The two main objectives of this Department are to follow up the plan of operational improvements and to consolidate the internal and external "maximum value of relationship".

An indicator designated as CEM was set up to measure customer recommendations and relationship, with effect on commercial objectives. Within the project of commercial systems that the Bank launched in 2011, known as "Ready", a family was implemented for the planning and carrying out of weekly commercial contacts with customers specifically considered as to relationship and proximity.

In order to support these two areas the "redcem" site was launched, where each employee can access metrics, analysis of complaints, provide ideas and/or suggestions for improvements and equally access to several notices and consult standards more dynamically with answers to didactic hobbies.

As to the Radar project, set up to review processes, continuity was provided for its more specific intervening actions considering the implementation of improvements to customer service, particularly in the *Premium* segment, where a support analysis to the segment was carried out to reinforce the banking guidance in the relationship with these customers.

Quality Certification

The implementation of a quality management system has now assumed cruising speed and is now current in most of the Bank's different areas. The tools foreseen in the ISO 9001-2008 standard continue being strengthened and management practices continually improved, always guided towards customer satisfaction.

Complaints

Formally received customer complaints recorded an 8.3% decrease in spite of the unfavourable climate lived throughout the year.

Santander Totta obtains from complaints an important source of detection of potential problems and real opportunities to improve relations with its customers.

2011 was equally an important year in the detection of several incidents and of swift action to remedy these in order to avoid that the small incidents that could be easily resolved should become situations with grievous impact on customers. In this sense, the Bank has acted with the necessary swiftness in answering customer's complaints.

Metrics and Management Indicators

Throughout the years the Bank has been construing a system of quality metrics that permit a very clear view of the level of customer satisfaction and be thus enabled to take very focused measures for improvement directed to the customers and their requirements, either through the Bank's data systems, or through customer enquiries (approximately 90,000 this year), and also via mystery customers that help measuring the quality effectively rendered.

The operation of META 100, an indicator that comprises differing assessments (operative metrics and satisfaction) continues in full in the commercial networks, Private and Business and Companies Network.

The proportion of Branches that show values in the Indicator META 100 considered superior (indicator ≥ 90 points) grew in 2011 to 25% levels, a 10% increase compared to the previous year, thus a very acceptable variation. In Company Centres there were double the number of centres with a META 100 indicator of ≥ 90 points.

Positioning as compared to the Competition

The study of positioning commenced in 2010 showed, in 2011, a significant improvement of customer satisfaction with Santander Totta. The second stage of this study (September to October) ranked the Bank in second place compared to its main competitors. This positive variation is also proven by other assessments, also independent, that show evidence of a strong improvement in customer satisfaction with the Bank.

Consolidated Activity

Introduction

2011 was marked by the peak in the crisis of the sovereign debt which was materialized by the heavy falls in Portugal's risk notations and in those of the main banks operating in the country.

The liquidity stresses related to the deep volatility of the markets and the fall in investors' confidence levels resulted in the growing difficulties in financing the system.

In May 2011, the Portuguese Government formalized the request for financial aid to international institutions (European Union, IMF and ECB), amounting to 78 billion euros.

A set of measures are being implemented within this programme that aim to restore the sustainability of public finances, energize economic growth and strengthen the resilience of the financial sector. In respect of the financial sector, the banks will have to deleverage their balance sheets so as to obtain a 120% credit/deposit ratio by the end of 2014, gradually diminish financing with the Euro system and comply with a 10% Core Tier I by the end of 2012.

In this context, banking activity was carried out amid large constraints that led to an asset and liabilities management to reduce credit and security portfolios and simultaneously focus on capturing deposits.

On 1 April 2011 the merger by incorporation of Totta Crédito Especializado Instituição Financeira de Crédito, S.A. (Totta IFIC) into Banco Santander Totta occurred, and was reported to that date for accounting purposes.

The Bank integrated the assets and liabilities of Totta IFIC at the values shown in their financial statements as at 31 March 2011. The difference relative to the cost of acquisition was directly recorded as a counterpart to shareholder's equity, as a merger reserve. Consequently,

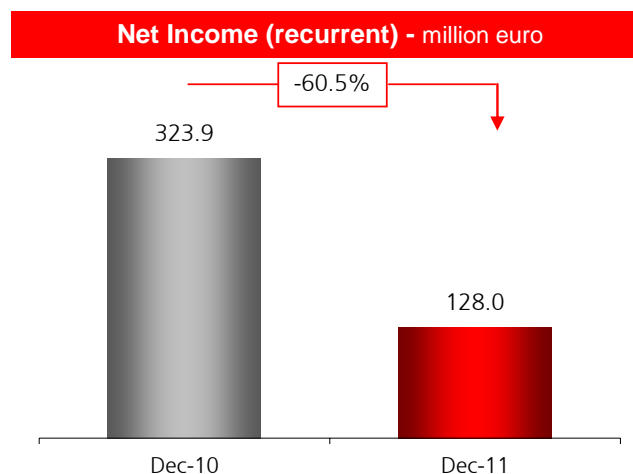
since the balance sheet and the profit and loss account had not been re-expressed, the Bank's assets, liabilities, costs and revenue in 2011 are not directly comparable to those in 2010.

Banco Santander Totta implemented a strategy that comprised as priority the deleveraging of the Balance Sheet, with a decrease in the ratio of transformation of deposits into credit that, at the end of 2011, became set at 143.8% (in accordance with instruction 23/2011 of the Bank of Portugal). Customer's deposits increased by 10.2% and gross credit (including guarantees) recorded a 4.5% decrease. The credit granted variation also reflected the sale of credits that amounted, at the end of 2011, to 1.7 billion euros (2.5 billion euros in the first quarter of 2011) and the fact that in this year specialized credit is included in the consolidation perimeter deriving from the merger of Totta IFIC in Banco Santander Totta. Removing the effect of the credit sales and in a constant perimeter, the credit reduction would have amounted to -8.1%.

Decrease in assets was also influenced by the sale of securities from the investment portfolio, occurred in the first half of the year, which allowed reinforcing the capital ratios. In December 2011, Tier I ratio was set at 10.3% and Core Capital ratio reached 9.1%.

Banco Santander Totta recorded a net consolidated recurring income amounting to 128.0 million euros, compared to the 323.9 million euros in the homologous period of the previous year.

The (recurring) operating income suffered an 18% reduction and operating expenses decreased by 1.8% compared to 2010 values. Impairment, provisions and other income recorded an increase of 72.7%. The sale of credit and security portfolios and the setting up of an extraordinary provision related to an error in allocation occurred in the asset management activity, generated net losses amounting to 80.8 million euros, which led to a consolidated net income of 47.1 million euros.



Profit & Loss Account (Proforma)

million euro	Dec-11	Dec-10	Var.
Net Interest Income (without Dividends)	543.5	673.6	-19.3%
Dividends	1.3	4.3	-70.3%
Net Interest Income	544.8	677.9	-19.6%
Fees and Other Income	328.8	344.5	-4.5%
Commercial Revenue	873.6	1,022.3	-14.5%
Gain/Losses on Financial Transactions	8.4	53.5	-84.3%
Operating Income	882.0	1,075.8	-18.0%
Operating Costs	(506.9)	(516.2)	-1.8%
Personnel Expenses	(296.6)	(296.7)	-0.0%
Other Administrative Expenses	(146.9)	(153.2)	-4.1%
Depreciation	(63.4)	(66.3)	-4.5%
Net Operating Income	375.2	559.6	-32.9%
Impairment and Other Provisions	(254.3)	(147.2)	+72.7%
Income Before Taxes and MI	120.9	412.3	-70.7%
Taxes	7.0	(84.3)	-108.3%
Income after Taxes	127.9	328.0	-61.0%
Minority Interests	0.1	(4.1)	-101.3%
Net Income (recurrent)	128.0	323.9	-60.5%
Non-recurrent results	(80.8)	75.3	-207.4%
Net Income	47.1	399.2	-88.2%

At the end of 2011, Banco Santander Totta recorded a net consolidated recurring income amounting to 128.0 million euros, compared to the 323.9 million euros in the homologous period of the previous year, a decrease of 60.5%. Operating income dropped 18.0%, operating expenses decreased by 1.8% and impairment, provisions and other income recorded a homologous increase of 72.7%.

Deriving from the balance sheet deleveraging process Banco Santander Totta disposed of credit and security portfolios, generating net losses amounting 55.0 million euros, and set up an extraordinary provision amounting to 25.8 million euros related to an error in allocation occurred in the asset management activity, which led to a

consolidated net income of 47.1 million euros, compared to 399.2 million euros recorded in the previous year.

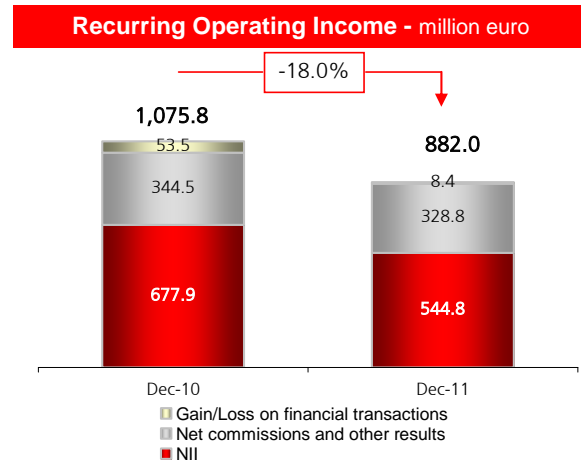
The strict net interest income, main component of revenue, amounted to 543.5 million euros, corresponding to a 19.3% decrease. Notwithstanding the cautious management of spreads that was followed, the variation in net interest income reflected the decrease in the credit and security portfolio and the increase in finance costs, due to greater pressure on the liability margins.

Net commissions and other banking income amounted to 328.8 million euros, as compared to 344.5 million euros in the homologous period of the previous year, showing a 4.5% decrease. To be noted is the favourable

performance of commissions from large companies and means of payment, although diminished by the negative performance of credit commissions (especially as regards mortgages), of distribution of investment funds and insurance, and by recording expenses with the Investors' Compensation System to reimburse the former customers of Banco Privado Português.

Gains on financial transactions (excluding losses generated by asset sales) amounted to 8.4 million euros, a decrease of 84.3% compared to the homologous period. This variation was influenced by the market valuation of Portuguese public debt notes recorded in the negotiation portfolio.

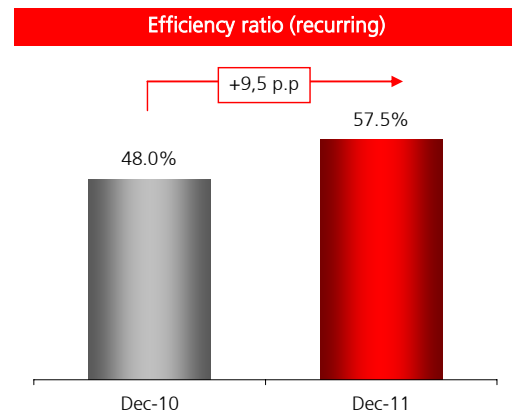
Recurring operating income amounted to 882.0 million euros, a decrease of 18.0% relative to 2010.



Operating expenses that aggregate staff costs, general expenses and depreciation amounted to 506.9 million euros, a -1.8% variation, employee costs remaining stable and decreasing in the other components: -4.1% in general expenses and -4.5% in depreciation, thus revealing a rigorous control of expenditure within a context of decreasing operating income.

million euro	Dec-11	Dec-10	Var.
Personnel Expenses	(296.6)	(296.7)	-0.0%
Other Administrative Expenses	(146.9)	(153.2)	-4.1%
Operating Costs	(443.5)	(449.9)	-1.4%
Depreciation	(63.4)	(66.3)	-4.5%
Total operating Costs	(506.9)	(516.2)	-1.8%
Efficiency Ratio (excludes depreciation)	50.3%	41.8%	+8.5 p.p.
Efficiency Ratio (includes depreciation)	57.5%	48.0%	+9.5 p.p.

The efficiency ratio, that represents operating expenses as a percentage of operating income, increased from 48.0% in 2010 to 57.5% in 2011, as a consequence of the simultaneous consideration of decrease in income by 18.0% and operational expenses by 1.8%.



The recurring net operating income amounting to 375.2 million euros was 32.9% lower than that recorded at the end of 2010.

With reference to productivity indicators, resources per branch deserve being noted.

million euro	Dec-11	Dec-10	Var.
Loans ⁽¹⁾ per Employee	5.3	5.5	-3.1%
Resources per Employee	4.8	4.8	+0.9%
Loans ⁽¹⁾ per Branch	42.7	42.2	+1.2%
Resources per Branch	39.1	37.0	+5.5%

⁽¹⁾ Includes guarantees

Total impairments, provisions and other income amounted to 254.3 million euros as compared to 147.2 million euros recorded in the homologous period, that is, an increase of 72.7%. Banco Santander Totta followed a conservative and cautious policy in risk management, within a degrading climate of quality indicators deriving from the recessive economic environment.

net income of Banco Santander Totta amounted to 47.1 million euros, as compared with 399.2 million euros recorded in the previous year. Non recurrent income recorded in 2010, amounted to 75.3 million euros, deriving from the valuation of the shareholding in Unicre (21.2 million euros) and to the reduced exposure to Banco Caixa Geral Totta Angola (54.0 million euros).

The (recurring) consolidated net income, at the end of 2011, amounted to 128.0 million euros, equivalent to a homologous 60.5% decrease. Due to the recording of 80.8 million euros net losses in 2011, the consolidated

Balance Sheet and Activity

Faced by the liquidity restrictions in the banks' access to international financial markets and the commitment assumed within the programme of economic and financial adjustment, the deleveraging of the balance sheet was the main priority, through the increase in

customers' balance sheet resources, asset sales and slowing down in the granting of fresh credit, thus determining an improvement in the ratio of transforming deposits into credit.

million euro	Dec-11	Dec-10	Var.
Business Volume ⁽¹⁾	58,455	60,042	-2.6%
Total Gross Loans (includes guarantees) ⁽²⁾	30,532	31,973	-4.5%
Gross Loans	29,044	30,271	-4.1%
<i>of which</i>			
Commercial Banking	27,170	26,001	+4.5%
Loans to Corporates	9,045	7,531	+20.1%
SME/Small Business	3,603	3,044	+18.4%
Corporates	5,442	4,487	+21.3%
Loans to Individuals	18,126	18,470	-1.9%
<i>of which</i>			
Mortgage Loans	16,032	16,452	-2.6%
Consumer Loans	1,516	1,610	-5.9%
Large Corporates and Institutionals	1,714	3,501	-51.0%
Customers' Resources	27,922	28,069	-0.5%
Commercial Banking	24,141	23,041	+4.8%
Individuals and Small Businesses	22,240	21,569	+3.1%
Deposits	15,628	13,794	+13.3%
Securities placed to clientes, inv. funds, insurance and other	6,613	7,775	-15.0%
Corporates	1,900	1,472	+29.1%
Large Corporates, Institutionals and Other	3,782	5,028	-24.8%

⁽¹⁾ Includes securitization, commercial paper and guarantees

⁽²⁾ Excluding the sell of loans in 2011 and including the loans of "IFIC-Totta Crédito Especializado" in 2010, the evolution would be -8.1%

At the end of 2011, business volume amounted to 58.5 billion euros, comprising credit (including guarantees), which decreased by 4.5% to a total amount of 30.5 billion euros that, without the effect of credit sales and within a constant perimeter, would have decreased by -8.1%. In their turn customers' resources recorded a -0.5% decrease, amounting to 27.9 billion euros, with an outstanding 10.2% growth in deposits.

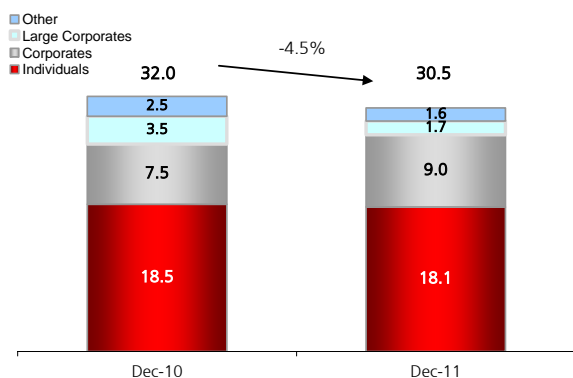
Credit shrinkage is framed in the need for deleveraging the balance sheet, through the imposing of greater restrictive supply conditions, such as the increase in credit spreads or the demand for higher guarantees, and by the reduction in demand, related to the grievous worsening

of economic activity and to the decrease in available income.

Credit granted to companies amounted to 9.0 billion euros, recorded a 20.1% growth. Should specialized credit be considered as part of the perimeter of consolidation in 2010, a decrease of 13.2% would have been recorded.

Credit granted to private individuals amounted to 18.1 billion euros, thus decreasing by 1.9%, with variations of -2.6% in home loans and -5.9% in consumer credit.

Loans* (billion euro)

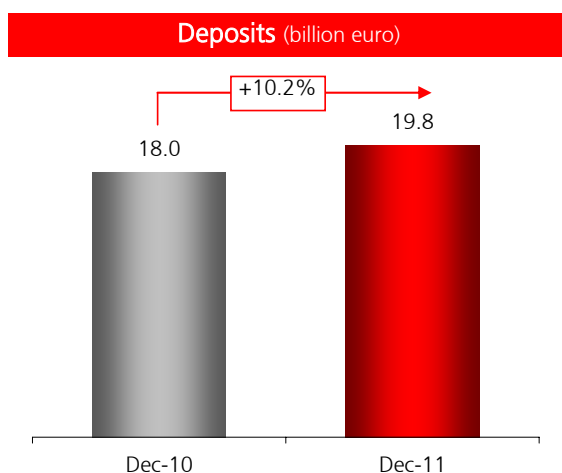


* Includes securitization, commercial paper and guarantees

Notwithstanding the worsening of credit quality indicators, due to the deterioration of the economic situation, the Banco Santander Totta ratios show up favourably with the average of the domestic banking system, in accordance with last published statistical data. At the end of 2011, the ratio of non performing loans (NPL) in excess of 90 days reached 2.16% (+0,7p.p. relative to the homologous period). The ratio of NPL and doubtful loans amounted to 2.21% at the end of 2011, greater than the 1.44% at the end of 2010, with a provision cover of 104.5% (113.8% in 2010). In its turn credit at risk was set at 2.84% of total credit (1.80% in the previous year), with a provision cover of 80.5% (93.5% in 2010).

	Dec-11	Dec-10	Var.
Non Performing Loans Ratio	2.35%	1.52%	+0.8 p.p.
Non Performing Loans Ratio (+90 days)	2.16%	1.43%	+0.7 p.p.
Non Performing Loans and Doubtful Loans Ratio	2.21%	1.44%	+0.8 p.p.
Credit at Risk	2.84%	1.80%	+1.0 p.p.
Non Performing Loans Coverage Ratio	98.6%	107.8%	-9.2 p.p.
Non Performing Loans Coverage Ratio (+90 days)	107.1%	115.1%	-8.0 p.p.
NPL and Doubtful Loans Coverage Ratio	104.5%	113.8%	-9.4 p.p.
Credit at Risk Coverage Ratio	80.5%	93.5%	-13.0 p.p.

With reference to resources, the 10.2% increase in captured deposits relative to the same period of the previous year is a notable achievement.



2011 was characterized by savers being more attracted by bank deposits, rather than products affected by greater risk. The banking sector improved the respective yield, since deposits were a privileged source of financing

in international financial markets lacking in liquidity. Deposits of private individuals and business recorded a 13.3% increase and the resources of the companies' network increased by 29.1% relative to the homologous period in 2010. This growth was obtained by capturing savings and by the conversion of off balance sheet financial assets, such as investment funds and financial insurance.

The balance sheet resources totalled 20.3 billion euros, representing 72.8% of the total resources captured from customers, recording a 9.4% growth, whilst off balance sheet resources totalled 7.6 billion euros, a decrease of 19.9% relative to 2010. This variation reflected the greater instability of the shares and bonds market, leading to a greater aversion to risk on the part of investors, as well as the need for deleveraging, focusing on the balance sheet resources. Investment funds decreased by 38.0%, amounting to 2.8 billion euros. Capitalization insurance and other resources amounted to 4.8 billion euros, a decrease of 3.6% relative to the previous year.

The transformation ratio of deposits into credit, at the end of 2011, was set at 143.8%, a decrease of 22.5p.p. with reference to the 166.3% ratio in 2010, in line with instruction 23/2011 from the Bank of Portugal.

million euro	Dec-11	Dec-10	Var.
Customers' Resources	27,922	28,069	-0.5%
On-Balance Sheet Resources	20,315	18,566	+9.4%
Deposits	19,844	18,006	+10.2%
Securities issued	471	559	-15.8%
Off-Balance Sheet Resources	7,607	9,503	-19.9%
Investment Funds	2,807	4,524	-38.0%
Insurance and Other Resources	4,800	4,979	-3.6%

Equity Adequacy Ratio

In 2011, the adequacy ratio of basic Tier I equity funds was set at 10.3% and the Core Capital ratio reached 9.1%, above the 9% demanded by the Bank of Portugal, including the retention of the generated income (10.2%

and 8.8% in 2010). Excluding generated income, the ratio of basic Tier I equity funds and the Core Capital ratio reached respectively 10.3% and 9.1%.

million euro	Dec-11	Dec-10	Var.
Total capital	2,135	2,248	-5.0%
Tier I Capital	2,141	2,257	-5.2%
Tier II capital	-6	-9	-33.6%
Risk weighted assets	20,783	22,232	-6.5%
Core Capital	9.1%	8.8%	+0.3 p.p.
Tier I	10.3%	10.2%	+0.1 p.p.
Solvency Ratio	10.3%	10.1%	+0.2 p.p.

Individual Activity

Profit and Loss Account

Banco Santander Totta recorded a recurring net income, in terms of individual accounts, amounting to 44.3 million euros at the end of 2011, a decrease of 84.3% relative to the 282.0 million euros accounted for in 2010.

Developing its activity in a difficult economic and financial context, the Bank obtained a (recurring) operating income amounting to 810.2 million euros in 2011, as compared to 938.5 million in 2010, a 13.7% decrease. This variation resulted primarily from the decrease in the net interest income.

Operating expenses amounted to 500.8 million euros, a decrease of 0.8% relative to the homologous period. The recurring efficiency ratio increased by 8.0 p.p. rising from 53.8% in 2010 to 61.8% in 2011.

The joint variation of income and expenses resulted in a net operating income amounting to 309.4 million euros, 28.6% lower than that obtained in the previous year.

Impairment and other provisions recorded an increase of 213.7%, when arriving at a value of 291.3 million euros in 2011. The sale of credit and security portfolios generated net losses amounting to 22.0 million euros, resulting in a net income amounting to 22.3 million euros in 2011, a decrease of 92.1% relative to that of the previous year.

Balance Sheet and Activity

At the end of 2011, business volume amounted to 55.0 billion euros, a 5.7% increase over the homologous period, to which contributed credit (including guarantees)

that increased by 9.8% to attain 27.7 billion euros, and customer's resources that increased by 1.8%, totalling 27.3 billion euros.

million euro	Dec-11	Dec-10	Var.
Business Volume ⁽¹⁾	55,033	52,082	+5.7%
Total Gross Loans (includes guarantees)	27,694	25,233	+9.8%
Gross Loans ⁽¹⁾	26,205	23,529	+11.4%
Customers' Resources	27,339	26,849	+1.8%
Commercial Banking	24,141	23,041	+4.8%
Individuals and Small Businesses	22,240	21,569	+3.1%
Deposits	15,628	13,794	+13.3%
Securities placed to clientes, inv. funds, insurance and other	6,613	7,775	-15.0%
Corporates	1,900	1,472	+29.1%
Large Corporates, Institutionals and Other	3,198	3,808	-16.0%

⁽¹⁾ Includes securitization, commercial paper and guarantees

The homologous growth of 1.8% in customer's resources was supported by balance sheet resources, which revealed a 9.3% increase. This resulted from the outstanding 10.1% increase in deposits that represent 73.5% of total resources, whilst off balance sheet resources decreased by 15.7%, reflecting the greater instability in the shares and bonds markets, leading to a

greater aversion to risk on the part of investors, as well as the need for deleveraging, focusing on balance sheet resources.

million euro	Dec-11	Dec-10	Var.
Customers' Resources	27,339	26,849	+1.8%
On-Balance Sheet Resources	20,569	18,822	+9.3%
Deposits	20,099	18,262	+10.1%
Securities issued	471	559	-15.8%
Off-Balance Sheet Resources	6,770	8,028	-15.7%
Investment Funds	2,029	3,179	-36.2%
Insurance and Other Resources	4,741	4,848	-2.2%

Solvency

In 2011, the Core Capital and Tier I ratios were set at 8.0% and 9.4%.

million euro	Dec-11	Dec-10	Var.
Total capital	2,340	2,344	-0.2%
Tier I Capital	1,935	1,963	-1.4%
Tier II capital	405	381	+6.4%
Risk weighted assets	20,485	22,189	-7.7%
Core Capital	8.0%	7.5%	+0.5 p.p.
Tier I	9.4%	8.8%	+0.6 p.p.
Solvency Ratio	11.4%	10.6%	+0.8 p.p.

Introduction

Within the corporate policy of the Group it comprises, the quality of risk management in Santander Totta is a fundamental axis of performance. Prudence in risk management allied to the use of advanced management technologies has been a decisive factor, particularly in an environment of high volatility in the financial markets.

Credit Risk

Main vectors of activity

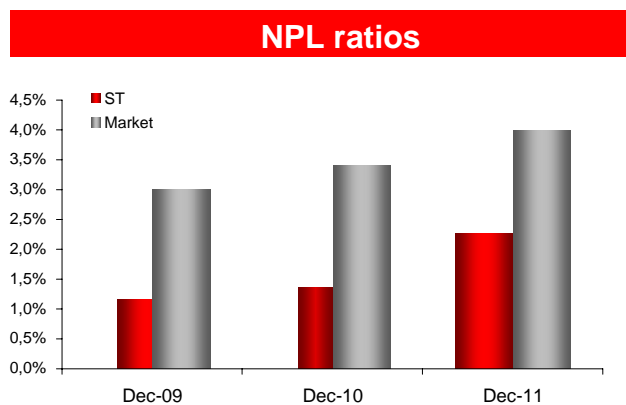
The main vectors of activity of the Credit Risk area followed in 2011 were:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of customers and products;
- Reinforcing the rigour in the admission criteria and consequently in the quality of the risks admitted in each of the segments aiming to preserve the quality of the credit portfolios;
- Relative to portfolio risks proximity with customers was intensified in order to anticipate their needs and eventual problems surrounding their payment capability. This action and the level of the quality of customers' credit allowed continuing to maintain reduced levels of delays and of non performing loans. On another hand, support levels were kept up for the business in capturing new operations and good risk customers;
- With respect to following up portfolios and customers, a permanent focus is kept in monitoring segments with lower ratings and sectors that could be more affected by the macroeconomic context, aiming to mitigate the ratios of non performing loans and delays. A review was carried out of a significant part of the customer portfolio within the scope of the inspections of the tripartite financial aid agencies, it being found that the portfolio is analysed with adequate criteria and that the level of impairments is also adequate;
- In standardized risks, the main focus was on maintaining the quality of the portfolio, acting upon the management delay and non performing loans, and the offer of products to restructure loans to adapt customers' expenditure to their repayment

capability relative to the new macroeconomic framework. For this purpose, action was taken to adequate the admission strategies in the Bank's systems of decision and to the use of behavioural systems to identify preventive measures to be offered to customers;

- In an adverse macroeconomic scenario with a consequent increase in non performing loans, the recoveries activity was heavily focused to reinforce agility in intervention. Prominence for the activity in tele-collections and massive management recoveries with a simultaneous permanent follow up of special cases and those liable to court or out of court actions;
- Also with respect to recoveries activity the policy was maintained to reinforce negotiation aiming to obtain donations in payment as an alternative to court actions;
- With respect to solvency and credit control, permanent attention continued being given to the knowledge of the portfolio, so as to keep strict control of the risk involved, to enable providing adequate and timely management information, in order to allow measures to be taken to avoid operations becoming non performing and the resolution of non performing operations;
- 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 calculating equity fund requirements, as well as their more than ever greater inclusion in management.

Indicators



Source (Market): Financial Stability Report (BoP)

Risk model

Credit risk originates from the possibility of losses derived from total or partial non performance of loans contracted with the Bank by its customers.

The organization of the credit risk function in Santander Totta is specialized in line with customer typology, differentiating, throughout the whole process of risk management, between non-standardized customers and standardized customers.

- Non-standardized customers are those who, fundamentally due to the assumed risk, have been attributed a risk analysis. This group comprises the wholesale companies, financial institutions and a part of the companies belonging to the retail banks. The risk assessment of these customers is carried out by the analyst, and supplemented with decision support tools based upon internal models of risk valuation;
- Standardized customers are those who do not have a specifically appointed risk analyst. Included in this group are private individuals, independent entrepreneurs and retail bank companies without portfolio. The assessment of these risks is based upon internal models of valuation and automated decision, subsidiarily supplemented and, when the model is not sufficiently precise, with specialized risk analysis teams.

Rating / Scoring Tools

Santander Totta uses its own tools for the attribution of internal solvency ratings for different customer segments, which it uses to measure the credit quality of a customer or operation, with each rating corresponding to a probability of non performance.

Global rating tools are applied to the segments of country risk, financial institutions and wholesale banking,

both in determining their rating as in following up the assumed risks. Such tools attribute a rating to each customer as a result of a quantitative or automated module, based upon balance sheet data/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 of the retail banking, the attributed rating is based upon modules such as those referred above, quantitative or automated in this case (analysing the credit performance of a customer sampling and its correlation with a set of accounting data and ratios), and qualitative, dependent from the analysis of the risk analyst, whose duty is to carry out a final review of the attributed rating.

Attributed ratings are reviewed periodically, incorporating any new financial information that may have meanwhile become available as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This periodicity increases in the case of customers where the internal alert and risk classification system so demands.

For the standardized risk portfolios, scoring tools have been implemented that automatically attribute a valuation/decision for the operations submitted. Such decision tools are complemented by a behavioural scoring model, a tool that permits a greater predictability of the assumed risks and which are used both for pre-sale as well as for sale.

Parameters of credit risk

The valuation of the customer and/or operation, through rating or scoring, is an assessment of credit capacity which is quantified through probability of default (PD). In addition to the customer's valuation, the quantitative risk analysis considers other features such as the period of the operation, the type of product and the existing guarantees. Thus, what is taken into account is not just the probability of the customer entering into default (PD) but the exposure at default (EAD) is also estimated and the proportion of EAD that is not recoverable (loss given default or LGD).

These factors (PD, LGD and EAD) are the main parameters of credit risk, allowing when jointly considered the estimate of both the expected loss and the non expected loss. The expected loss (or probable loss) is considered as a further activity expenditure (reflecting the risk premium), with this risk conveniently included in the price of the operations. The unexpected loss, which is the basis of the estimation of the regulatory capital in accordance with the standards of the Basle Capital agreement (BIS II), relates to a very high loss level, although not very probable, which is not considered

recurrent due to its nature and can thus be covered by equity funds.

In small and medium sized enterprises, the balance sheet information is used not just for the rating attribution but also to obtain explanatory factors as to probability of default. In retail portfolios PD is estimated by observing delays being entered and correlating these with the scoring attributed to the operations. Excepted are portfolios in which, derived from a lower internal default experience, such as financial institutions, country risk or wholesale banking, the calculation of these parameters is based upon alternative sources of information, such as market prices or assessments by experienced and competent agencies with a portfolio containing a sufficient number of bodies (such portfolios are designated as low default portfolio).

The calculation of LGD is based upon the observation of the recovery process of operations in default, considering not only the income and expenditure related to this process but also the timing when these come about and the indirect costs deriving from the recovery activity.

The EAD estimation is based upon the comparison of the use of committed lines at the moment of default and at a normal situation in order to identify the lines' real consumption at the moment default takes place.

The estimated parameters are immediately linked to normal operations and differentiated for low default portfolios and for the remainder.

Credit risk cycle

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

This process commences in the business area, which proposes a given risk probability. These risks are analysed and decided upon by specific committees, which act with competences delegated by the Executive Committee or the Higher Credit Council (CSC). It is the CSC that establishes policies and procedures and the limits and delegation of capacities.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic process that identifies the risk profile that the Bank is prepared to assume, through the assessment of the business proposals and the opinions of the Risks area.

With large corporate groups a pre-classification model is used based upon a measuring system and follow-up of economic capital.

With portfolio risks the more basic level is that of the customer and when certain features concur – generally at a level of relative importance – this is the object of an individual limit, normally designated as pre-classification, through a very simplified system and normally for those customers that comply with certain requisites (personal knowledge, rating, etc.).

With standardized risks the planning process and establishing of limits is carried out via a joint preparation, by the Risks and Business areas, of programmes of credit management (PGC) where the expected results of the business in terms of risk and profitability are shown, as well as the limits to which the activity and the related risk management must be subject.

Risk assessment, decision on operations and follow-up and control

Risk assessment is a prior requisite to the authorization of any credit operation in Banco Santander Totta. This assessment consists in analysing the customer's capacity to comply with the contractual commitments with the Bank, which implies analysing the customer's credit qualities, its credit operations, its solvency and its profitability. Additionally an assessment and a review are also carried out of the attributed rating whenever there is an alert or event that affects the customer/operation.

The decision process on operations is aimed at analysing and deciding, taking into consideration the risk profiles and the relevant components of the operation by determining a balance between risk and profitability.

In order to maintain adequate control of the portfolio's credit quality, in addition to the actions developed by the Internal Audit, a specific follow-up function is established in the Risks area, made up of special teams and responsible officers. 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 incidents that may occur in the evolution of the risk, with the end in view of carrying out, in anticipation, the required mitigation actions.

Recoveries

Recovery management in Santander Totta is an integrated business strategic activity. The specific objectives of the recovery process are the following:

- Ensure the collection or the settlement of the values in irregular situations, with preference for negotiated solutions, so that the customer's credit situation returns to normal. In case the negotiated solution is not possible, the Recoveries area will then try to recover credits through the courts of law;

- Maintain and strengthen relations with the customer, safeguarding his behaviour with respect the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private and Business & Companies, with specific management models. Recoveries management, thus segmented, also respects the distinct management stages: preventive management, management of irregulars and management of non performing loans and bankruptcies. The whole of this activity is shared with the business areas.

Counterpart Risk

The counterpart risk, latent in contracts carried out in financial markets – organized or over the counter markets (OTC) – corresponds to the possibility of non performance by the counterparts under the contracted terms and subsequent occurrence of financial losses for the institution.

The types of transactions covered include the purchase and sale of securities, operations in the interbank money market, "repos" contracting, security loans and derivative instruments.

The control of these risks is carried out via an integrated system that permits the record of the approved limits and

provides information as to their availability for the different products and maturities. The same system equally permits the transversal control of the concentration of risks for certain groups of customers/counterparts.

The risk in derivative positions, known as Equivalent Credit Risk is the result of the addition of the present value of each contract (or the current replacement cost) with the respective potential risk, providing a component that reflects an estimate of the expected maximum value until maturity, according to the volatility of the underlying market factors and the contracted flow structure.

A significant reduction in the derivatives activity occurred during 2011, with a sharp fall in the number of customers and operations in progress. As to product families and segments that contributed most to the referred trend were interest rate contracts as well as contracts in progress with financial institutions. At the same time a generalized increase was evident in the present value of contracts in progress (Mark-to-Market) due to level variations and interest rate volatility, particularly the Euribor rates.

Santander Totta

Derivatives - Credit Risk Equivalent as of 31/12/2011 (10³ Euros)

	Total Consolidated				Total
	<1 Year	1-5 Years	5-10 Years	>10 Years	
Interest Rate Derivatives	91,979	228,251	546,306	1,166,415	2,032,951
Foreign Exchange Derivatives	7,372	7,888	65,689	0	80,949
Equity Derivatives	1,675	5,653	0	0	7,329
Total	101,026	241,793	611,995	1,166,415	2,121,229

Market Risk

Activities subject to market risk

The segment of measurement, control and follow up of financial risks comprises the operations where asset risks are assumed. The risk derives from the variation in risk factors – interest rate, exchange rate, variable income and respective volatilities – as well as the solvency risk and the liquidity risk of the various products and markets where Santander Totta operates.

In line with the effect of the risk, activities are segmented as follows:

- Negotiation: this division includes the financial service rendered to customers;
- Balance sheet management: interest and liquidity risk arises as a result of the timing differentials existing in the maturities and re-pricing of assets and liabilities. Additionally, this division also includes the active management of the credit risk inherent to the situation of 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 in this division are investments made through shareholdings in companies that do not consolidate, financial and non financial, that may generate variable income risks.

Methodologies

Negotiation Activity

The standard methodology, applied within the scope of Santander Totta's banking activity, is the Value at Risk (VaR). The standard of historic simulation is the base used, with a 99% confidence level and a one day time frame, with the application of statistical adjustments that allowed a swift and effective inclusion of the more recent events that condition the assumed risk levels.

Stress testing is used as a supplement, consisting in the definition of behavioural scenarios of differing financial variables and to obtain the respective impact on income when applied on the activities. These scenarios can replicate the behaviour of financial variables in relation to past occurrences (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 probability of occurrences not covered by VaR.

Several measures of sensibility (BPV and Greeks) and equivalent volumes are equally also calculated.

A daily following up of the positions is carried out in parallel, with an exhaustive control of the changes occurring in portfolios, in order to detect profile alterations or possible incidences for their correction. The daily preparation of the income and expenditure account is a risk indicator, since it allows identifying the impact of variations on the financial variables or of the changes in the contents of portfolios.

Calibrations and contrast measure (Back-testing)

The reliability of the VaR model is periodically checked through a back-testing analysis. Back-testing consists of a comparative analysis between the estimates of the Value at Risk (VaR) and the clean P&L (result related to the revaluation of the closing portfolios of the previous day at the closing prices of the following day), where the spot/sporadic variations of the results deriving from the estimated measures are analysed.

The back-testing analyses that are carried out for the banking activity in Santander Totta, comply with the BIS recommendations, as regards the comparison with the

internal systems used in the measurement and management of financial risks. Additionally, hypothetical tests are carried out in back-testing: excess tests, normality tests, measures of average excess, etc.

Limits

In the case of negotiation portfolios, quantitative limits are used that are classified in two groups, and 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 or Greeks) or over equivalent positions;
- Limits intended to protect/accommodate the volume of effective losses or to protect results already reached during the period. The objective of this type of limits is to generate alerts on positions that are generating losses (loss triggers), allowing that decisions be taken before the limit of maximum loss is reached (stop loss), and from which it will be considered that losses have reached unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR during the year

Following is the risk variation relative to the negotiation activity in the financial markets during 2011, quantified through VaR:

VaR was kept at reduced levels, varying between 30,000 euros and 131,000 euros.

Balance Sheet Risk

The management of structural risk is ensured by a body in the highest structural level with decisions being taken by the Assets & Liabilities Committee (ALCO), presided by the Chairman of the Executive Committee, which comprises the Directors responsible for the Financial, Risks, Commercial and Marketing areas. The committee meets on a monthly basis.

Interest rate risk

The interest rate risk of the consolidated balance sheet is measured through a model of dynamic risk analysis of the market risk of the balance sheet, modelling the timing variation of risk factors and the Bank's positions over the assets and liabilities sensitive to variations in interest rates. The model used allows measuring and controlling all the risk factors related to the balance sheet market risk, namely the risk originating directly from the movement of the income curve, given the existing structure of indexing factors and re-appreciation, which determine the exposure to interest rate risk of the aggregates that constitute the balance sheet.

Considering the uncertainty in the variation of interest rate levels in 2011, the policy followed was to keep sensitivity at the adequate levels.

Exchange rate risk

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, and enable it to prepare a timely, adequate and better quality 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 the Assets & Liabilities Committee. The limits of liquidity risk 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.

All the liquidity management procedures are focused on crises prevention and not on reacting to them. This idea underlies the contingency plan that is focused in modelling potential crises through the analysis of several scenarios, in the identification of the crisis types, in the definition of internal and external communications, as well as the responsibility for each of the areas involved in the process.

Liquidity management is carried out at the consolidated level. The Group's financing policy takes into consideration the variations of the balance sheet components, the structural situation of the maturities of assets and liabilities, the level of net 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 balanced. In December 2011, the Bank presented an asset situation in the short term monetary market of approximately 300 million euros.

The capital market operated without regularity throughout the year. In this context the ECB, by leading monetary policy assumed itself as the counterpart of the system via 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 2011, the Bank held 14.3 billion euros of eligible assets that constitute a very comfortable liquidity cushion.

Operational Risk

Santander Totta defines operational risk as "the risk of loss resulting from deficiencies or failures in internal processes, 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.

The objective with regard to the management and control of the operational risk is based upon identification, measurement, assessment, control, mitigation and information on the respective risk.

The Top Management must be actively involved in the operational risk management procedure, approving and following up all the risk policies in order that the defined objectives are achieved, and which are, amongst others:

- Implement and develop a model of global and integrated management of the operational risks;
- Ensure that all employees are trained on the topic of operational risk, with the objective of detecting and mitigating;
- Reduce and control operational risk up to the limits defined by Top Management (risk appetite).

The model for management and control of operational risk is based upon direct and active management by all the areas of all the stages of the operational cycle which is embodied in decentralizing duties and responsibilities, with an existing central area that controls and supervises, and is responsible for the implementation of the corporate project. This model, as a whole, complies with the requisites established by Basle II, as well as with those established by the Bank of Portugal.

The implemented model has the following global advantages:

- Permits an integrated and effective management of the operational risk. From its identification to the availability of information concerning it;
- Improves the knowledge of operational risks, both effective and potential, and their attribution to business lines;

- Contributes towards the improvement of procedures and controls.

The measurement and assessment of operational risk is carried out through the use of quantitative and qualitative tools that allow identifying the potential risk underlying areas and processes. These tools comprise the data base of events, operational risk indicators, self-assessment questionnaires and alert systems.

When “alert” indications appear in the data obtained through any of the tools, these are analysed and followed up in order that measures adequate to the situation are taken.

The different stages of the model of Operational Risk (OP) permit:

- Identifying the operational risk inherent to all the Bank’s activities, products, processes and systems, both existing and novel;
- Measure and assess the operational risk objectively, continually and in coherence with the Basle II standards and with the activity, define objectives and analyse the risk profile determining the respective limits;
- Continuously follow up exposures to OR with the objective to detect not assumed risk levels;
- Implement control procedures, improving awareness of the causes of OR as well as its implications;
- Establish mitigating measures that eliminate or minimize the OR;
- Define and provide policy documents for OR management and implement methodologies for OR management, in line with existing standards and best practices;
- Prepare periodical reports on exposure to OR and respective control level to be submitted to Top Management and Group’s Areas/units.

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 institute 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, detection 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;
- Department codes;
- New products policy;
- Financial risks policy;
- Quality policy;
- Social responsibility and environmental defence policy.

Proposal for the Application of Results

Net income for the year ended on 31 December 2011, amounted to €22,288,647.63 (twenty two million two hundred and eighty eight thousand six hundred and forty seven euros and sixty three cents) and the consolidated net income, in the same year, was €47,120,995 (forty seven million one hundred and twenty thousand nine hundred and ninety five euros).

In the terms of article No. 19 of the Statutes, the Board of Directors proposes the following distributions of the net income:

1. Legal Reserve: €2,228,864.77 (two million two hundred and twenty eight thousand eight hundred and sixty four euros and seventy seven cents);
2. Earnings carried forward: €20,059,782.86 (twenty million fifty nine thousand seven hundred and eighty two euros and eighty six cents)

Lisbon, 29 February 2012

THE BOARD OF DIRECTORS

Additional Information and Attachments

Prevention of Money Laundering

Santander Totta likens itself with the society and the authorities of the different countries in which it operates when recognizing the importance of prevention and combating money laundering and financing of terrorism, since these are phenomena that affect essential features of life amongst society and may put at risk the Rule of Law.

As such, the Bank considers that the best way to comply with its commitment is to apply efficient internal standards and procedures, develop the banking business in line with strict ethical rules, install standards of action and controlling and communication systems, in order to prevent that its units be used for money laundering and financing terrorism, and guarantee that all the Bank's employees follow the determined policies and procedures.

The Bank has regulations, has an organic structure dedicated to the prevention and control of money laundering, integrated in the Department of Compliance, Coordination and Institutional Issues, has a cadre of staff trained in this matter, that is regularly updated to detect potential risk situations, uses automated procedures to detect transactions with certain risk typologies and a system that communicates internally transactions that may possibly have such risks attached.

Units headquartered abroad have been the object of visits and/or centralized control to check and follow up the effective operation of systems to prevent and control money laundering and financing terrorism: These units have been applying the procedures determined by the Bank or the legal regulations of the country where they are located, should the latter be more demanding.

The internal system for the prevention and control of money laundering is audited annually, in order to certify

integrity and check compliance with legal regulations and with the Bank's criteria and procedures.

Shareholder Structure

Shareholder	Nº shares	%
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 transparency of information and valuing of assets

In order to comply with the Bank of Portugal's recommendation issued through circular letter No. 97/08/DSBDR dated 3 December 2009, the replies requested to 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 FSs -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 FSs -Notes 3 and 26.
4.	Description of the type of activities developed, including the description of the instruments used, their operation and qualification criteria that products/investments must comply with;	See Report and Accounts – Chapter: - Business areas. See attachment to Consolidated FSs -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 FSs -Note 47 – disclosure of the management policies over the financial risks inherent to the Group's activity and their monitoring.
7.	Description of the practices in risk management (including, particularly in the current environment, the liquidity risk) relevant to the activities, description of any identified frailness/weakness and the corrective measures adopted;	See item 6 above.

III. Impact on Results of the Period of Financial Turbulence		
8.	Qualitative and quantitative description of the results with emphasis on losses (when applicable) an impact on the write-downs on the 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 impact suffered;	N.A.
11.	Comparison of i) impacts between (relevant) periods and of ii) financial statements before an 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 price 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 FSs -Note 47.
15.	Disclosure of the impact that the variations to the spreads, related to the institution's own liabilities, had on the results, as well as the methods used to determine that impact;	See Report and Accounts – Chapter: - Economic and financial information. Liabilities deriving from issues of Santander Totta are recorded at the amortized cost.

IV. Levels and Types of Exposures Affected by the Period of Turbulence

16.	Nominal value (or amortized cost) and fair value of the "live" exposures;	See Report and Accounts – Chapter: - Risk management. See attachment to Consolidated FSs – Notes 1.3 e) and f) and 47.
17.	Information on mitigating factors of credit risk (e.g. via credit default swaps) and the respective effect on existing exposures	See attachment to Consolidated FSs 1.3 f), 7, 12 and 47.
18.	Detailed disclosure on exposures, broken down by: - Seniority level of exposures /tranches held; - Credit quality level (e.g. ratings, vintages) - Geographical areas of origin; - Sector of activity; - Origin of exposures (issued, held or acquired); - Product characteristics: e.g. ratings, weight/part of sub-prime associated assets, discount rates, spreads, financing; - Characteristics of underlying assets: e.g. vintages, "loan-to-value" ratios, credit privileges, weighted average life of the underlying assets, variation assumptions of pre-payment situations, expected losses.	See attachment to Consolidated FSs 3, 11, and 47.
19.	Movements occurred in exposures between relevant reporting periods and the 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 had not been consolidated (or that had been recognized during the crisis) and the related reasons;	N.A.
21.	Exposure to monoline insurers and quality of the assets insured: - 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 credit protection; - Value of write downs and losses, broken down between realised and non realised amounts; - Breakdown of exposures per rating or counterpart;	Santander Totta does not have exposures to monoline insurers.

Organic Structure by Position (in 2011)

Nuno Manuel Amado (renounced office on 27/01/12)

Internal Audit – Miguel Cabeza Ruiz

- Operational Risks
- Credit Risks
- Financial Risks

Human Resources – Isabel Viegas

- Human Resources Management
- Administrative Management
- Training, Knowledge & Development
- Compensation and Information

Off. Chairman of Executive Committee

António Vieira Monteiro (appointed Chairman of the Executive Committee on 31/01/12)

Off. Risk Management Control – Manuel Aragão

Recoveries – Teresa Ribeiro

- Tele-collections
- Recoveries
- Recoveries North
- Recoveries South
- Follow up & Legal Control

Standardized Risks – Inês Furtado

- Risk Information Systems
- Privates Risks
- UDO Business North
- UDO Business South
- Follow up of Non-Portfolio Customers

Wholesale B. & Companies Risks – Amílcar Lourenço

- Technical Services
- Wholesale Banking
- Commercial Banking
- Follow up of Portfolio Customers

Solvency, Markets & Credit Control – Alfredo Diez

- Control & Analysis of Commercial Risks
- Control & Analysis of Major Risks
- Infrastructure & Risk Information
- Financial Risks
- Capital – BIS II

Real Estate Divestment – Jacinto Galante

- Technical Divestment Regularization
- Real Estate Sales
- Divestment Contracting
- Divestment Control Management

Risk Planning & Projects – José Leão

Universities – Sebastião Beltrão

Higher Credit Council

José Manuel Elias da Costa

Companies – North – Paulo Natal

- Specialists-Energizers North
- Júlio Dinis - Porto 1
- Braga
- Guimarães

- Maia
- Boavista - Porto
- Aveiro
- Viseu
- Coimbra
- Júlio Dinis - Porto 2
- Risks North
- Customer Management and Follow up North
- Companies Middle Office North

Companies – South – Jorge Mogo

- Specialists-Energizers South
- Rua do Ouro - Lisbon
- Conde Valbom - Lisbon
- Montijo
- Odivelas
- Estoril
- Leiria
- Faro
- Funchal
- Columbano B. Pinheiro – Lisbon
- Rodrigo da Fonseca - Lisbon
- Iberian Companies - Lisbon
- Company Risks South
- Customer Management and Follow up South
- Div. Companies Middle Office South

Support to Company Business Network

Real Estate Credit/Construction Development – António Fontes

- Construction Development North
- Construction Development South
- Real Estate Risks

Institutional Customers – Pedro Fialho

- Institutional Customers
- Dynamizing Institutional Customers
- Collective Covenants

Specialized Credit – Francisco Lufinha

- Factoring & Confirming
- Direct Channels

International Desk – Pedro Correia

João Baptista Leite (co-opted on 14/07/11)

Technology & Business Systems – Nuno Frias Costa

- Planning & Financial Control
- Governance & Compliance
- Planning Management & Technical Implementation
- Business Processes
- Network Means

Real Estate, General Services & Security – Pedro Rodrigues

- Security
- Financial Control
- Works & Maintenance
- Areas & Assets Management
- General Services

Operations – Elsa Graça

- Middle Office, Assets & Liabilities
- Trans-nationality
- Custody, Markets & Financial Assets
- Leasing
- Official Bodies and Contractual Support
- Control, Innovation & Efficiency Systems
- Accounting Controls
- Forwarding & Records

Organization – Otilia Casquilho

- Structures
- Planning & Control

Integral Expense Management – Mário Paulino

- Purchasing Management
- Optimization & Expense Control

Technological & Operational Risk – Esther Casillas

- Operational Risk
- Operational Treasury & Brokerage Risk
- Information Security & Technology Risk

Supplementary Channels – Joaquim Calça e Pina

- Contact Centre
- Self-Banking
- NetB@nco

José Carlos Sftima

Business Legal Consultancy – António Terra da Mota

- Corporate Consultancy
- Network Consultancy
- Consultancy for Global Major Banking

Institutional & Compliance Issues– João Labareda

- Compliance
- Prevention of Money Laundering

Supervision – João Pedro Mendes

José Leite Maia

Individuals & Business – North – Manuel Cerejeira Castro

- Companies - North
- Individuals - North
- Business Support - North
- Control of Irregulars – North
- Price Decision - North
- Individuals & Business North 1
- Individuals & Business North 2
- Individuals & Business North 3
- Individuals & Business North 4
- Individuals & Business North 5
- Individuals & Business North 6
- Individuals & Business North 7
- Individuals & Business North 8
- Individuals & Business North 9

- Individuals & Business North 10
- Individuals & Business North 11
- Individuals & Business North 12
- Individuals & Business North 13
- Individuals & Business North 14
- Individuals & Business North 15

Individuals & Business – South – Sofia Frère

- Companies - South
- Individuals - South
- Business Support - South
- Control of Irregulars – South
- Price Decision - South
- Individuals & Business South 1
- Individuals & Business South 2
- Individuals & Business South 3
- Individuals & Business South 4
- Individuals & Business South 5
- Individuals & Business South 6
- Individuals & Business South 7
- Individuals & Business South 8
- Individuals & Business South 9
- Individuals & Business South 10
- Individuals & Business South 11
- Individuals & Business South 12
- Individuals & Business South 13
- Individuals & Business South 14
- Individuals & Business South 15
- Individuals & Business South 16
- Individuals & Business South 17
- Individuals & Business South 18

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

Private Banking North – Luís Coimbra

Premium – António Lourenço

- Dynamizing Premium North
- Dynamizing Premium South
- Support to Premium Segment

Business Follow Up – António Velez do Peso

- Business Follow Up North
- Business Follow Up South
- Support to Business Follow Up

Network Control & Dynamics – Joaquim Filipe

- Planning & Control of Network Management
- Network Operational Marketing
- Management & Dynamics of Commercial Network
- Support to Network Projects & Insurance Brokerage

Real Estate Promoters & Brokers – José Alberto Moura

- Management Support
- SMI North
- SMI South
- Promoter Shops

International – António Carneiro
Support & Network Dynamics
Branches & Management Control
Europe
America and Africa

Support to Private & Business Network – Pedro Loureiro

Luís Bento dos Santos

Quality – Abel Bernardes
Customer Support
Control and Assessment
Management of Customer Experience

Image & Internal Communication – Rui Santos

External Communication – Cristina Neves

Public Relations & Events – Cristina Carvalho

Shareholders – José Pacheco

Miguel Bragança (renounced office on 11/02/12)

Accounting & Management Control – Marco Silva
Internal Control and Standards
Prudential Control
Payments
Accounting
Management Control
Group Consolidation

Financial – Manuel Preto
Corporate Finance
Shareholdings and Fiscal Matters
Management of Assets & Liabilities
Short Term Markets
Strategic Planning & Investor Relations
Economic Research

Marketing
Marketing and Segment Planning
Publicity & Communication

Products and Private Services – Alexandra Brandão
Liabilities & Price Lists
Consumer Credit
Mortgage Loans

Products & Company Services – Inês Oom de Sousa
Credit, Resources & Partnership Services
Transaction Banking
International Business
Customer Service
Corresponding Banks

Means of Payment – Inês Gouveia
Technical & Control
POS
Card Risks
Means of Payment Operations
Cards

Studies e CRM – Sara Fonseca
Technical & Support
Analysis & Studies

Pedro Castro e Almeida

Corporate and Investment Banking – João Veiga Anjos

Credit Markets – André Gorjão Costa

Global Transaction Banking – Hélder Gomes
Global Customers - Sales Lisbon 1
Global Customers - Sales Lisbon 2
Global Customers - Sales Porto
Global Customer Products

Fixed Income Sales
Corporate Sales
Santander Global Connect

Equities – Luís Capitão-Mor
Cash-Equity
Structured Products

Middle Office & GBM Control – António Rebocho
Sales Trading Support
Customer Service Support

Business Control – José Viegas
Financial Institutions Group – Carlos Ramalho

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

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

Name	Company	Office
Nuno Manuel Silva Amado ¹	Banco Santander, S.A (Spain)	General Manager Member of the Management Committee
	Santander Totta, SGPS, S.A.	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee
	Portal Universia Portugal, S.A.	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee
	Portuguese Spanish Chamber of Commerce & Industry	Vice-Chairman of the Management Committee
Matias Rodrigues Inciarte	Banco Santander, S.A (Spain).	Third Vice-Chairman of the Board of Directors
	Santander Totta, SGPS, S.A.	Chairman of the Board of Directors
	Banco Espanhol de Crédito, S.A.	Member of the Board of Directors
	Financeira Pinferrada, S.A.	Member of the Board of Directors
	SCH Seguros e Resseguros, 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	
Miguel de Campos Pereira de Bragança ²	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Taxagest - Sociedade Gestora de Participações Sociais, S.A.	Chairman of the Board of Directors
	Partang, SGPS, S.A.	Member of the Board of Directors
	Unicre – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
António José Sacadura Vieira Monteiro ³	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
	Faculty of Human and Social Sciences	Member of the General Council
	Vieira Monteiro, Lda.	Manager
José Carlos Brito Sítima	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the General Meeting
	Partang, SGPS, S.A.	Member of the Board of Directors
	Tottaurbe – Empresa de Administração e Construções, S.A.	Chairman of the Board of Directors
Luís Filipe Ferreira Bento dos Santos	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
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	Managing Director, Member of the Management Executive Committee and Head of Manufacturing
José Urgel Moura Leite Maia	Totta – Crédito Especializado, Instituição Financeira de Crédito, S.A. ⁴	Member of the Board of Directors
	Friends of Recife Association	Chairman of the Audit Board
José Manuel Alves Elias da Costa	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee

¹ Renounced office on 27/01/12

² Renounced office on 11/02/12

³ Promoted from Member to Chairman of the EC on 31/01/12

⁴ Office terminated on 01/04/11 (company was merged into Banco Santander Totta, S.A.)

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
Luís Manuel Moreira de Campos e Cunha	Santander Totta, SGPS, S.A.	Chairman of the Audit Board
	Serralves Foundation	Vice-President
	SEDES – Association for Economic and Social Development	President
	Lisbon New University	Professor
Ricardo Manuel Duarte Vidal de Castro	Santander Totta, SGPS, S.A.	Member of the Audit Board
	Banco Rural Europa, S.A.	Member of the Audit Board ¹
	Clube do Autor, S.A.	Director
Pedro Manuel Alves Ferreira Guerra	Santander Totta, SGPS, S.A.	Alternate Member of the Audit Board

Movements in Shares and Bonds of Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of Company Law and CMVM Regulation 5/2008, following were the movements in shares and bonds carried out by Corporate Officers during 2011:

Name	Securities	Opening 31/12/10	Movements in 2011				Closing 31/12/11
			Date	Purchases	Disposals	Unit Price (€)	
Nuno Manuel Silva Amado ²	BST-Inv. Premium 2011-8,25% Cx Bonds	100	28-03		100 (*)	50	0
Miguel de Campos Pereira de Bragança ³	BST, SA Shares	6.053					6.053
	BTA-Rendimento Certo Cx. 05/2013 Bonds	300	31-01		300 (*)	50	0
António José Sacadura Vieira Monteiro ⁴	BST – Euro Banca 7% - 7/2011 CX Bonds	100	30-05		100 (*)	50	0
	BTA-Rend. Certo Cx.05/2013 Bonds	300	31-01		300 (*)	50	0
Luís Filipe Ferreira Bento dos Santos	BTA – Rendimento Certo Cx. 05/2013 Bonds SPOUSE	200	31-02		200 (*)	50	0
	BSP Rendimento Crescente 6% Cx 08/2011 Bonds - SPOUSE	500	25-08		500 (*)	50	0
	BST – Rendimento China 8% 07/2011 Bonds SPOUSE	400	24-01		400 (*)	50	0
José Urgel Moura Leite Maia	BST – Aqua rendimento 22/08/2011-CX Obrig. (Bonds)	300	22-08		300 (*)	50	0
	BST – Rendimento China Premium 10%-07/2011-CX Obrig. (Bonds)	500	10-01		500	54,76	0
	BST – Valor Premium 07/2011 CX Obrig. (Bonds)	500	27-06		500 (*)	50	0
João Baptista Leite	BST – Caixa EUA – Cx Bonds	820	30-06			50	820
	BST – Caixa Rendimento América latina Top 3 Bonds	400	01-08			50	400

(*) refund

¹ Office terminated on 05/09/11 (dismissed in General Meeting)

² Renounced office on 27/01/12

³ Renounced office on 11/02/12

⁴ Promoted from Member to Chairman of the EC on 31/01/12

Corporate Governance

I - Report

This report is prepared in accordance with the provisions of article No.70º, § 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, as such, indirectly controls 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.

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

Consequently there are no privileged shares of any type. Equally there are no restrictions whatsoever to the possibility of share transmission, which is 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 statutes 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 Board of Auditors, 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 respective Chairman or by two Directors.

The Board of Directors does not have the powers 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 of the statutes, such situations being subject to 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 evolution 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 operational 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 counterpart 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 areas of the Bank's business 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 working capital loans, financing projects, trading, exports and real estate;
- Global Banking & Markets – includes essentially the Bank's activity in financial markets (interest rate, exchange rate and securities' markets) and with large companies, rendering services of financial consultancy, such as Corporate and Project Finance, such as securities' custody and stock exchange brokerage orders received from customers;
- Corporate Activities – this area comprises all the activities developed within the Group which provides 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 III – Model of Internal Governance

Itemized below are the most relevant and the specific activities of the multiple interdisciplinary basic committees that follow up and control all the institution's activity.

Higher Credit Council

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

Risks

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

ALCO – Assets and Liabilities Committee

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

ARC – Analysis & Resolution Committee

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

Product Follow Up and Marketing

Approves products and services and respective follow up, singling especially those incidences that may occur and the reputation risk that may be generated.

Expenditure and Investments

Assesses, decides, follows up and controls expenditure and investment.

Private

Follows up the activity of the Massive Private segment, permanently ensuring the adequacy of the strategies, commercial actions and Products for the Customers in order to maximize commercial effectiveness in this segment.

Companies

Follows up the evolution of the commercial activity of the Companies segment, ensuring that it is being carried out within the objectives set in the scope of the STEP project and that the several activities launched are effectively being implemented at the rate foreseen.

Business

Follows up the evolution of the commercial activity of the Business segment (both portfolio and non – portfolio), ensuring that it runs within the objectives set in the STEP2n project, the adequacy of the strategies and commercial actions and Products for Customers and also that the several initiatives launched under cover of this project are being

implemented at the foreseen rate and with the expected effectiveness.

Premium

Follows up the evolution of the commercial activity of the Premium segment and ensures the implementation of the integrated approach to the Premium segment within the objectives of the launched project.

Customer Capturing and On-Boarding

Rethinks 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.

Distribution and Multi-channelling Model

Rethinks the Distribution model and adapts it to the requirements of the new commercial model.

Positioning and Communication

Rethinks the positioning of the trade mark and its Communication strategy facing the changes foreseen for the commercial model of capturing and Customer relations.

Customer Quality/Experience

Defining of objectives and review of the Quality system, control of service levels, defines and follows up the improvement plans implemented in the Central Networks and Services, follows up the number and resolution of Customers' complaints.

Control of and Compliance with Standards

Follows up and checks the Compliance policies and promotes an internal control environment, namely through the effective application of the Risk Management system.

Technological and Operational Risk

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

Taxation

Assesses the legal changes and the fiscal rulings with impact in the Group's institutions and determines the appropriate measures to comply with the 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.

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

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

Such policies and procedures are available and easily accessible 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

This mission is comprised in the Control Office / Risk Management Mission – CORMM, headed by Dr. Manuel Osório de Aragão.

Its general duties are to ensure the efficient and adequate operation of the model of internal control, aiming to assess the relevance of the occurred risks and the degree of effectiveness of the measures adopted for their control, mitigation and termination.

The 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, 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 information considered as relevant in the audit reports;
- Independence relative to the areas assessed;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and of the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Executive Committee;
- Promotion of an adequate and efficient level of control extensive to the whole organization, considering the different risks involved, namely Credit, Market, Liquidity, Exchange, Interest Rate, Settlement, Operational, Technological, Compliance, Reputation and Strategic Risks, without prejudice of any others that, as understood by 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 Board of Auditors 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 Executive Committee considers as opportune.

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

Due to the pronounced interconnection between the Group companies, very significant in the case of the duties in Risk measuring and control ensured by the central services with a transversal scope, the CMM was appointed to exercise its duties in all the Credit Institutions and Financial Companies directly or indirectly controlled by Santander Totta, SGPS, SA.

The activity developed is written into the CMM Report, dated may 2010. This document is intended to be used as an aid to Santander Totta's Internal Control System, with the main actions focused on following up the controls and promotion of internal control, specifically through the several actions described in the referred Report.

The right methodology developed to assess the reach and effectiveness of the controls and processes of mitigation of the Risk profiles has already been partially applied, and has been materialized in a number of tests or checks of the requisites specifically recommended for

each type of risk. Such tests and requisites were included in the recommendations made by the Basle Committee and by the Committee of European Authorities for Banking Supervision (CEBS), Committee of Sponsoring Organizations of the Treadway Commission (COSO), 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 Financial Companies (GRCIFC) and connected documentation such as Instruction No. 05/2008 from the Bank of Portugal, Regulatory Instruction No.3/2008 from CMVM and particularly in the Risk Assessment Model (RAM).

Several improvements in control and review of procedures resulted from the application of this methodology, thus contributing towards the strengthening of an environment of Internal Control. Singled out in this framework are the methodology related to the Risk of Concentration, the establishment of greater documentary evidence in the setting of a Risk Profile and, above all, the strengthening of the internal control environment induced in itself by the enhanced process of reflection and review of the areas.

The CMM report proves that Santander Totta is pledged in the continuous adequacy of its processes and mitigation of deficiencies, that the currently practised policies are globally adequate and effective. Revealing of this situation is the fact that Santander Totta, even in a macroeconomic framework of deep financial crisis, with a significant increase in the slowness of the domestic financial system with periods of an almost total lack of liquidity, is able to show a sustained performance.

The opinion of the officer responsible for the CMM is that "an environment of internal control exists generally within the organization, favourable to risk control and mitigation, with the model of Internal Governance guided so that the Top Management follows up all the relevant issues and decides on the activity (...) and that there are no risk situations that may have material influence in the companies that are not being followed up, in order that timely measures are taken for their elimination or mitigation."

b) Compliance Mission

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, and also deriving from an infringement to the Code of Conduct or

procedures that do not conform with 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 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 amendment of the incidences occurred;
- The Bank has a General Code of Conduct, and a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, that set the ethical principles and procedures that condition 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 the compliance with the General Code, which, however, is under the control of the Department of Coordination of Human Resources;

A specific procedure is instituted for the approval of New Products, which aims to guarantee the prior checking of all the necessary requisites in order that marketing is carried out without legal, reputation or compliance risks. Likewise, and within the framework of the established procedures, relevant incidences detected in the marketing of the products are followed up, in order to assess their significance and, should it be the case, introduce amendment measures or even decide to suspend or terminate their marketing if the circumstances so justify. In this context, special relevance is given to

the assessment and following up of reputation risk inherent to the products or that may be generated when available due to the occurrence of not previously estimated discrete adverse circumstances;

- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its amplitude, 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. 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 way to perform its mission, the Management promoted the institutionalization of specific compliance committees especially designed for the more sensitive areas, such as those more directly related to the financial markets, that operate periodically – once a month as a rule – and that allow considering the instituted practices, assess their conformity with the applicable legal and regulatory standards, keep the areas informed as to innovations occurred and guarantee that these are carried out, control the 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, on the one hand, follow up the evolution of the situation in this range 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.

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

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out

during the period elapsed since the last report (May 2010) and the end of May 2011.

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 mission of Internal Audit is comprised in the Audit Department.

The mission of Internal Audit is to 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, acting independently and permanently.

The organic statutes of Internal Audit have been approved by the Bank's Executive Committee and published, conferring authority for the performance of the audit mission, safeguarding the necessary objectivity and independence relative to the remaining functional areas.

It keeps the Board of Directors regularly informed of the conclusions of its task, providing information on the main features detected that, in any way, may place in question the existing system of internal control, detailing the main recommendations and their adequate following up.

The policy and mission of Internal Audit are embodied in a joint perspective for the whole Group.

The basic functions 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 it checks that the risks inherent to the Group's activity are adequately covered, particularly the risks concerning the balance sheet, the market (that includes exchange and interest rate risks), the structural balance sheet (that includes the liquidity risk), 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 them of the recommendations issued as a result of the audits, establishing an implementation timing schedule and following this up to check that such recommendations are being carried out.

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

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

Based upon the assessment of all these factors the Units covered are classified as Priority, Concerning, To Be Watched, Normal and Not Concerning. Among the Regulatory requisites, carries out reviews of the Basle II project and DMIF, and the monthly follow up of off shore companies. Additionally, the unit's reviews include the analysis and checking of the SOX processes.

12. Preparation and Disclosure of Financial Information

The objective of the internal control environment is to establish and promote a collective attitude in order to reach an effective internal control of the financial status and the preparation of credible financial statements.

The Department of Coordination of Accounting and Management Control is responsible for the preparation and disclosure of financial information. This department follows the launching of new products, the changes in the financial and accounting standards and the publication of new standards.

In the preparation of financial information this Department has implemented several control procedures, namely the control of daily portfolios, reconciliation processes of manual accounting, parametrics of operations and analysis of financial and management information.

Notes are prepared on the financial information that are later used as a base for the preparation of internal reports that are analysed by the Executive Committee, official reports and annual and half year reports.

II. Remuneration

1. Remuneration Policy applicable in 2011

The General Meeting held on 27 May 2011 approved the proposed declaration of the Remunerations Committee on remunerations policy that is quoted below.

Remunerations Policy of Corporate Officers

In statutory terms it is the duty of the Remunerations Committee of **Banco Santander Totta, S.A.** (the "Bank") to decide on the remuneration of the Corporate Officers.

The current Remunerations Committee was elected for a three year mandate at the General Meeting held on 28 May 2010, comprising the following members:

D. Alfredo Saenz Abad, representing Santander Totta SGPS
D. José Luis Gómez Alciturri

The remuneration Policy of Banco Santander Totta is framed within the policy of the Santander Group, which owns more than 99% of the Bank's share capital.

"A. Santander Group Policy

Since the following remuneration policy is fully integrated in the policy of the Santander Group, it is important to refer the extremely competitive context in which the latter's activity is developed and the circumstance that the achievement of its objectives depends largely upon the quality, the capability for work, the dedication, the responsibility, the knowledge of the business and the commitment towards the institution of those who perform the key duties 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, in the presence of the wide scope of the market in which it operates.

Consequently, the directors' remuneration policy has, as it had already in the past concerning the executive directors, the following objectives:

- Ensure that total remuneration and its respective structure (constituted by the different short, medium and long term components) are competitive with the practice of the international financial sector and coherent with the Groups leadership rationale;
- Maintain a fixed relevant and balanced component relating to the annual variable component, which is indexed to the achievement of material objectives, quantifiable and in line with the shareholder's interests;
- Include medium and long term remuneration schemes that promote the development of sustainable careers in the Santander Group through pension plans, as well as the attribution of shares indexed to the variation of the valuation of Banco Santander in the regulated market, which ensure the multi-annual basis of part of the compensation and its binding to the sustainability of the results and to the creation of value to the shareholder.

With reference to the remuneration for carrying out non-executive duties, the remuneration policy equally aims to compensate the dedication, qualification and responsibility demanded for the respective performance.

The Group created, already in 2010, the Committee for the Assessment of Remuneration Risks, whose members are persons of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives.

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 shown in the new Portuguese regulations.

B. Guiding Principles of the Remuneration Policy of Santander Totta SGPS

In line with the above, the general guiding principles of the remuneration 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, considering as well the Group it comprises;
- Definition of a policy consistent with an effective management and risk control to avoid excessive exposure to risk and conflicts of interest, on the one hand, and searching for coherence with the long term objectives, values and interests of the Bank and its employees, as well as the interests of its customers and shareholders, on the other;
- Definition of a competitive policy, considering the market practices, and reasonable, since

remuneration practice must be based on uniform, consistent, fair and balanced criteria;

- Alignment of remuneration policy with recent best practices and trends in the financial market, both domestic and international, with the ultimate objective to discourage exposure to excessive risks and promote continuity and sustainability of positive achievements and results, namely: i) setting up maximum limits for Remuneration components that must be balanced between each of them; ii) deferment in time of a portion of the Variable Remuneration; iii) payment of a portion of the Variable Remuneration in financial instruments;
- Establish the individual Variable Remuneration considering the assessment of the respective achievements (in quantitative and qualitative terms), in accordance with the duties and the level of responsibility, as well as with the Bank's results, and also in comparison with other international bodies in the same sector.

C. Components of Remuneration Policy

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

- The Remuneration Policy of Corporate Officers must be framed within the Group's directives that were established in accordance with the best practices existing in the sector.
- The way in which the assessment of the performance of the executive directors is processed derives from the referred directives. Such assessment is carried out:
 - Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
 - Annually, by the Group's Managing Director, with respect to the Chairman of the Bank's Executive Committee.
- With respect to the non-executive directors, the Chairman of the Board of Directors does not receive any remuneration in Portugal, and is remunerated for his activity in Spain; the other non-executive Director receives a Fixed and/or Variable 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.
- The members of the Board of Auditors 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 final value and eventual

payment, it is not possible to determine a maximum absolute limit for the relation between the fixed and variable components of the remunerations of the executive directors. For this reason, with respect to 2011, the only indication given will be the estimated proportion that each of the components will represent in the total annual remuneration, considering the practice followed in previous years.

C.1. Fixed Annual Remuneration

- The Fixed Remuneration is paid 14 times per year;
- The Fixed Annual Remuneration of the executive directors is determined by taking into account the criteria in use 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 2011, lower than 32.4% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration), which was the corresponding proportion of the weight of the Fixed Remuneration in 2010.

C.2. Variable Remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component which, in turn, has an Annual and a Multi-annual dimension, aiming towards a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Annual Remuneration, and should not represent, in its total annual and multi-annual components, more than 67.6% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration), which was the corresponding proportion of the weight of the Variable Remuneration in 2010;
- In order to objectively determine and bring greater transparency to the establishing of each dimension of the Variable Remuneration, the latter has to take into account the Bank's quantitative and qualitative objectives, as well as the respective indicators foreseen in the Strategic Plan that are annually defined by the Group;
- The weighting of the achievement of the strategic objectives defined by and for the Bank, either in absolute terms or as a comparison with other bodies in the sector, for the purpose of setting the Variable Remuneration, allows promoting an adequate alignment with the short and medium term interests of the Bank and its shareholders;

- In the case of allocation to the Bank, by shareholders or third parties, of responsibilities for management actions, the Variable Remuneration may, by decision of the shareholders, be placed in suspense until such claims have been established and, in case these are conclusive, the respective remuneration will not be attributed until such damages have been settled.

C.2.1. Annual Variable Remuneration

- The determination of the value of the Annual Variable Remuneration is based upon the following criteria: i) results of the Bank and of the Group it comprises, although, as to the latter, with a lower relative weight, and based upon efficient capital consumption and average growth of the operating results; ii) individual performance, taking into account the individually achieved quantitative results, as well as the contribution towards the Bank's image and reputation;
- Attribution of Annual Variable Remuneration equally depends upon the degree of achievement of the defined annual objectives;
- Annual Variable Remuneration is intended to compensate the achievement of annual results and individual achievement and may vary between 0% and 150% of the reference value defined annually by the Remunerations Committee, within the limitation referred to in C. 1. , with respect to the minimum percentage that the Fixed Remuneration will represent of the Total Annual Remuneration (once excluded the deferred portion of the Variable Remuneration), i.e. 32.4%.

C.2.2. Multi-Annual Variable Remuneration

- As a component of the Multi-Annual Variable remuneration, the Bank implemented a share plan bound to objectives, through which Banco Santander shares are attributed;
- This portion of Variable remuneration is established as a function of the 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 achievement of the Santander economic group during the referenced three year period; iii) absence of bad quality management; iv) compliance with the internal risk standards, annually approved by the Group;
- The number of shares allowed depends equally upon the valuation of the Banco Santander shares compared to that of a reference group made up of a set of international bodies in the same sector, it being possible, in a limiting situation, that no shares are attributed;

- The shares do not benefit from any risk covering contract;
- The value of the Multi-Annual Variable Remuneration must correspond, in 2011, to 18.1% of the Total Annual Remuneration (excluding the deferred portion of the Variable Remuneration).

C.2.3. Deferment of the Variable Remuneration

The variable remuneration will be the subject of deferment plan that is set between 40% and 50% of its total value.

With respect to the deferred portion, 50% of the amount will be converted into shares payable in three portions over the three following years, and the respective payment dependent upon the fulfilling of certain conditions in line with what will eventually be approved in general for the Santander Group. The remaining 50% of the deferred portion will also be paid in three portions over the following three years.

As to the non deferred 50% portion, half will be attributed in cash and the remaining half in shares.

All the values paid in shares are subject to one year's retention.

The value of the Total Annual Variable Remuneration shall correspond, in 2011, to 67.6% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration).

C.3. Benefits

- Executive directors benefit from a life insurance policy, with an insured capital amount equivalent to twice the value of the Fixed Annual Remuneration of the director in question.
- The executive directors who were directors of Banco Totta & Açores on the date of the merger, benefit from a supplementary old age or invalid pension plan, the terms and conditions of which were set in accordance with the regulation approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Bank's Statutes, which fully adopts the contents 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 plan are, namely, the exercise of the office for a minimum period, the value of the supplementary payment varying in line with the director's seniority.
- The executive directors holding a labour contract with the Bank or with any other Group Company, even if the contract should be suspended, are covered by a supplementary pension plan established by the Group for all its management

staff the terms of which were approved by the respective Boards of Directors, with no voting rights attributed for these decisions to the directors who would eventually benefit from such a plan.

- The executive directors also benefit from health insurance and from the advantages resulting from collective labour contracts applicable to all employees, including recourse to home loans.

C.4. Amounts paid by other companies owned by or related to the Group

Amounts paid to executive directors by other companies owned by or related to the Group, have a total value of 1.3 million euros (with exclusion of the deferred portion of Variable Remuneration), a value that is expected may be maintained in 2011.

D. Supplementary features

Attribution of option plans was not placed in practice in 2010 nor is it foreseen for 2011.

Considering the provisions of §5 of article No. 403 of Company Law, statutory limits to compensation for the early termination of the duties of corporate officers have not been defined nor is their introduction proposed.

No compensations were paid, in 2010, for the early termination of the duties of corporate officers, and to date it is not expected that such will occur in 2011.

E. Compliance with the recommendations over remuneration policies defined by the Bank of Portugal

The remuneration policy of the Bank's corporate officers is globally in line with the principles comprised in chapter I of the Circular Letter No. 2/2010/DSB issued by the Bank of Portugal, guided by its simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the establishment of the total remuneration of the corporate officers, comprising fixed and variable portions, as well as the connection between these two components, as set out in this Declaration, allow concluding for the adoption, in general terms, of the

recommendations contained in chapter IV of the referred letter, which is manifestly its basic nucleus.

The circumstance that the Bank is comprised in the Santander Group, that holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in their turn, considering the Group's global nature, respect the international recommendations covering this issue. In this context, the adoption of the remaining recommendations contained in the Circular Letter would imply a procedural redundancy and an artificial regulatory action without any practical effects. Thus the policy of Banco Santander Totta as to the issue of the remuneration of Corporate Officers is contained within these limitations, without prejudice to the compliance, in global terms, and at the time of the setting of the directives of the Group in which they belong, with rules issued in identical sense by the competent national authorities."

2. Remuneration and Other Benefits Attributed to Corporate Officers

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

The 2011 fixed and variable remunerations, in aggregate terms, paid to all corporate officers were respectively 2.399 million euros for the fixed portion and 2.123 million euros for the variable portion.

Paid and deferred individual remunerations relative to 2011 are shown in the table below.

As at 31 December 2011 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 financial companies amounted to 1.289 million euros.

Annual Remuneration

Board of Directors

Name	Position	Remuneration fixed
Matias Pedro Rodriguez Inciarte	Chairman	-
Nuno Manuel da Silva Amado *	Vice - President	530
António José Sacadura Vieira Monteiro	Member	247
Carlos Manuel Amaral de Pinho	Member	-
Eduardo José Stock da Cunha	Member	-
João Baptista Leite ***	Member	92
José Carlos Brito Sítima	Member	273
José Urgel Moura Leite Maia	Member	190
José Manuel Alves Elias da Costa	Member	258
Luís Filipe Ferreira Bento dos Santos	Member	231
Miguel de Campos Pereira de Bragança **	Member	293
Pedro Aires Coruche Castro e Almeida	Member	210
		2,324

* Renounced office on 27/01/12

** Renounced office on 11/02/12

*** Co-opted on 14/07/12

Audit Committee

Name	Position	Remuneration fixed
Luís Campos e Cunha	Chairman	36
Mazars & Associados, SROC	Member	15
Ricardo Castro	Member	24
		75

Variable Annual Remuneration

Remuneration in cash:

Board of Directors

Name	Position	Bonuses in 2011
Nuno Manuel da Silva Amado *	Vice - President	250
António José Sacadura Vieira Monteiro	Member	44
João Baptista Leite ***	Member	28
José Carlos Brito Sítima	Member	44
José Urgel Moura Leite Maia	Member	44
José Manuel Alves Elias da Costa	Member	62
Luís Filipe Ferreira Bento dos Santos	Member	55
Miguel de Campos Pereira de Bragança **	Member	89
Pedro Aires Coruche Castro e Almeida	Member	115
		728

* Renounced office on 27/01/12

** Renounced office on 11/02/12

*** Co-opted on 14/07/12

Remuneration in shares:

Board of Directors

Name	Position	Bonuses in 2011 retained by one year
Nuno Manuel da Silva Amado *	Vice - President	288
António José Sacadura Vieira Monteiro	Member	50
João Baptista Leite ***	Member	32
José Carlos Brito Sítima	Member	50
José Urgel Moura Leite Maia	Member	50
José Manuel Alves Elias da Costa	Member	71
Luís Filipe Ferreira Bento dos Santos	Member	63
Miguel de Campos Pereira de Bragança **	Member	102
Pedro Aires Coruche Castro e Almeida	Member	132
		838

* Renounced office on 27/01/12

** Renounced office on 11/02/12

*** Co-opted on 14/07/12

This amount corresponds to 128,223 shares of Banco Santander, S.A., at the value of 6.53 Euros per share, the market value (stock exchange quotation) on the date of the respective attribution.

The Santander Group, in which the Bank is comprised, also has a long term worldwide incentive plan, divided into cycles.

On 11 July 2011, the third 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 amounted to 133,727, at the value of 7.511 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 I11, was the following:

Board of Directors

Name	Position	Shares Plan I11 amount
Nuno Manuel da Silva Amado *	Vice - President	232
António José Sacadura Vieira Monteiro	Member	81
João Baptista Leite ***	Member	39
José Carlos Brito Sítima	Member	78
José Urgel Moura Leite Maia	Member	48
José Manuel Alves Elias da Costa	Member	100
Luís Filipe Ferreira Bento dos Santos	Member	104
Miguel de Campos Pereira de Bragança **	Member	194
Pedro Aires Coruche Castro e Almeida	Member	129
		1,004

* Renounced office on 27/01/12

** Renounced office on 11/02/12

*** Co-opted on 14/07/12

Deferred Remuneration

The deferred remuneration in cash relative to 2011 was as follows:

Board of Directors

Name	Position	Bonuses in 2011		
		2013	2014	2015
António José Sacadura Vieira Monteiro	Member	10	10	10
João Baptista Leite ***	Member	6	6	6
José Carlos Brito Sítima	Member	10	10	10
José Urgel Moura Leite Maia	Member	10	10	10
José Manuel Alves Elias da Costa	Member	14	14	14
Luís Filipe Ferreira Bento dos Santos	Member	12	12	12
Pedro Aires Coruche Castro e Almeida	Member	26	26	26
		<u>86</u>	<u>86</u>	<u>86</u>

*** Co-opted on 14/07/12

The deferred remuneration in shares relative to 2011 was as follows:

Board of Directors

Name	Position	Bonuses in 2011		
		2013 shares	2014 shares	2015 shares
António José Sacadura Vieira Monteiro	Member	1,703	1,703	1,704
João Baptista Leite ***	Member	1,087	1,087	1,086
José Carlos Brito Sítima	Member	1,703	1,703	1,704
José Urgel Moura Leite Maia	Member	1,703	1,703	1,704
José Manuel Alves Elias da Costa	Member	2,408	2,408	2,408
Luís Filipe Ferreira Bento dos Santos	Member	2,138	2,138	2,138
Pedro Aires Coruche Castro e Almeida	Member	4,496	4,496	4,495
		<u>15,238</u>	<u>15,238</u>	<u>15,239</u>

*** Co-opted on 14/07/12

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

Board of Directors

Name	Position	Bonuses in 2010 paid	
		Dividends	Shares
Nuno Manuel da Silva Amado *	Vice - President	7	69
José Manuel Alves Elias da Costa	Member	0	4
Miguel de Campos Pereira de Bragança **	Member	2	23
Pedro Aires Coruche Castro e Almeida	Member	2	20
		<u>11</u>	<u>116</u>

Name	Position	Bonuses in 2010	
		2013 Shares	2014 Shares
José Manuel Alves Elias da Costa	Member	588	588
Pedro Aires Coruche Castro e Almeida	Member	3,137	3,137
		<u>3,725</u>	<u>3,725</u>

* Renounced office on 27/01/12

** Renounced office on 11/02/12

*** Co-opted on 14/07/12

Other Benefits

With respect to post-employment benefits, the members of the Board of Directors who have a contractual labour binding to Banco Santander Totta and that are not included in the plan referred to below are inserted 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 a defined contribution for its entire managerial staff. This plan also includes the members of the Board of Directors that are not included in the plan referred to below.

- The executive directors who were directors of Banco Totta & Açores on the date of the merger, benefit from a supplementary old age or invalid pension plan, the terms and conditions of which were set in accordance with the regulation approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Bank's Statutes which fully adopts the contents 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 plan are, namely, the exercise of the office for a minimum period, the value of the supplementary payment varying in line with the director's seniority.

As at 31 December 2011, the liabilities with this plan amounted to 9.686 million euros and were covered by a provision recorded in the Bank's balance sheet.

Contractual Terminations

There were no payments, in 2011, of any compensation for early termination of employment of corporate officers.

3. Remunerations Policy applicable in 2011 to the Corporate Officers and Managerial Staff of Banco Santander Totta, S. A.

At its meeting held on 20 June 2011 the Board of Directors approved the following remunerations policy.

"Remunerations Policy applicable to Corporate Officers and Managerial Staff of Banco Santander Totta, S. A.

In the terms and for the purposes of the provisions of article No. 3 of Instruction no.1/2010 of the Bank of Portugal, dated 26 January (Official Gazette, 2nd Series, dated 9 February 2010), the remuneration policy is

disclosed of the employees that, not being corporate officers of Banco Santander Totta, S.A., receive Variable remuneration and exercise their professional duties within the scope of missions of control foreseen in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, or exercise activities that may have material impact on the Bank's risk profile.

As such, considered for this purpose are: i) the Managers Associated to the Executive Committee; ii) the Managers Coordinators of all the Bank's area; iii) The first line Managers of all the Bank's areas that answer directly to the Executive Committee (hereinafter all designated as Leaders); and iv) Managerial Staff (Managers, Assistant Managers and Under-Managers) that exercise duties in the Audit, Risks and Compliance areas.

A. Framework

The Remuneration Policy of Leaders and Managerial Staff follows the principles in force for the remaining employees of the Bank, with the respective operational detail foreseen in the Internal Control Model, approved by the Executive Committee on 17 December 2008, in compliance with Instruction No. 5/2008 of the Bank of Portugal.

The referred Internal Control Model contains, namely, the policies of recruitment, compensation and incentives, as well as the training and assessment policy of the organizational structure, which derives from the directives defined by the reference shareholder of the Bank for all the Santander Group and established in accordance with the best practices existing in the sector. The Santander Group has a shareholding in excess of 99% in Banco Santander Totta.

B. Santander Group Policy

Since the following remuneration policy is fully integrated in the policy of the Santander Group, it is important to refer the extremely competitive context in which the latter's activity is developed and the circumstance that the achievement of its objectives depends largely upon the quality, the capability for work, the dedication, the responsibility, the knowledge of the business and the commitment towards the institution of those who perform the key duties 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 these employee groups has, as it had already in the past concerning the executive directors, the following objectives:

- Ensure that total remuneration and its respective structure (constituted by the different short, medium and long term components) are competitive with the practice of the international financial sector and coherent with the Groups leadership rationale;
- Maintain a fixed relevant and balanced component relating to the annual variable component, which is indexed to the achievement of material objectives, quantifiable and in line with the shareholder's interests;
- Include medium and long term remuneration schemes that promote the development of sustainable careers in the Santander Group, through pension plans, as well as the attribution of shares indexed to the variation of the valuation of Banco Santander in the regulated market, which ensure the multi-annual basis of part of the compensation and its binding to the sustainability of the results and to the creation of value to the shareholder.

The Group created, already in 2010, the Committee for the Assessment of Remuneration Risks, whose members are persons of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives.

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 shown in the new Portuguese regulations.

C. Guiding Lines of the Remuneration Policy

In line with the above, the general guiding principles of the remuneration 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, considering as well the Group it comprises;
- Definition of a policy consistent with an effective management and risk control to avoid excessive exposure to risk and conflicts of interest, on the one hand, and searching for coherence with the long term objectives, values and interests of the

Bank and its employees, as well as the interests of its customers and shareholders, on the other;

- Definition of a competitive policy, considering the market practices, and reasonable, since remuneration practice must be based on uniform, consistent, fair and balanced criteria;
- Alignment of remuneration policy with recent best practices and trends in the financial market, both nationally and internationally, with the ultimate objective to discourage exposure to excessive risks and promote continuity and sustainability of positive achievements and results, namely: i) setting up maximum limits for Remuneration components that must be balanced between each of them; ii) deferment in time of a portion of the Variable Remuneration; iii) payment of a portion of the Variable Remuneration in financial instruments;
- Establish the individual Variable Remuneration considering the Bank's performance in comparison with other international bodies in the same sector, as well as the assessment of individual achievement (in quantitative and qualitative terms) in accordance with the duties and level of responsibility.

D. Components of Remuneration Policy

D. 1. Fixed Annual Remuneration

- Fixed Remuneration is paid 14 times per year;
- Fixed Remuneration is composed by the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments or other subsidies, due in legal or contractual terms;
- The Fixed Annual Remuneration is established taking into account the criteria in use by 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 Remuneration of the Leaders has the limits annually set by the Executive Committee, and should not represent, in 2011, a lower proportion than 48.5% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration), which was the corresponding proportion of the weight of the Fixed Remuneration in 2010;
- The Fixed Remuneration of the Managerial Staff has the limits annually set by the Executive Committee, and should not represent, in 2011, a lower proportion than 74.6% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration),

which was the corresponding proportion of the weight of the Fixed Remuneration in 2010.

D. 2. Variable Remuneration

- The remuneration of the Leaders and Managerial Staff comprises equally a Variable component which, in its turn, has an Annual and also a Multi-Annual size, aiming towards a balance between the short and the medium term. The beneficiaries of the Multi-Annual Component are named by the Executive Committee;
- The Variable Remuneration is adequately balanced relative to the Fixed Annual remuneration, and should not represent, in 2011, in the total of annual and multi-annual components, a proportion in excess of 47% of the Total Annual Remuneration (the value of which does not include the deferred portion of the Variable Remuneration), that was the corresponding proportion of the weight of the Variable Remuneration in 2010;
- In order to bring greater objectivity and transparency to the process of determination of each dimension of the Variable Remuneration, this takes into account the Bank's quantitative and qualitative objectives, as well as the respective indicators foreseen in the strategic plan, which are annually defined at Group level;
- The payment of 20% of the value that exceeds 100,000 euros in annual variable remuneration of the employees comprised in the Global Maiorista Bank is deferred for 3 years and paid in shares. This payment is subject to the following cumulative conditions being achieved: i) permanence in the company during a pre-established period; ii) preservation of the level of financial achievement of the Santander Group during the reference three year period; iii) absence of bad quality management; iv) compliance with the internal risk standards annually approved by the Group.

D. 2. 1. Annual Variable Remuneration

- The establishment of the value of the Variable Annual Remuneration will be based upon the following criteria: i) the Bank's performance and that of the economic Group it comprises, based upon the indicators of efficient capital consumption and of the average growth of the operating results; (ii) individual achievement, taking into account the quantitative results achieved, as well as the contribution towards the Bank's image and reputation;
- The attribution of the Annual Variable Remuneration is referred to short term achievement and depends upon the degree of achievement of the defined annual objectives and individually weighted in accordance with the respective degree

of strategic importance and in the terms of the schedule defined in the Policy of Performance Assessment contained in the Internal Control Model;

- The Annual Variable Remuneration is intended to compensate the achievement of the annual results and the individual performance, and may vary between 0% and 150% of the reference value, such as defined at the level of the reference shareholder, and may vary in each year as a function of the degree of compliance with the objectives;
- The maximum value of the Annual Variable Remuneration of Leaders and Managerial Staff represented, in 2010, respectively 39.3% and 20.9% of the Total Annual Variable Remuneration (the value of which does not include the deferred portion of the Variable Remuneration). It is estimated that, in 2011, the values will be framed within the same parameters.

D. 2.2. Multi-Annual Variable Remuneration

- As a component of the Multi-Annual Variable Remuneration, the Bank implemented a share plan bound to objectives, through which Banco Santander shares are attributed;
- This portion of Variable Remuneration is established as a function of the results obtained over a three year period and subject to the following cumulative conditions being achieved:
 - i) permanence in the company during a pre-established period; ii) preservation of the level of financial achievement of the Santander Group during the reference three year period; iii) absence of bad quality management; iv) compliance with the internal risk standards annually approved by the Group;
- The number of shares to be awarded equally depends upon the valuation of the Banco Santander shares as compared to a reference group made up of a number of a number of international bodies comprised in the sector, and may, as a limit, result in no shares being awarded;
- The shares will be given to the employees without any conditions as to their being maintained and do not benefit from any risk covering contract;
- The maximum value of Multi-Annual Variable Remuneration for Leaders represented, in 2010, 12.2 % of the Total Annual Remuneration (the value of which does not include the deferred portion of Variable Remuneration). It is estimated that, in 2011, the values will be framed within the same parameters;
- The maximum value of Multi-Annual Variable Remuneration for Managerial Staff that are beneficiaries of the remuneration represented, in 2010, 4.5 % of the Total Annual Remuneration (the

value of which does not include the deferred portion of Variable Remuneration). It is estimated that, in 2011, the values will be framed within the same parameters.

D. 3. Benefits

Without prejudice to causal or residual attributions, resulting from past measures instituted by the former employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all the Leaders and Managerial Staff enjoy the following benefits:

- Supplementary Health Insurance provided by the Service of Medical and Social assistance (SAMS) foreseen in the collective labour regulations for the banking sector;
- Life Insurance, in line with the provisions of the collective labour regulations for the banking sector;
- Personal Accident Insurance, in line with the provisions of the collective labour regulations for the banking sector.
- Supplementary pension plan instituted by a decision of the Bank's Board of Directors on 25 February 2010.

E. Compliance with the Bank of Portugal's recommendations concerning remuneration policies

The remunerations policy of the Bank's Leaders and Managerial Staff is fully in accordance with the principles contained in Chapter V of Circular Letter No. 2/2010/DSB issued by the Bank of Portugal, guided by its simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the establishment of the Total remuneration of these employee groups, comprising Fixed Annual remuneration and Variable Remuneration, as well as the

linking between these two components, such as set out in this Declaration, allow concluding for the adoption, in general, of the recommendations contained in Chapter IV of the referred letter, which is manifestly its basic nucleus.

The circumstance that the Bank is comprised in the Santander Group, that holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in their turn, considering the Group's global nature, respect the international recommendations covering this issue. In this context, the adoption of the remaining recommendations contained in the Circular Letter would imply a procedural redundancy and an artificial regulatory action without any practical effects. Thus the policy of Banco Santander Totta as to the issue of the remuneration of Leaders and Managerial Staff is contained within these limitations, without prejudice to the compliance, in global terms, and at the time of the setting of the directives of the Group in which they belong, with rules issued in identical sense by the competent national authorities."

4. Remuneration and Other Benefits Attributed to Leaders and General Staff

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 annual amount of remunerations received by employees who, not being corporate officers of Banco Santander Totta, S.A., exercise their professional activity within the scope of the missions of control foreseen in the Bank of Portugal's Instruction NO. 5/2008, dated 1 July, or perform responsible duties in assuming risks on the Bank's behalf or on that of its customers, with material impact in the Bank's risk profile

Annual Remuneration

Amount of fixed remuneration:	Euros 849,000
Amount of variable remuneration (pecuniary portion):	Euros 449,000
Number of beneficiaries:	6

These leaders are also included in the long term worldwide incentive plan, which is divided in cycles. The third cycle of the share plan bound to objectives was finalized on 11 July 2011. Within this scope, the total number of shares attributed to these leaders amounted to 17,256, at a value of 7.511 Euros per/share, corresponding to 130,000 euros.

Deferred Remuneration

None of the Leaders covered by this Declaration was subject to deferment of any portion of the respective remuneration in 2011.

Other Benefits

Leaders are covered by the Supplementary Health Insurance provided by the Service of Medical and Social assistance (SAMS) foreseen in the collective labour regulations for the banking sector and personal Accident Insurance, also in line with the provisions of the collective labour regulations for the banking sector.

Several Leaders benefit from life insurance, as a result of contractual links to the extinct Banco Santander Portugal or to Banco Santander, SA.

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

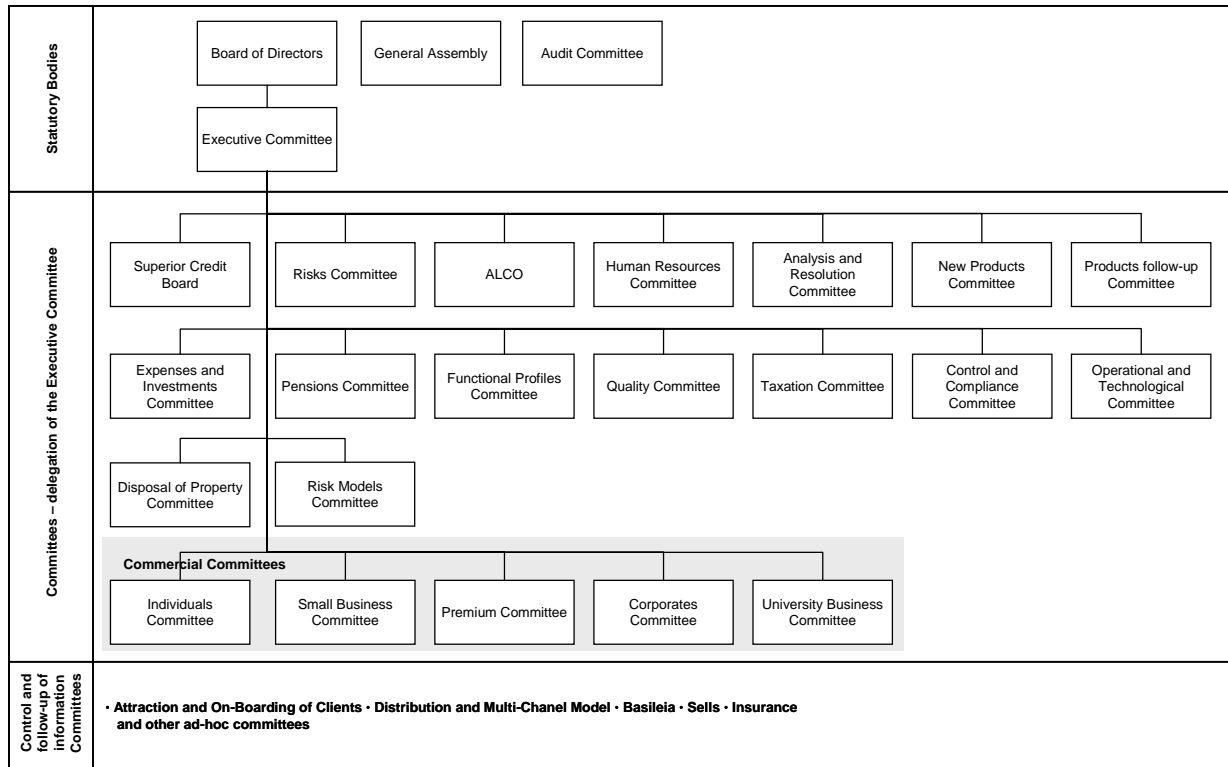
New Contracts

No employees were contracted in 2011, to exercise duties in missions of control foreseen in the Bank of Portugal's Instruction No. 5/2008, dated 1 July, or with responsibility to assume risks on behalf of the bank or of its customers, with material impact on the Bank's risk profile

Terminated Contracts

No labour contracts were terminated with Leaders in 2011.

III. Model of Internal Governance



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

Item c) of §.1 of article No. 245 of the Security 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, identified hereunder 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 Security 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 2011, 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 that company and of those companies included in the consolidation perimeter, and that the management report faithfully shows the evolution of the business, of the performance and of the position of the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties with which the all the companies were faced".

The Board of Directors

Matias Pedro Rodríguez Inciarte
Chairman

António José Sacadura Vieira Monteiro¹
Director

Carlos Manuel Amaral de Pinho
Director

Eduardo José Stock da Cunha
Director

José Carlos Brito Sítima
Director I

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 Leite²
Director

¹ Promoted from member to Chairman of the EC on 31/01/12

² Co-opted on 14/07/11

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

Item c) of §.1 of article No. 245 of the Security 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, identified hereunder 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 Security 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 2011, 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 that company and of those companies included in the consolidation perimeter, and that the management report faithfully shows the evolution of the business, of the performance and of the position of the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties with which the all the companies were faced".

The Audit Board

Chairman: Luís Manuel Moreira de Campos e Cunha

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

Ricardo Manuel Duarte Vidal Castro

Lisbon, 16 March 2012

Consolidated Financial Statements



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA) AND AS AT JANUARY 1, 2010 (PRO FORMA)

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

(Amounts expressed in thousands of Euros)

ASSETS	Notes	12.31.2011			(Pro forma)	(Pro forma)	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	12.31.2011	(Pro forma)	(Pro forma)
		Amounts before impairment, depreciation and amortization	Impairment, depreciation and amortization	Net assets	Net assets	Net assets				12.31.2010	01.01.2010
Cash and deposits at central banks	5	387.837	-	387.837	316.872	756.400	Liabilities				
Balances due from banks	6	356.962	-	356.962	236.219	217.000	Resources of central banks	18	4.913.234	4.807.162	2.026.830
Financial assets held for trading	7	1.995.784	-	1.995.784	1.649.296	1.949.102	Financial liabilities held for trading	7	1.663.299	1.312.988	1.508.334
Financial assets designated at fair value through profit or loss	8	80.121	-	80.121	93.286	599.894	Financial liabilities designated at fair value through profit or loss		-	-	502.639
Available-for-sale financial assets	9	4.504.275	64.670	4.439.605	6.925.123	5.572.900	Resources of other financial institutions	19	3.611.532	9.614.681	7.695.715
Loans and advances to banks	10	2.692.911	-	2.692.911	5.209.821	5.465.940	Resources of customers and others	20	19.844.104	18.006.436	15.280.787
Loans and advances to customers	11	29.043.940	671.913	28.372.027	29.773.732	29.557.046	Debt securities issued	21	7.393.865	8.880.346	14.833.491
Hedging derivatives	12	167.302	-	167.302	131.512	271.269	Hedging derivatives	12	282.889	189.423	244.441
Non-current assets held for sale	13	208.344	67.181	141.163	89.123	97.779	Provisions	22	75.482	104.193	81.510
Other tangible assets	14	846.421	481.006	365.415	391.323	402.847	Current tax liabilities	16	6.545	6.608	22.157
Intangible assets	14	321.096	246.866	74.230	74.375	70.264	Deferred tax liabilities	16	66.972	47.885	31.771
Investments in associates	15	133.552	500	133.052	158.846	21.717	Subordinated liabilities	23	4.328	32.316	346.380
Current tax assets	16	17.632	-	17.632	21.985	3.825	Other liabilities	24	289.589	446.066	375.889
Deferred tax assets	16	714.817	-	714.817	477.690	297.601	Total liabilities		38.151.839	43.448.104	42.949.944
Other assets	17	198.109	21.653	176.456	293.928	207.563					
							Shareholders' equity				
							Share capital	25	656.723	620.105	589.811
							Share premium account	25	193.390	163.703	163.703
							Other equity instruments	25	135.000	135.000	135.000
							Revaluation reserves	25	(1.008.461)	(588.356)	(195.022)
							Other reserves and retained earnings	25	1.404.582	1.138.700	786.492
							Treasury shares		(42.400)	(42.113)	(230)
							Consolidated net income attributable to the shareholders of BST	26	47.121	399.196	472.996
							Shareholders' equity attributable to the shareholders of BST		1.385.955	1.826.235	1.952.750
							Minority interests	27	577.520	568.792	588.453
							Total shareholders' equity		1.963.475	2.395.027	2.541.203
Total assets, net		41.669.103	1.553.789	40.115.314	45.843.131	45.491.147	Total liabilities and shareholders' equity		40.115.314	45.843.131	45.491.147

The accompanying notes form an integral part of these balance sheets.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (PRO FORMA)

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

(Amounts expressed in thousands of Euros)

	Notes	2011	(Pro forma) 2010
Interest income	29	1.692.694	2.012.084
Interest expense	30	(1.149.161)	(1.338.512)
Financial margin		<u>543.533</u>	<u>673.572</u>
Income from equity instruments	31	1.278	4.307
Fees and commission income	32	397.185	405.951
Fees and commission expense	33	(54.326)	(53.220)
Result of assets and liabilities valued at fair value through profit or loss (net)	34	1.895	(26.879)
Result of available-for-sale financial assets (net)	35	(77.237)	(217.352)
Result of foreign exchange revaluation (net)	36	5.295	10.984
Result of other assets	37	1.006	362.032
Other operating results	38	(14.044)	(8.274)
Net income from banking activities		<u>804.585</u>	<u>1.151.121</u>
Personnel costs	39	(296.634)	(296.729)
General administrative costs	40	(146.857)	(153.186)
Depreciation and amortization	14	(63.362)	(66.324)
Provisions, net	22	(14.297)	(10.178)
Loan impairment net of reversals and recoveries	22	(227.826)	(105.679)
Impairment of other financial assets net of reversals and recoveries	22	(10.439)	(15.561)
Impairment of other assets net of reversals and recoveries	22	(40.478)	(24.573)
Result from associates	41	12.893	8.760
Income before taxes and minority interests		<u>17.585</u>	<u>487.651</u>
Taxes			
Current	16	(11.201)	(79.187)
Deferred	16	40.684	(5.121)
Income after taxes and before minority interests		<u>47.068</u>	<u>403.343</u>
Income attributable to minority interests	27	53	(4.147)
Consolidated net income attributable to the shareholders of BST	26	<u>47.121</u>	<u>399.196</u>
Average number of ordinary shares outstanding		641.943.023	605.370.892
Earnings per share (in Euros)		0,07	0,65

The accompanying notes form an integral part of these statements of income.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (PRO FORMA)

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

(Amounts expressed in thousands of Euros)

	<u>December 31, 2011</u>		<u>December 31, 2010 (Pro forma)</u>	
	<u>Attributable to the shareholders' of BST</u>	<u>Attributable to minority interests</u>	<u>Attributable to the shareholders' of BST</u>	<u>Attributable to minority interests</u>
Consolidated net income for the year	47.121	(53)	399.196	4.147
Income not included in the consolidated statement of income				
· Exchange fluctuations on foreign subsidiaries	(2.749)	8.808	2.192	25.058
· Transference to results of exchange fluctuation reserves due to sale of associated companies	-	-	1.982	-
· Transference to results of exchange fluctuation reserves due to dividends distributed	-	-	503	-
· Revaluation reserves of associated companies valued at equity method				
· Fair value	(361)	-	84	-
· Tax effect	245	-	(56)	-
· Actuarial and financial deviations related to remuneratory pensions (Note 1.5.)				
· Fair value	(213.765)	-	(73.156)	-
· Tax effect	61.992	-	19.716	-
· Changes in fair value of available-for-sale financial assets				
· Fair value	(426.027)	-	(475.663)	-
· Tax effect	123.563	-	144.745	-
· Changes in fair value of cash flows hedging derivatives				
· Fair value	52.083	-	(19.410)	-
· Tax effect	(15.104)	-	4.982	-
Consolidated comprehensive income for the year	<u>(373.002)</u>	<u>8.755</u>	<u>5.115</u>	<u>29.205</u>

The accompanying notes form an integral part of these statements.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2010 (PRO FORMA) AND 2011

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

(Amounts expressed in thousands of Euros)

	Share capital	Share premium account	Other equity instruments	Revaluation reserves			Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income	Minority interests	Total
				Legal revaluation	Fair value	Foreign exchange fluctuation								
Balances as at December 31, 2009	589.811	163.703	135.000	23.245	(12.390)	(8.811)	(7.250)	171.928	673.524	(58.960)	(230)	472.996	588.453	2.731.019
Impact of change in accounting policy related to pensions (Note 1.5.)	-	-	-	-	(267.346)	-	77.530	-	-	-	-	-	-	(189.816)
Balances as at January 1, 2010 (pro forma)	589.811	163.703	135.000	23.245	(279.736)	(8.811)	70.280	171.928	673.524	(58.960)	(230)	472.996	588.453	2.541.203
Appropriation of net income	-	-	-	-	-	-	158	43.904	35.796	153.137	-	(232.996)	-	(1)
. Transference to reserves	-	-	-	-	-	-	-	-	-	-	-	(240.000)	(2.995)	(242.995)
. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	(1.432)	(1.432)	(30.186)
. Preference shares	-	-	-	-	-	589	-	-	(29.343)	-	-	-	(1.432)	(30.186)
Merger with BSN	30.294	-	-	-	-	-	-	-	147.042	-	(41.883)	-	642	136.095
Long-term incentives	-	-	-	-	-	-	-	-	1.922	-	-	-	-	1.922
Sale of associated companies to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(45.073)	(45.073)
Other	-	-	-	-	-	-	-	-	(250)	-	-	-	(8)	(258)
Comprehensive income for the year 2010	-	-	-	-	(568.145)	4.677	169.387	-	-	-	-	399.196	29.205	34.320
Balances as at December 31, 2010 (pro forma)	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	-	-	-	-	-	-	(416)	27.801	68.419	132.307	-	(228.111)	-	-
. Transference to reserves	-	-	-	-	-	-	-	-	-	-	-	(171.085)	-	(171.085)
. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	(28)	(30.062)
. 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

The accompanying notes form an integral part of these statements.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (PRO FORMA)

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

(Amounts expressed in thousands of Euros)

	2011	(Pro forma) 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest, commission and other income	1.932.731	2.148.215
Interest, commission and other expense	(1.024.562)	(1.200.098)
Payments to personnel and suppliers	(435.372)	(470.573)
Contributions to the Pension Fund	(245.000)	(22.000)
Foreign exchange and other operating results	(269)	23.470
Recovery of uncollectible loans	15.371	10.717
Operating results before changes in operating assets and liabilities	242.899	489.731
(Increase) / decrease in operating assets:		
Loans and advances to banks	447.588	672.073
Financial assets held for trading	(12.084)	399.578
Loans and advances to customers	3.135.205	(315.701)
Assets and liabilities designated at fair value through profit and loss	43.916	212.705
Non-current assets held for sale	(60.074)	(8.370)
Other	61.480	(68.815)
	3.616.031	891.470
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(4.862.303)	4.658.964
Resources of customers and others	1.742.489	2.302.942
Financial liabilities held for trading	350.311	(290.570)
Other liabilities	(238.461)	30.413
	(3.007.964)	6.701.749
Net cash flow from operating activities before income tax	850.966	8.082.950
Income tax paid	(33.949)	(94.889)
Net cash flow from operating activities	817.017	7.988.061
CASH FLOWS FROM INVESTING ACTIVITIES:		
Dividends received	1.278	4.307
Purchase of available-for-sale financial assets	(1.038.768)	(3.357.772)
Sale of available-for-sale financial assets	2.128.008	1.267.076
Income from available-for-sale financial assets	200.383	199.208
Purchase of tangible and intangible assets	(43.325)	(64.720)
Sale of tangible assets	716	1.010
Investment in associates	-	(2.555)
Net cash flow from investing activities	1.248.292	(1.953.446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid out	(171.085)	(240.000)
Issuance/(redemption) of debt securities	(1.553.544)	(6.023.933)
Interest paid on bonds issued and other	(148.730)	(160.855)
Interest paid on subordinated liabilities	(244)	(5.270)
Net cash flow from financing activities	(1.873.603)	(6.430.058)
Net increase in cash and cash equivalents	191.706	(395.443)
Cash and cash equivalents at the beginning of the year	553.091	973.400
Exit of entities from the consolidation perimeter	2	(58.605)
Entry of entities in the consolidation perimeter	-	33.739
Cash and cash equivalents at the end of the year	744.799	553.091

The accompanying notes form an integral part of these statements of cash flows.

Notes to the Consolidated Financial Statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

INTRODUCTORY NOTE

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”), is a commercial bank founded in 1864, located in Portugal (Rua do Ouro, nº 88, Lisbon). The Bank was nationalized in 1975 and transformed into a government owned corporation in 1990. On December 2, 1992 the Bank’s capital was re-privatized through an Initial Public Offering carried out in a special session of the Lisbon Stock Exchange.

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with Group Companies during 2011 and 2010 are presented 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 Financeira 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 659 branches (694 branches as at December 31, 2010) and 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

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 were made.

In 2011, the Bank adopted the amendments to IAS 24 – “Related party disclosures”, IAS 32 – “Financial instruments: presentation”, IFRIC 14 – “The limit on a defined benefit asset, minimum funding requirements and their interaction” e IFRIC 19 – “Extinguishing financial liabilities with equity instruments”, but these had no impact on its financial statements.

In 2010 the Bank adopted the amendments to IFRS 3 - "Business Combinations" / IAS 27 - "Consolidated and Separate Financial Statements" which allowed it to recognize a gain of tEuros 21,201 as a result of the change of control in Unicre (Note 35), and a gain of tEuros 54,047 as a result of loss of joint control in the subsidiary Partang (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The Bank reviewed the amendments to IAS 39 - Financial instruments: Recognition and measurement" on recognizing inflation as a hedged risk and the hedging through options, but these had no impact on its financial statements. Amendments to IFRS 2 - "Share-based payment", IFRIC 16 - "Hedges of a net investment in a foreign operation", IFRIC 17 - "Distribution of non cash assets to owners" and IFRIC 18 - "Transfer of assets to customers", also had no impact on its financial statements.

At December 31, 2011, the following standards (new and revised) and interpretations issued endorsed by the European Union, were available for early adoption:

- IFRS 7 (Amendment) - "Financial instruments: Disclosures" – This revision has increased disclosure requirements for transactions involving the transference of financial assets. Aims to ensure greater transparency in relation to exposure of the risks arising out from the transference of financial assets when the transferor retains some involvement on those assets.

Although this standard has been endorsed by the European Union, was not adopted by the Bank on December 31, 2011 as its application is not yet mandatory. The Bank's Board of Directors believes that its implementation will not have a material impact on the financial statements.

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

- IFRS 9 – "Financial Instruments" - The new standard uses a unique approach to determine the accounting of a financial asset valued at amortized cost or fair value, simplifying the classification of the IAS 39. The classification is based upon the contractual characteristics of the asset and how its management is made. The standard does not cover financial liabilities. It is mandatory for reporting periods beginning on or after January 1, 2015.
- IFRS 11 – "Joint arrangements" – The new standard establishes that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The joint venture may be classified as a "joint operation", in the case whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, or as "joint venture", in the case whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. It is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 12 – "Disclosures of Interests in Other Entities" – The objective of this standard is to require the disclosure of information to enable users of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities, namely the effects of those interests on its financial position, financial performance and cash flows. It is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 13 – "Fair Value Measurement" – The standard defines fair value and sets out a framework for its determination. It has also established a "fair value hierarchy", in accordance to the inputs used in valuation models. The standard also requires disclosures on fair value determination. It is mandatory for reporting periods beginning on or after January 1, 2013.
- IAS 27 – "Separate Financial Statements" – The standard sets principles to be applied when accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements (non-consolidated). It is mandatory for reporting periods beginning on or after January 1, 2013.

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- IAS 19 (Amendment) - “Employee Benefits” – The amendment made to the text of this standard in June 2011 is mandatory for reporting periods beginning on or after January 1, 2013.
- IAS 12 (Amendment) – “Deferred tax: Recovery of Underlying Assets” – The revision of the standard allows recoverability of deferred tax assets on investment properties through the sale. The amendment made to the text of this standard in December 2010 is mandatory for reporting periods beginning on or after January 1, 2012.
- IAS 1 (Amendment) - “Presentation of Items of Other Comprehensive Income” – The changes include modifications to the standard to how comprehensive income is presented. The amendment made to the text of this standard in June 2011 is mandatory for reporting periods beginning on or after July 1, 2012.

The financial statements of the Bank, its subsidiaries and associated companies for the year ended December 31, 2011 are subject to approval by the corresponding Shareholders’ General Meetings. However, the Bank’s Board of Directors believes that those will be approved without significant changes.

1.2. Consolidation principles and recording of associated companies

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

Subsidiary companies are those in which the Bank has an effective control over current management in order to achieve economic benefits from its activities. Control usually exists when the percentage participation exceeds 50%, the majority of voting rights are held or there is power to manage the financial and operating policies of an entity so as to benefit from its operations. Additionally, as a result of the application of IAS 27 – “Consolidated and Separate Financial Statements”, the Group includes in the consolidation perimeter special purpose entities, namely vehicles and funds created under securitization operations, when exercise a financial and operating effective control and in which the Bank owns most of the risks and benefits associated with their activity.

The financial statements of subsidiaries are consolidated by the full integration method from the time Santander Totta has control over their activities to the time control ceases. Transactions and the significant balances between the entities belonging to the consolidation perimeter 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. Companies in which the Bank’s participation is less than 20%, but that are majority held by the Santander Totta SGPS Group are also considered associated companies. Participations in associated companies are recorded in accordance with the equity method, from the time the Bank has significant influence until the date it ceases.

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

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Goodwill corresponds to the excess of the cost of acquisitions 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, the "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 – Concentration of business activities, retrospectively. Therefore goodwill on acquisitions up to January 1, 2004 is reflected as a deduction from shareholders' equity in compliance with the former accounting policy. On the other hand, previously recognized negative goodwill was recorded as an increase in shareholders' equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associated companies after January 1, 2004 are recorded in accordance with the purchase 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. In addition, whenever fair value exceeds cost (negative goodwill), the difference is reflected in the statement of income.

With the application of amendments to IFRS 3 and IAS 27, the Bank defined as accounting policy the valuation at fair value 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 (Note 15). Goodwill is calculated at a 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 mentioned amendments, the Bank reassesses through profit or loss the undertakings in which lost joint control (Note 4).

The companies under joint control of the Bank and other entities are consolidated using the proportional consolidation method, the assets, liabilities and results being included in the consolidated financial statements in proportion of the capital held by the Group.

The Group 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 translated to Euros as follows:

- Assets and liabilities are translated at the closing exchange rate for Euros at the balance sheet date;
- Non-monetary assets recorded at historical cost, including tangible assets, remain reflected at the original exchange rates; and
- Foreign currency income and expenses are translated to Euros at the average exchange rates of the month in which they are recognized.

Exchange differences are reflected in the shareholders' equity caption "Foreign exchange fluctuation reserves".

1.3. Summary of the main accounting policies

The main accounting policies used in preparing the financial statements were as follows:

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

The 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 caption includes loans and advances made by the Bank to customers and to credit institutions.

Loans and advances to customers include loans to costumers, as well as other security operations (commercial paper), not intended for sale in the short term, which are recorded at inception at their nominal value.

Subsequently, loans and other receivables are recorded at amortized cost, being submitted to periodical impairment analysis.

Commission and costs attributable to the underlying operations of the assets included in this category, as well as interest on loans and advances granted, are recognized on an accruals basis over the period of the operations, 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 interest 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 writes off overdue loans considered uncollectible using the respective accumulated impairment account. Any credits recovered after that date are recognised as decreases in impairment losses, in the statement of income caption "Loan impairment net of reversals and recoveries".

Impairment

Loans to customers and other receivables are subject to periodic impairment tests. 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.

The Group's loan portfolio is segmented as follows for purposes of determining impairment:

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

Group makes an individual assessment of corporate customers that have:

- Credits granted greater than tEuros 5,000;
- Credits granted greater than tEuros 500 classified in the Bank's system as "doubtful not in litigation" with severe degree of vigilance in accordance with the risk management strategy of the Bank. In this sense, this segment may include customers without overdue credit. Occasionally the Bank also includes in individual assessment some customers, by professional judgment, without the mentioned features.

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

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

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

- Contractual breaches, such as delay in paying principal and/or interest;
- Significant financial difficulties of the debtor;
- Significant change of the debtor's financial situation;
- Other adverse changes, such as:
 - . Condition 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 corresponds to the probability of having overdue credit (PI) times the difference between the book value of the respective credits and the expected present value of those operations. PI corresponds to the probability of one transaction, operation or client start to have overdue credit during an emergency period. Emergency 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 emergency period of 6 months.

If there is evidence that the Group has incurred in an impairment loss on credits or other receivables, the amount of the loss is determined by 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 in the statement of income.

In accordance with the Group's current impairment model for the customer 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 to be necessary, the historical 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 recognized amount is reversed and the impairment loss balance is adjusted. The amount reversed is directly recognized in the statement of income.

Reverse entry of principal and interest

In accordance with the policies in place in the Bank, interest arising out from overdue credits are reverted after three months time of being overdue (counting as from the date of the operation is overdue or as from the first overdue instalment). Unrecorded interest on the above-mentioned credits are recognized in the period of the actual collection.

Loan sales

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

Finance leasing operations

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 lease operations are recorded in accordance with the following criteria:

i) As a lessee

Assets held under finance lease are recorded at their fair value in tangible assets and in liabilities and the corresponding depreciation is recognized.

The lease installments 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 installments is recorded in the caption "Interest and similar charges".

ii) As a lessor

Assets under finance lease are recorded in the balance sheet as loans granted, which are repaid by the principal amount in accordance with the financial plan of the contracts. Interest included in the installments 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 by the amount at risk, while interest, commission and other income are recorded in the statement of income over the period of the operations.

d) Recognition of income and costs relating to services and commission

Income from a significant service rendered, such as income arising out from syndicating loans operations, is recognized in the statement of income when the significant service has been completed.

Income from services and commission obtained as the services are rendered are recognized in the statement of income in the period to which they refer.

Income from services and commission that are part of the remuneration of financial instruments are recorded in the statement of income using the effective interest rate method.

Costs relating to services and commission are recognized using the same criteria as for income.

e) Financial instruments

The following financial assets and financial liabilities are recognized and valued in accordance with IAS 32 and IAS 39, within the following specific categories:

- Financial assets and liabilities held for trading;
- Financial assets and liabilities designated at fair value through profit or loss;
- Available-for-sale financial assets; and
- Other financial liabilities.

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

Financial assets held for trading include fixed income securities and variable yield securities traded on active markets, as well as derivatives purchased with the intention of being sold or repurchased in the short term. Trading derivatives (including currency swaps) with a receivable net value (positive fair value) and options bought are included in the caption "Financial assets held for trading". Trading derivatives (including currency swaps) with a payable net value (negative fair value) and options sold are included in the caption "Financial liabilities held for trading".

Financial assets and liabilities designated at fair value through profit or loss include fixed yield securities.

Financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss are recorded initially at fair value. Gains and losses resulting from subsequent valuations at fair value are recognized in the statement of income.

Interest on financial assets and the differences between their cost and nominal value (premium or discount) are calculated in accordance with the effective rate method and recorded in the statement of income caption "Interest income". The effective rate equals the present value of the estimated future cash flows arising out from the instrument with its book value at inception.

Interest associated to trading derivative financial instruments is classified under the caption “Results of assets and liabilities valued at fair value through profit or loss” in the statement of income.

ii) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt instruments which are not classified as financial assets held for trading or at fair value through profit or loss, neither as held-to-maturity investments nor as loans and accounts receivable.

Available-for-sale financial assets are valued at fair value, except for equity instruments not listed on an active market if their fair value cannot be determined reliably, which are recorded at cost. Subsequent gains or losses resulting from changes in the fair value of available-for-sale financial assets are recognized directly in the shareholders’ equity caption “Fair value reserve” until they are sold off (or until impairment losses are recognized on them), when they are transferred to the statement of income. Foreign exchange gains or losses on monetary assets are directly recognized in the statement of income.

iii) Income recognition

Interest on financial assets and the recognition of differences between their cost and nominal value (premium or discount) are calculated in accordance with the effective rate method and recorded in the statement of income caption “Interest income”.

Income from variable return securities is recognized in the statement of income on the date that are declared. In accordance with this criteria, interim dividends are recognized as income in the year the distribution is declared.

iv) Sale operations with repurchase agreements

Securities sold with repurchase agreements are maintained in the portfolio in which they were originally recorded. Funds received are recorded on the settlement date in a specific liability account, interest being recorded on an accrual basis.

v) Impairment of financial instruments

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

For quoted securities, evidence of impairment exist when price falls continuously or significantly. Evidence of impairment for unquoted securities exist 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 loss assessment. In terms of objective impairment criteria, the Group considers a 24 month period to be adequate for prolonged devaluation of financial instruments in relation to its cost. Additionally, the Group considers the existence of unrealised capital losses exceeding 50% of the acquisition cost to be a significant devaluation.

Except as explained in the following paragraph, if in a subsequent period there is a decrease in the amount of impairment loss attributable to a specific event, the previously recognized amount is directly reverted through the statement of income.

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When there is objective evidence of impairment of available-for-sale financial assets as a result of a significant or prolonged decrease in the fair value of the security or financial difficulty of the issuer, the accumulated loss of the fair value reserve is transferred from equity to the statement of income. Impairment losses on fixed income securities can be reverted through the statement of income 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 variable yield securities cannot be reverted and so any unrealized capital gain arising after recognition of the impairment loss is recorded in the fair value reserve. In the case of variable yield securities for which impairment losses have been recognized, subsequent reductions in fair value are always recognized in the statement of income.

For financial assets recorded at cost namely unquoted shares whose fair value cannot be measured reliably, the Bank also carries out periodic reviews for impairment. 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 the asset held.

vi) Other financial liabilities

Other financial liabilities comprises essentially resources of other financial institutions, customers' deposits and debt issued. These are valued initially at fair value, which usually corresponds to the amount received net of transaction costs. Subsequently these are valued at amortized cost, in accordance with the effective interest rate method.

Debt issued are recorded under "Subordinated liabilities" and "Debt securities issued".

On the issue date debt securities issued are recorded at fair value (issue price) and subsequently are valued at amortized cost using the effective interest rate method.

Embedded derivatives in debt securities issued are recorded separately and valued 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 and at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

The fair value of a financial instrument corresponds to the amount by 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 includes:
 - i) Prices (bid prices) provided by 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 uses 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.

Amortized cost

The financial instruments measured at amortized cost are initially recorded at fair value added up or deducted from the income or costs directly attributable to the transaction. The interest is recognized by the effective rate method.

Whenever the estimate of payments or charges associated with financial instruments valued at amortized cost is revised, the book value 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 rate of the financial instrument. The adjustment in amortized cost is recognized in the statement of income.

f) Valuation of derivative instruments and hedge accounting

Derivative instruments traded by the Group are always recognized in the balance sheet at their fair value.

Derivatives embedded in other financial instruments (namely debt issued) are segregated from their host contract whenever their risks and characteristics are not intimately related to those of the host contract and the whole instrument is not recorded at fair value through profit or loss.

BST uses derivative financial instruments to hedge interest and foreign exchange rate risks 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, and all variations in their fair value are reflected in the statement of income.

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

In accordance with IAS 39.88, hedge accounting is applicable only when the following requirements are cumulatively met:

- Formal documentation exists regarding the hedging relationship and risk management strategy of the Bank, including the following:
 - . Identification of the hedging instrument;
 - . Identification of the hedged item;
 - . Identification of the 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
- During the period of the operation, the hedging effectiveness is maintained between 80% and 125%. The hedging effectiveness is tested on each reporting date by comparing the variation in fair value of the hedged item with the variation in the fair value of the hedging instrument.

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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 hedging instruments are recognized in the statement of income. If the hedge is effective, the gains or losses resulting from variations in the fair value of the hedged item relating to the risk being hedged are also recognized in the statement of income.

If a hedging instrument matures or is early terminated, the gains or losses in the valuation of the hedged risk, recognized as value adjustments of the hedged items, are amortized over the remaining period of the hedged item. If the asset or liability being hedged is sold or settled, the amounts recognized as result of the valuation of the hedged risk are recognized in the statement of income for the year and the derivative instrument is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognized as value adjustments of the hedged items are amortized through the statement of income 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 out from the derivative and from the foreign exchange variation of the monetary items both recognized in the statement of income for the period.

Cash flow hedges

Cash flow hedges refer to hedging the exposure to variations in future cash flows that can be attributed to a specific risk relating to a recorded asset or liability, or to a highly probable future transaction that may affect results.

BST has entered into derivative financial instruments to hedge future cash flows of interest on its variable rate mortgage loan portfolio. In addition, the Bank has derivative financial instruments to hedge future cash flows of interest on liabilities issued.

Application of cash flow hedge accounting is also subject to the previously mentioned hedge accounting requirements, added to the following requirements:

- The effective portion of the gain or loss on the hedging instrument is recognized directly in a specific equity caption; and
- The ineffective portion is recorded in the statement of income.

Additionally, the gain or loss on the hedging instrument recognized in equity is the lower of the following amounts:

- The accumulated variation of the fair value of the hedging instrument as from the beginning of the hedge; and
- The accumulated variation of the fair value of the hedged item, relating to the risk that is being hedged, as from the beginning of the hedge.

In this respect, the portion of the gain or loss on the hedging instrument not recognized in equity, if any, is recorded in the statement of income.

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 hedge relationship. In these cases, the accumulated profit or loss resulting from the hedging instrument must remain separately recognized in equity, being recorded in the statement of income in the same period the gains or losses of the hedged item are recognized.

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g) Other tangible assets

Tangible assets used by the Bank in its operations are recorded at cost (including directly attributable costs) deducted from 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:

	<u>Years of useful life</u>
Property for own use	50
Equipment	4 to 10

Leasehold improvements are depreciated over their expected useful lives or lease period, if shorter, corresponding on average to ten years time.

As permitted by IFRS 1, on transition to IAS/IFRS, the Bank maintained the book value of tangible assets acquired up to January 1, 2004, which corresponded to the cost adjusted by legal revaluations based on evolution of the general price index. 40% of the increase in depreciation resulting from such revaluations is not tax deductible, being recognized the deferred tax liability accordingly.

Impairment tests are made periodically. The branches are considered as cash flows generating units for this purpose with impairment losses being recognized whenever the recovered value of the property (through the use in the operations or sale) is lower than the book value.

Property appraisals are usually based on the "Market Comparison Method" considering the property in its current condition.

h) Intangible assets

The Bank recognizes in this caption the expenses paid out in the development phase of IT systems implemented and in its implementation phase, as well as expenses of acquiring software, in both cases where the estimated impact extends beyond the financial year in which the expenses are paid out. Impairment losses assessments are made on an annually basis.

Intangible assets are amortized on a monthly basis over the estimated lifetime period of the assets, which corresponds to three years on average. For the new 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 as settlement of non-performing loans under this caption, by the amount agreed under negotiation or court decision, when those are available for immediate sale in its present condition and its sale is highly probable within one year time. Should these criteria is not met, those assets are accounted for under the caption "Other assets" (Note 17).

Those assets are subject to periodical appraisals conducted by independent real estate appraisers. Impairment losses are recognized whenever the appraised value (net of costs to sell) is lower than the book value.

The assets recovered as result of early termination of financial lease contracts are accounted for under this caption by the outstanding amount as at the contract termination date.

Moreover, the Bank's own use properties in process to be sold off are accounted for under this caption. Those properties are transferred by the carrying amount in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and accumulated impairment losses), being thereafter subject to an impairment losses periodical assessment.

According to IFRS 5 – “Non-current assets held for sale and discontinued operations”, no unrealized gains are recognized on those assets.

The Bank's Board of Directors believes that the methods adopted are appropriate and reflect the market reality.

j) Provisions and contingent liabilities

A provision is recorded whenever there is a present obligation (legal or constructive) resulting from past events for which it is likely a future disbursement of resources which can be determined reliably. The provision balance corresponds to the best estimate of the amount to be disbursed to settle a liability as at the balance sheet date.

If it is not expected the future disbursement of resources, it is a contingent liability. Contingent liabilities are disclosed only unless the probability of materializing is remote.

This caption includes provisions recorded in accordance with IAS 37, to cover post employment benefits of Board of Director's members, restructuring plan, tax contingencies, lawsuits and other risks arising out from BST's operations (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 until 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, being the pensions 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.

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 its own pension fund.

The employees of the former Totta were already covered by Social Security, thus the Bank's liability with those employees consists in the payment of supplements only.

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) for integration of 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 pensions for retirement and in the events of maternity, paternity and adoption. Given the complementarity nature foreseen in the rules of the Collective Labour Agreement of the Banking Sector, the Bank will continue to ensure the difference between the amount of the benefits paid under the General Regime of Social Security and those resulting from the agreement for the mentioned riders.

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Pursuant to the instructions of the Financial Supervisors National Council, the 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 support the employer 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 sickness allowances.

In December 2011 a tripartite agreement has been established between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE) towards the transference to the Social Security of part of the liabilities with retired and pensioners that as at December 31, 2011 were covered by the substitutive regime of the Social Security as per the Colective Labour Agreement (ACT) in force for the banking sector.

Pursuant to the above-referred tripartite agreement, the Decree-Law no. 127/2011, dated December 31, has been issued determining that as from January 1, 2012 the Social Security starts to be responsible for the above-mentioned pensions by an amount corresponding to the pension computed in accordance to the terms and conditions in force under the Colective Labour Agreement for the banking sector as at December 31, 2011, including both the vacation and the christmas subsidies.

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

- i) The update of the pensions referred to above, in accordance to the Colective Labour Agreement for the banking sector;
- ii) The employer contributions to healthcare benefits (SAMS) managed by the respective unions, over the retirement and survival pensions, in accordance to the Colective Labour Agreement for the banking sector;
- iii) Death subsidy;
- iv) Survival pension for children;
- v) Survival pension for children and living spouse, as long as it refers to the same employee;
- vi) Survival pension for the family of a current pensioner, meeting the vesting conditions as from January 1, 2012.

Under the transference 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 bearing in mind 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.

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The transference of ownership of the assets will be supervised by the Bank as follows:

- i) Until December 31, 2011, an amount equivalent to at least 55% of the current provisional liabilities;
- ii) Until June 30, 2012, the remaining amount to complete the effective liability amount.

In this sense, and prior to the transference to the Social Security, the Bank has obtained an actuarial study under which the liability has been determined.

Following the transference agreement to the Social Security of the retired and pensioners, and for purposes of determining the value of the liabilities to be transferred in accordance with the Decree-Law No. 127/2011, dated 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 value of the liabilities to be transferred to the Social Security determined as per the above assumptions, and determined based on updated actuarial assumptions as adopted by the Group, has been recorded under the caption "Personnel costs" (Note 39 and Note 43).

Moreover, 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 has been approved for a defined set of the Bank's executives, being underwrote an insurance policy in the amount of tEuros 4,430 for such purpose (Note 39).

BST's retirement pension liability is calculated annually by external experts, Towers Watson International Limited, Portuguese Branch (formerly Watson Wyatt) 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 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) has not signed the Collective Labour Agreement (ACT) in force for the banking sector. In 2006 BSN has established a defined contribution pension fund, under which employees are allowed to make voluntary contributions. The contribution of BSN 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 the defined benefit pension plan of BST as from May 2010, being recognized the seniority of the employees hired before July 1, 1997. The increase in past service liability with employees of BSN was recorded in "Personnel costs".

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 defined benefit pension plan of BST as from April 2011. The seniority of the employees hired before July 1, 1997 has been recognized. The increase of past service liability with the employees of Totta IFIC was recognized in the caption "Personnel costs".

In 2011 and 2010, BST assumed a liability of tEuros 1.044 and tEuros 778, concerning the employees of the former Totta IFIC and BSN, respectively (Note 43).

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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 were reversed/recorded against retained earnings as at the transition date.

In 2011 the Bank has 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 more appropriately the economic and financial position of the Bank in respect of pension liabilities.

This change in accounting policy has been applied retrospectively, as required by IAS 8 (Note 1.5.).

BST records the following as “Personnel Costs” in the statement of income:

- Interest cost, net of the estimated return on plan assets;
- Current service cost; and
- Early retirement cost corresponding to the increase of the liability as result of the retirement.

Retirement pensions liability deducted from the fair value of the Pension Fund’s assets backing such liability are recorded under the caption “Other assets” (Note 17).

The Notice no. 4/2005 of the Bank of Portugal sets out that the liability arising out from the pensions in payment shall be fully funded and a 95% minimum funded level for the past service liability of the serving employees. Notwithstanding, also establishes a transitional period ranging from 5 to 7 years in respect of the increase of the liability as result of the IAS 19 adoption.

A contribution has been made by the Bank on December 31, 2011 and 2010 to fully fund its employees benefit liability, including healthcare assistance (SAMS).

l) Long service bonus

In compliance with the ACT, BST has assumed the commitment to pay serving employees with fifteen, twenty-five and thirty years of good and effective service, a long service bonus 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 the long service bonuses liability by actuarial calculation 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 the Bank’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 bonuses liability is recorded in the caption “Other liabilities – long service bonus” (Note 25).

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Income taxes

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 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.

In accordance with article 92 of the Corporate Income Tax Code, tax paid under the terms of item 1, article 90, net of international double taxation and any tax benefits, cannot be 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 Corporate Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum local surcharge of up to 1.5% over taxable income subject to and not exempt from corporate income tax. This change resulted in the adoption of a tax rate of 25% for the computation of deferred taxes relating to carried forward tax losses in 2010 and 2011 and a tax rate of 26.5% for all other temporary differences resulting from the recognition of corporate income tax for the year.

With the publication of Law No. 12 - A/2010, dated June 30, a state surcharge has been introduced 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 means that the tax burden used for the computation of deferred taxes, except for tax losses carried forward, and for the recognition of income tax for the period, was 29%.

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, dated December 30), the companies that present higher taxable income are subject to higher state surcharge rates. In this sense, the 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 tEuro 8,500 and a rate of 5% to the exceeding remaining taxable income. Consequently, the tax rate used in the year 2011 was 26.5% up to tEuro 1,500 of taxable income, 29.5% up to tEuro 8,500 of taxable income and 31.5% for the remainder. Note that the Bank determined a tax loss for the year 2011.

The 2011 tax loss can be carried forward for four years, being possible its deduction up to 75% of the taxable income of each year, though the remaining 25% continue to be deductible until the end of the four years period.

Should be noted that tax losses arisen as from 2012 financial year will be carried out for five years.

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With the enactment of the Law no. 55-A/2010, dated December 31, the Bank is subjected to the banking sector contribution regime. The basis of such contribution is as follows:

- a) Liabilities deducted from tier 1 and tier 2 capital and deducted from the deposits under the Deposits Guaranteed Fund coverage. To the liability determined pursuant thereto is still deducted:
- Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
 - Defined benefit plans liabilities;
 - Provisions;
 - Derivative financial instruments with negative fair value;
 - Deferred income, without considering those resulting from liability operations thereof; and
 - Liabilities resulting from assets not derecognized within securitization operations.
- b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, excepting hedge derivatives or with open symmetric risk positions.

The rates applicable to the bases a) and b) above range from 0.01% to 0.05% and from 0.00010% to 0.00020%, respectively, depending on the amount determined.

Deferred tax assets and liabilities correspond to the tax recoverable and payable in future periods resulting from temporary differences between the carrying value of assets and liabilities and their respective tax bases. Tax credits are also recognized as deferred tax assets.

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

Deferred tax have been calculated using the tax rates enacted for the period in which the respective assets are expected to be realized or the liabilities incurred.

Current and deferred taxes are reflected in the statement of income, except for taxes on transactions recorded directly in shareholders' equity, namely the amortization of the liability for employee benefits recorded on January 1, 2004, as well as the unrealized capital gains and losses on available-for-sale securities, cash flow hedging derivatives and actuarial deviations related to pension liabilities following the change in accounting policy (Note 1.3. k).

n) Shares 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..

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The acknowledgment of such plans imply the recognition of the Group's employees right to these instruments in the caption "Other reserves" and in the caption "Personnel costs" of the statement of income, 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 2011 and 2010 is included in Note 46.

o) Insurance brokerage services rendered

Commissions resulting from the insurance brokerage services rendered by the Bank are accounted for on an accrual basis, thus revenue being recognized as services are rendered, regardless of when the payoff occurs.

1.4. Comparability of information

As mentioned in the Introductory Note, on April 1, 2011 the Bank carried out a merger by incorporation of Totta IFIC. For accounting purposes the operation was recorded as that date. The Bank incorporated the assets and liabilities of Totta IFIC at its 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 reserves resulting from mergers. The impact of the merger on the shareholders' equity of the Bank can be shown as follows:

Shareholders' equity of Totta IFIC as of the merger date	175,019
Transference of the fair value reserve	(7,606)
Other adjustments – incentive plan	(32)

Adjusted shareholders' equity of Totta IFIC as at March 31, 2011	167,381

Acquisition cost of Totta IFIC on March 31, 2011	10,556
Increase of the Bank's share capital	36,618
Share premium	29,687

	76,861

Reserve resulting from the merger ("Merger reserve")	90,520
	=====

Consequently, since the balance sheet and the statement of income for prior periods were not restated, the assets, liabilities, costs and income of the Bank as at December 31, 2011 are not directly comparable with those of December 31, 2010.

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Hereunder it is shown the individual balance sheet of Totta IFIC as at March 31, 2011 breakdown by caption as incorporated into BST pursuant thereto:

Balance sheet	3/31/2011
Assets	
Cash and deposits at central banks	2
Available-for-sale financial assets	339,881
Loans and advances to banks	657,856
Loans and advances to customers	2,843,921
Non-current assets held for sale	6,605
Other tangible assets (net)	3,724
Intangible assets (net)	458
Current tax assets	3
Deferred tax assets	10,838
Other assets	12,004
Total assets, net	3,875,292
Liabilities	
Resources of other financial institutions	2,660,427
Financial liabilities associated to transferred assets	859,523
Provisions	26,670
Current tax liabilities	9,573
Deferred tax liabilities	6,708
Subordinated liabilities	63,049
Other liabilities	74,323
Total liabilities	3,700,273
Shareholders' equity	
Fully paid-up share capital	34,563
Revaluation reserves	7,606
Other reserves and retained earnings	124,662
Net income	8,188
Total shareholders' equity	175,019
Total liabilities and shareholders' equity	3,875,292
Other reserves and retained earnings	55,080
Net income	18,122
Total shareholders' equity	4,123,513
Total liabilities and shareholders' equity	4,131,119

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1.5. Retrospective application for change in accounting policies

As indicated in Note 1.3. k), the Board of Directors of the Bank have decided to change in 2011 the accounting policy, ceasing the use of the corridor method and starting to recognize actuarial gains and losses in equity, as permitted by IAS 19.

According to Law No. 64 – B/2011 of the State Budget for 2012, the impact of this change will be accepted for tax purposes over a period of 10 years time. Consequently, the Bank has recorded deferred tax assets of tEuros 159,239 (Note 16), resulting from the change of this accounting policy.

As required under IAS 8, the effects of the change in the accounting policy in the shareholders' equity as at January 1, 2010, net income of 2010 and in the shareholders' equity as at December 31, 2010 are as follows:

	12/31/2010		12/31/2009	
	Equity without net income	Net income	Total shareholder's Equity	Shareholder's Equity
Balances before retrospective application	2,239,084	394,028	2,633,112	2,731,019
Impact of the retrospective application as at January 1, 2010				
Accumulated actuarial deviation as at January 1, 2010	(267,346)	-	(267,346)	(267,346)
Actuarial deviation recognized in 2010	(73,156)	-	(73,156)	-
Actuarial deviation amortized in 2010 (excess over the corridor)	-	5,168	5,168	-
Tax effect	97,247	-	97,247	77,530
	<u>(243,255)</u>	<u>5,168</u>	<u>(238,087)</u>	<u>(189,816)</u>
Balances after retrospective application	<u>1,995,829</u>	<u>399,196</u>	<u>2,395,025</u>	<u>2,541,203</u>

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

The preparation of the financial statements requires estimates and assumptions to be made by the Bank's Board of Directors, which may affect the amount of assets and liabilities, income and costs, as well as the contingent liabilities disclosed.

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 (Comissão dos Mercados de Valores Mobiliários (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 used reflect the best estimate of the Bank and actuaries of the future behavior of these variables.

Valuation of financial instruments not traded in 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 in 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.

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Determination of impairment losses on loans

Impairment losses on loans have been determined as explained in Note 1.3 c) above. Consequently, impairment assessment determined 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 the loan guarantees given, 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 overdue instalments, default and recoverability.

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

As described in Note 1.3. e), the unrealized capital losses resulting from the valuation of these assets are recognized under the "Revaluation reserve" (equity). Whenever there is objective evidence of impairment, the accumulated unrealized capital losses that have been recognized in equity are transferred to the year profit or loss.

In the case of equity instruments, the determination of impairment losses may have some subjectivity. The Bank determines whether or not impairment on these assets exist through specific analysis at each balance sheet date taking into account the existence of any of the events foreseen in IAS 39 (Note 1.3. e).

In the case of debt instruments recorded in this caption, the unrealized capital losses are transferred from the Revaluation reserve to profit or loss whenever there are indications that installments overdue or default might occur, namely, 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 recognized based on the assumption of the existence of future taxable income. In addition, 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 individual (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice 1/2005, dated February 21, being these the base to determine the taxable income/loss.

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 Contabilística" (SNC), approved by the Decree-Law No. 158/2009, dated July 13, the Decree Law No. 159/2009, dated July 13, has been approved.

The foregoing Decree-Law No. 159/2009, dated July 13, 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 apply as at January 1, 2010.

Therefore, these new rules were applied when determine the taxable income/loss for 2011 and 2010, in accordance to the Bank's interpretation of thereof.

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3. SEGMENT DISCLOSURES

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:

Global Banking & Markets:

This area mostly 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:

Corresponds mainly to credit granting operations and obtention 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:

Directed to companies with a turnover ranging between 5 and 125 million Euros. This activity is backed by the branches network as well as by specialized services, and includes a variety of products, such as loans, project funding, export financing and real estate.

Asset management:

This area results from the investment fund management activity, which includes the launching of funds, whose objective 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, including also liquidity management, balance sheet hedging and Group funding.

The statement of income by segment for the year ended December 31, 2011 is made up as follows:

	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 income from fees and commission	65.932	255.333	18.177	9.414	(5.997)	342.859
Other income	(6)	6.675	-	(84)	(20.629)	(14.044)
Commercial margin	108.072	680.187	140.962	9.330	(64.925)	873.626
Income 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
Net impairment and provisions	(4.918)	(153.932)	(21.694)	(25.846)	(86.650)	(293.040)
Result from associates	-	-	9.409	-	3.484	12.893
Income before taxes and minority interest	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
Income attributable to minority interest	-	-	-	-	53	53
Consolidated net income attributable to the shareholders of BST	68.308	68.104	59.515	(15.387)	(133.419)	47.121

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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, is as follows:

	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
	<u>1.674.615</u>	<u>21.387.179</u>	<u>5.310.233</u>	<u>-</u>	<u>-</u>	<u>28.372.027</u>
Total allocated assets	1.674.615	21.387.179	5.310.233	-	-	28.372.027
Total non-allocated assets						11.743.287
Total assets						<u>40.115.314</u>
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
	<u>576.672</u>	<u>17.048.316</u>	<u>3.074.905</u>	<u>-</u>	<u>6.538.076</u>	<u>27.237.969</u>
Guarantees and other sureties given	336.364	198.533	953.558	-	-	1.488.455
Investment funds	-	1.448.516	580.001	778.619	-	2.807.136

The statement of income for the year ended December 31, 2010 (Pro forma) is made up as follows:

	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated total
Financial margin (narrow sense)	58.115	471.407	86.732	-	57.318	673.572
Income from equity instruments	-	-	-	-	4.307	4.307
Financial margin	<u>58.115</u>	<u>471.407</u>	<u>86.732</u>	<u>-</u>	<u>61.625</u>	<u>677.879</u>
Net income from fees and commission	50.862	269.840	20.848	15.491	(4.310)	352.731
Other income	(4)	4.953	198	(34)	(13.387)	(8.274)
Commercial margin	<u>108.973</u>	<u>746.200</u>	<u>107.778</u>	<u>15.457</u>	<u>43.928</u>	<u>1.022.336</u>
Income from financial operations	16.613	(2.358)	10.547	312	103.671	128.785
Net income from banking activities	<u>125.586</u>	<u>743.842</u>	<u>118.325</u>	<u>15.769</u>	<u>147.599</u>	<u>1.151.121</u>
Operating costs	(22.027)	(386.479)	(31.942)	(5.505)	(3.962)	(449.915)
Depreciation and amortization	(3.588)	(59.805)	(3.998)	(401)	1.468	(66.324)
Net operating income	<u>99.971</u>	<u>297.558</u>	<u>82.385</u>	<u>9.863</u>	<u>145.105</u>	<u>634.882</u>
Net impairment and provisions	260	(109.877)	(30.514)	3	(15.863)	(155.991)
Result from associates	-	-	3.457	-	5.303	8.760
Income before taxes and minority interest	<u>100.231</u>	<u>187.681</u>	<u>55.328</u>	<u>9.866</u>	<u>134.545</u>	<u>487.651</u>
Taxes	(17.329)	(32.448)	(9.565)	(1.706)	(23.260)	(84.308)
Income attributable to minority interest	-	-	-	-	(4.147)	(4.147)
Consolidated net income attributable to the shareholders of BST	<u>82.902</u>	<u>155.233</u>	<u>45.763</u>	<u>8.160</u>	<u>107.138</u>	<u>399.196</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The assets and liabilities under management for each business segment as at December 31, 2010 (Pro forma), in accordance with information used by the Group's management for decision making, is as follows:

	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated total
Assets						
Loans and advances to customers						
Mortgage Loans	-	16.454.458	-	-	-	16.454.458
Consumer credit	-	1.633.797	-	-	-	1.633.797
Other loans	3.443.506	3.834.240	4.407.731	-	-	11.685.477
	<u>3.443.506</u>	<u>21.922.495</u>	<u>4.407.731</u>	<u>-</u>	<u>-</u>	<u>29.773.732</u>
Total allocated assets	3.443.506	21.922.495	4.407.731	-	-	29.773.732
Total non-allocated assets						16.069.399
Total assets						<u>45.843.131</u>
Liabilities						
Resources in the balance sheet						
Customers' accounts and other resources	818.057	14.795.397	2.392.982	-	-	18.006.436
Debt securities issued	-	547.698	818.084	-	7.514.564	8.880.346
	<u>818.057</u>	<u>15.343.095</u>	<u>3.211.066</u>	<u>-</u>	<u>7.514.564</u>	<u>26.886.782</u>
Guarantees and other sureties given	327.137	221.890	1.153.320	-	-	1.702.347
Investment funds	-	2.439.449	739.808	1.344.848	-	4.524.105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The information by geographic area of the consolidated activity, namely the balance sheet and the statement of income, is presented below. The Bank's balance sheet as at December 31, 2011, by geographic segments, was as follows:

	Domestic operations		International operations				Consolidated total
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	
Assets							
Cash and deposits at central banks	387.837	-	-	-	-	-	387.837
Balances due from banks	356.249	24	-	79	610	713	356.962
Financial assets held for trading	1.995.784	-	-	-	-	-	1.995.784
Financial assets designated at fair value through profit or loss	80.121	-	-	-	-	-	80.121
Available-for-sale financial assets	4.439.605	-	-	-	-	-	4.439.605
Loans and advances to banks	2.689.956	2.720	-	235	-	2.955	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 associates	(25.918)	-	158.970	-	-	158.970	133.052
Current tax assets	17.632	-	-	-	-	-	17.632
Deferred tax assets	714.817	-	-	-	-	-	714.817
Other assets	175.326	2	-	4	1.124	1.130	176.456
Total assets, net	39.951.465	2.746	158.970	318	1.815	163.849	40.115.314
Liabilities							
Resources of central banks	4.913.234	-	-	-	-	-	4.913.234
Financial liabilities held for trading	1.663.246	-	-	53	-	53	1.663.299
Resources of other financial institutions	3.455.964	155.568	-	-	-	155.568	3.611.532
Resources of customers and others	19.706.992	-	-	137.112	-	137.112	19.844.104
Debt securities issued	7.393.865	-	-	-	-	-	7.393.865
Hedging derivatives	282.889	-	-	-	-	-	282.889
Provisions	75.482	-	-	-	-	-	75.482
Current tax liabilities	4.673	957	-	915	-	1.872	6.545
Deferred tax liabilities	64.037	2.935	-	-	-	2.935	66.972
Subordinated liabilities	4.328	-	-	-	-	-	4.328
Other liabilities	289.116	98	-	133	242	473	289.589
Total liabilities	37.853.826	159.558	-	138.213	242	298.013	38.151.839
Total shareholders' equity	1.387.319	(11.441)	6.883	275.595	305.119	576.156	1.963.475
Total liabilities and shareholders' equity	39.241.145	148.117	6.883	413.808	305.361	874.169	40.115.314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The Bank's balance sheet as at December 31, 2010 (Pro forma), by geographic segments, was as follows:

	Domestic operations		International operations				Consolidated total
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	
Assets							
Cash and deposits at central banks	316.872	-	-	-	-	-	316.872
Balances due from banks	235.637	30	-	54	498	582	236.219
Financial assets held for trading	1.649.288	-	-	8	-	8	1.649.296
Financial assets designated at fair value through profit or loss	93.286	-	-	-	-	-	93.286
Available-for-sale financial assets	6.924.524	599	-	-	-	599	6.925.123
Loans and advances to banks	5.159.591	50.002	-	228	-	50.230	5.209.821
Loans and advances to customers	29.773.732	-	-	-	-	-	29.773.732
Hedging derivatives	131.512	-	-	-	-	-	131.512
Non-current assets held for sale	89.123	-	-	-	-	-	89.123
Other tangible assets	391.242	-	-	-	81	81	391.323
Intangible assets	74.375	-	-	-	-	-	74.375
Investments in associates	54.924	-	103.922	-	-	103.922	158.846
Current tax assets	21.985	-	-	-	-	-	21.985
Deferred tax assets	477.690	-	-	-	-	-	477.690
Other assets	292.675	2	-	6	1.245	1.253	293.928
Total assets, net	45.686.456	50.633	103.922	296	1.824	156.675	45.843.131
Liabilities							
Resources of central banks	4.807.162	-	-	-	-	-	4.807.162
Financial liabilities held for trading	1.312.845	-	-	143	-	143	1.312.988
Resources of other financial institutions	9.614.681	-	-	-	-	-	9.614.681
Resources of customers and others	17.855.233	-	-	150.962	241	151.203	18.006.436
Debt securities issued	8.767.554	112.792	-	-	-	112.792	8.880.346
Hedging derivatives	189.423	-	-	-	-	-	189.423
Provisions	104.193	-	-	-	-	-	104.193
Current tax liabilities	3.739	1.919	-	950	-	2.869	6.608
Deferred tax liabilities	47.221	664	-	-	-	664	47.885
Subordinated liabilities	32.316	-	-	-	-	-	32.316
Other liabilities	445.737	67	-	103	159	329	446.066
Total liabilities	43.180.104	115.442	-	152.158	400	268.000	43.448.104
Total shareholders' equity	1.257.575	(1.720)	1.945	533.381	603.846	1.137.452	2.395.027
Total liabilities and shareholders' equity	44.437.679	113.722	1.945	685.539	604.246	1.405.452	45.843.131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The Bank's statement of income for the year ended December 31, 2011, by geographic segments, was as follows:

	Domestic operations		International operations				Consolidated total
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	
Interest income	1.692.164	292	-	238	-	530	1.692.694
Interest expense	(1.140.920)	(4.491)	-	(3.750)	-	(8.241)	(1.149.161)
Financial margin	551.244	(4.199)	-	(3.512)	-	(7.711)	543.533
Income from equity instruments	1.278	-	-	-	-	-	1.278
Fees and commission income	397.185	-	-	-	-	-	397.185
Fees and commission expense	(54.090)	(1)	-	-	(235)	(236)	(54.326)
Result of assets and liabilities valued at fair value through profit or loss (net)	1.915	-	-	(20)	-	(20)	1.895
Result of available-for-sale financial assets (net)	(77.237)	-	-	-	-	-	(77.237)
Result of foreign exchange revaluation (net)	5.236	-	-	59	-	59	5.295
Results of other assets	999	-	-	-	7	7	1.006
Other operating results	(13.937)	-	-	(4)	(103)	(107)	(14.044)
Net income from banking activities	812.593	(4.200)	-	(3.477)	(331)	(8.008)	804.585
Personnel costs	(295.595)	(178)	-	(193)	(668)	(1.039)	(296.634)
General administrative costs	(146.009)	(404)	-	(105)	(339)	(848)	(146.857)
Depreciation and amortization	(63.327)	-	-	-	(35)	(35)	(63.362)
Provisions, net	(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	(4.782)	9.347	(3.775)	(1.373)	(583)	17.585
Current taxes	3.342	(13.674)	-	(852)	(17)	(14.543)	(11.201)
Deferred taxes	42.962	(2.271)	-	-	(7)	(2.278)	40.684
Income after taxes and before minority interests	64.472	(20.727)	9.347	(4.627)	(1.397)	(17.404)	47.068
Income attributable to minority interests	53	-	-	-	-	-	53
Consolidated net income attributable to the shareholders of BST	64.419	(20.727)	9.347	(4.627)	(1.397)	(17.404)	47.121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The Bank's statement of income for the year ended December 31, 2010 (Pro forma), by geographic segments, was as follows:

	Domestic operations		International operations				Consolidated total
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	
Interest income	2.002.362	9.691	-	31	-	9.722	2.012.084
Interest expense	(1.321.935)	(12.987)	-	(3.590)	-	(16.577)	(1.338.512)
Financial margin	680.427	(3.296)	-	(3.559)	-	(6.855)	673.572
Income from equity instruments	4.307	-	-	-	-	-	4.307
Fees and commission income	405.950	-	-	-	1	1	405.951
Fees and commission expense	(52.975)	(1)	-	-	(244)	(245)	(53.220)
Result of assets and liabilities valued at fair value through profit or loss (net)	(27.081)	-	-	202	-	202	(26.879)
Result of available-for-sale financial assets (net)	(5.900)	(211.452)	-	-	-	(211.452)	(217.352)
Result of foreign exchange revaluation (net)	10.944	-	-	38	2	40	10.984
Results of other assets	153.284	208.748	-	-	-	208.748	362.032
Other operating results	(8.174)	-	-	(4)	(96)	(100)	(8.274)
Net income from banking activities	1.160.782	(6.001)	-	(3.323)	(337)	(9.661)	1.151.121
Personnel costs	(295.554)	(177)	-	(204)	(794)	(1.175)	(296.729)
General administrative costs	(152.326)	(403)	-	(101)	(356)	(860)	(153.186)
Depreciation and amortization	(66.287)	-	-	-	(37)	(37)	(66.324)
Provisions, net	(10.178)	-	-	-	-	-	(10.178)
Loan impairment net of reversals and recoveries	(106.015)	336	-	-	-	336	(105.679)
Impairment of other financial assets net of reversals and recoveries	(15.561)	-	-	-	-	-	(15.561)
Impairment of other assets net of reversals and recoveries	(24.573)	-	-	-	-	-	(24.573)
Result from associates	5.303	-	3.457	-	-	3.457	8.760
Income before taxes and minority interests	495.591	(6.245)	3.457	(3.628)	(1.524)	(7.940)	487.651
Current taxes	(69.030)	(9.134)	-	(976)	(47)	(10.157)	(79.187)
Deferred taxes	(5.202)	81	-	-	-	81	(5.121)
Income after taxes and before minority interests	421.359	(15.298)	3.457	(4.604)	(1.571)	(18.016)	403.343
Income attributable to minority interests	(4.147)	-	-	-	-	-	(4.147)
Consolidated net income attributable to the shareholders of BST	425.506	(15.298)	3.457	(4.604)	(1.571)	(18.016)	399.196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

4. GROUP COMPANIES AND TRANSACTIONS DURING THE YEAR

The most significant financial data taken out from the individual financial statements of the subsidiaries and associated companies can be resumed as follows:

Empresa	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
BANCO SANTANDER TOTTA, S.A.	-	-	100,00	100,00	45.639.291	48.696.964	746.961	1.753.362	22.289	282.071
BANCO CAIXA GERAL TOTTA DE ANGOLA ⁽³⁾	-	-	24,99	24,99	1.507.229	814.340	159.186	158.703	36.842	30.895
TOTTA & AÇORES FINANCING ⁽¹⁾⁽⁶⁾	100,00	100,00	100,00	100,00	311.790	311.788	299.430	311.788	12.360	12.360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100,00	100,00	33.994	32.923	33.973	32.665	240	204
TOTTA & AÇORES, INC. - NEWARK	100,00	100,00	100,00	100,00	1.344	1.113	1.121	968	113	56
TOTTA IRELAND, PLC ⁽⁴⁾	100,00	100,00	100,00	100,00	625.866	2.133.547	463.700	280.234	6.700	4.639
SANTOTTA-INTERNACIONAL, SGPS	100,00	100,00	100,00	100,00	102.948	90.723	75.827	64.473	5.693	149
TOTTA URBE - Emp. Admin. e Construções, S.A. ⁽²⁾	100,00	100,00	100,00	100,00	121.003	193.293	117.281	114.784	2.166	(1.195)
BENIM - Sociedade Imobiliária, S.A. ⁽⁵⁾	-	-	25,81	25,81	n.a.	11.720	n.a.	9.012	n.a.	213
TOTTA CRÉDITO ESPECIALIZADO, IFC, S.A. ⁽⁷⁾	-	16,12	-	16,81	n.a.	4.528.812	n.a.	166.818	n.a.	24.958
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	100,00	100,00	100,00	100,00	50.308	14.307	49.732	14.304	9.582	23
SANTANDER ASSET MANAGEMENT, SGFM, SA	-	-	100,00	100,00	25.258	33.628	22.294	26.689	(20.266)	6.331
BST INTERNATIONAL BANK, INC. - PORTO RICO ⁽¹⁾⁽⁶⁾	100,00	100,00	100,00	100,00	440.831	451.724	300.596	291.841	16.204	18.150
TAXAGEST, SGPS, S.A.	99,00	99,00	99,00	99,00	55.004	60.374	55.000	60.363	(5.307)	(2.435)
PARTANG, SGPS ⁽³⁾	0,49	0,49	49,00	49,00	113.535	94.771	112.384	92.427	16.653	4.944
SANTANDER PENSÕES	-	-	100,00	100,00	4.064	6.204	3.862	5.847	1.000	1.137
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. ⁽⁸⁾	21,50	21,50	21,50	21,50	307.856	310.155	73.375	73.102	8.745	11.270
HIPO TOTTA nº 1 PLC	-	-	-	-	238.832	282.445	(2.923)	(2.881)	(1.800)	(1.124)
HIPO TOTTA nº 2 PLC ⁽⁶⁾	-	-	-	-	-	909.493	-	(10.705)	-	(1.983)
HIPO TOTTA nº 3 PLC ⁽⁶⁾	-	-	-	-	-	1.581.593	-	(17.363)	-	(3.618)
HIPO TOTTA nº 4 PLC	-	-	-	-	1.299.458	1.464.881	(17.616)	(17.578)	(5.633)	(2.912)
HIPO TOTTA nº 5 PLC	-	-	-	-	1.076.745	1.255.211	(8.857)	(8.127)	(4.382)	(1.318)
HIPO TOTTA nº 7 Ltd	-	-	-	-	1.319.559	1.641.785	(12.110)	(9.781)	(6.067)	(1.729)
HIPO TOTTA nº 8 Ltd ⁽⁶⁾	-	-	-	-	-	1.040.297	-	(5.454)	-	(151)
HIPO TOTTA nº 10 Ltd ⁽⁶⁾	-	-	-	-	-	825.853	-	(2.785)	-	(394)
HIPO TOTTA nº 1 FTC	-	-	-	-	228.332	272.269	226.181	269.705	(2.145)	(1.651)
HIPO TOTTA nº 2 FTC ⁽⁶⁾	-	-	-	-	-	895.884	-	885.025	-	(4.803)
HIPO TOTTA nº 3 FTC ⁽⁶⁾	-	-	-	-	-	1.575.344	-	1.556.184	-	(6.529)
HIPO TOTTA nº 4 FTC	-	-	-	-	1.276.937	1.447.882	1.263.330	1.431.778	(9.746)	(7.264)
HIPO TOTTA nº 5 FTC	-	-	-	-	1.068.126	1.249.022	1.059.767	1.240.708	(5.927)	(4.939)
HIPO TOTTA nº 7 FTC	-	-	-	-	1.303.213	1.625.006	1.291.479	1.614.575	(8.257)	(7.071)
HIPO TOTTA nº 8 FTC ⁽⁶⁾	-	-	-	-	-	1.020.165	-	1.011.190	-	(3.483)
HIPO TOTTA nº 10 FTC ⁽⁶⁾	-	-	-	-	-	808.389	-	803.778	-	(613)
TAGUS - Soc. Titularização de Créditos, S.A. (HIPO TOTTA nº 11)	-	-	-	-	1.881.452	3.861.233	100.452	38.412	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (HIPO TOTTA nº 12)	-	-	-	-	1.253.838	n.a.	75.254	n.a.	-	n.a.
LEASE TOTTA nº 1 Ltd	-	-	-	-	724.957	n.a.	709.099	n.a.	-	n.a.
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº 1)	-	-	-	-	2.028.717	n.a.	98.179	n.a.	-	n.a.
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº 1)	-	-	-	-	962.218	n.a.	111.278	n.a.	-	n.a.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

(Amounts expressed in thousands of Euros - tEuros, unless otherwise 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	Not included
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	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS	Holding company	Madeira	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. ⁽²⁾	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A. ⁽³⁾	Real estate	Portugal	Not included
TOTTA CRÉDITO ESPECIALIZADO, IFIC, S.A.	Leasing, consumer factoring and LTR	Portugal	Not included
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Portugal	Full
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	Funds management	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO ^{(1) (6)}	Banking	Puerto Rico	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
SANTANDER PENSÕES - SOCIEDADE GESTORES DE FUNDOS DE PENSÕES, S.A.	Funds management de pensões	Portugal	Full
PARTANG, SGPS ⁽³⁾	Holding company	Portugal	Not included
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. ⁽³⁾	Credit Cards Management	Portugal	Equity
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 2 PLC ⁽⁸⁾	Investment management	Ireland	Full
HIPOTOTTA nº 3 PLC ⁽⁸⁾	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
HIPOTOTTA nº 8 Ltd ⁽⁸⁾	Investment management	Ireland	Full
HIPOTOTTA nº 10 Ltd ⁽⁸⁾	Investment management	Ireland	Full
HIPOTOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 2 FTC ⁽⁸⁾	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 3 FTC ⁽⁸⁾	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
HIPOTOTTA nº 8 FTC ⁽⁸⁾	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 10 FTC ⁽⁸⁾	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12)	Securitized loans company	Portugal	Full
LEASETOTTA nº 1 Ltd	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº 1)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº 1)	Securitized loans company	Portugal	Full

- (1) The shareholders' equity of these companies include preference shares subscribed for 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 as at November 30. In the periods from January 1 to November 30, 2011 and 2010, Totta Ireland Plc. net income amounted to tEuros 89,013 and tEuros 59,332, 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 the 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 the preference shares, the Bank's effective participation in this entity is 1.37%.
- (7) On April 1, 2011 Totta IFIC has been merged into BST.
- (8) Emissions settled during 2011.

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In compliance with IAS 27 and SIC 12, the Bank'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. This situation results from the fact to hold the notes issued with a higher degree of subordination (Note 44). These entities are referred to above as Leasetotta Ltd, Hipototta FTC, (securitized loans funds) and Hipototta PLC or Ltd (entities which acquired the participating units issued by the securitized loan funds). Regarding the Hipototta 11 and 12, BST SME No. 1 and Totta Consumer No. 1, the Group includes on its consolidated accounts the corresponding portion of the financial statements of Tagus - Sociedade de Titularização de Créditos, S.A., since for the same reason also holds most of the risks and benefits associated to this securitization operation.

Under the agreement signed between the BST and CGD on July 5, 2010, CGD used its purchase option of 1% of the share capital of Partang, which owns 51% of the share capital of BCGTA. Following this operation, BST Group now holds 49% of the share capital of Partang, having lost the joint control over the BCGTA. In accordance with IAS 27, the Bank valued at fair value the shareholding on the date that joint control has been lost, having recorded a gain in its consolidated accounts of tEuros 54,045 (Notes 26, 36 and 37). Following this operation, the participation has started to be recognized by the equity method.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Cash	186,707	217,798
Demand deposits at central banks:		
European Central Bank	201,130	99,074
	-----	-----
	387,837	316,872
	=====	=====

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 BANKS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Balances due from domestic banks		
Demand deposits	332	1,462
Cheques for collection	80,789	110,056
Accrued interest	3	-
Balances due from foreign banks		
Demand deposits	273,985	123,456
Cheques for collection	1,853	1,245
	-----	-----
	356,962	236,219
	=====	=====

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7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Securities		
Participating units	287,032	406,281
Derivatives		
Derivative instruments with positive fair value	1,708,752	1,243,015
	-----	-----
	1,995,784	1,649,296
	=====	=====

The caption "Participating Units" as at December 31, 2011 and 2010 refers essentially to security and real estate funds managed by Santander Group entities.

	<u>2011</u>	<u>2010</u> (Pro forma)
Special investment funds	23	127,258
Securities investment funds	221,036	226,162
Real estate investment funds	65,973	52,861
	-----	-----
	287,032	406,281
	=====	=====

The special investment funds that were in the portfolio as at December 31, 2010 were settled during 2011, having the Bank cashed in the respective amounts.

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The caption derivative financial instruments held for trading is made up as follows:

	2011			2010 (Pro forma)		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
FRA's	109	-	109	-	-	-
Forwards	544	9	535	-	197	(197)
Swaps						
Currency swaps	28,998	-	28,998	-	8,279	(8,279)
Interest rate swaps	722,934	703,704	19,230	485,098	537,722	(52,624)
Equity swaps	1,232	3,836	(2,604)	4	2,751	(2,747)
Options	80,637	80,644	(7)	108,435	112,963	(4,528)
Caps & Floors	874,298	875,106	(808)	649,478	651,076	(1,598)
	<u>1,708,752</u>	<u>1,663,299</u>	<u>45,453</u>	<u>1,243,015</u>	<u>1,312,988</u>	<u>(69,973)</u>

8. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31, 2011 and 2010 the balance of this caption corresponds exclusively to Portuguese public debt, namely treasury bonds.

Interest and revaluation results arising out from these financial assets are recorded in the caption "Result 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:

	2011							Book Value
	Acquisition Cost	Accrued interest	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment (Nota 22)	
				Positive	Negative	Total (Nota 25)		
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	132.004	988	-	-	(9.366)	(9.366)	-	123.626
Other Portuguese entities								
Acquired in securitization operations	134.096	197	-	-	(22.798)	(22.798)	-	111.495
Unsubordinated debt	949.321	9.650	-	1.495	(62.587)	(61.092)	(231)	897.648
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 residents								
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 historical cost	21.648	-	-	-	-	-	(5.947)	15.701
Issued by non residents								
Valued at fair value	1.016	-	-	328	-	328	-	1.344
Valued at historical cost	1.150	-	-	-	-	-	(746)	404
	<u>5.150.459</u>	<u>83.631</u>	<u>210.141</u>	<u>2.448</u>	<u>(942.404)</u>	<u>(939.956)</u>	<u>(64.670)</u>	<u>4.439.605</u>

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	2010 (Pro forma)							Book Value
	Acquisition Cost	Accrued interest	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment (Nota 22)	
				Positive	Negative	Total		
				(Nota 25)				
Debt instruments								
Issued by residents								
Treasury Bonds	2.092.165	29.241	49.489	-	(237.844)	(237.844)	(231)	1.932.820
Other Portuguese Government entities	133.505	987	-	-	(8.496)	(8.496)	-	125.996
Other Portuguese entities								
Acquired in securitization operations	175.199	207	-	-	(19.431)	(19.431)	-	155.975
Unsubordinated debt	640.948	8.682	-	4.788	(22.301)	(17.513)	(231)	631.886
Subordinated debt	19.748	8	-	-	(2.558)	(2.558)	-	17.198
Issued by non residents								
Foreign government entities	3.088.305	75.112	23.548	341	(184.775)	(184.434)	-	3.002.531
Other non residents								
Acquired in securitization operations	1.040.000	2.895	-	-	(43.875)	(43.875)	-	999.020
Equity instruments								
Issued by residents								
Valued at fair value	90.139	-	-	-	(93)	(93)	(50.859)	39.187
Valued at historical cost	24.347	-	-	-	-	-	(5.547)	18.800
Issued by non residents								
Valued at fair value	2.523	-	-	318	-	318	(1.535)	1.306
Valued at historical cost	1.149	-	-	-	-	-	(745)	404
	7.308.028	117.132	73.037	5.447	(519.373)	(513.926)	(59.148)	6.925.123

As at December 31, 2011 and 2010, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 210.141 and tEuros 73.037, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

Description	2011					2010 (Pro forma)						
	Acquisition Cost	Accrued interest	Value Adjustments	Fair value reserve	Impairment	Book Value	Acquisition Cost	Accrued interest	Value Adjustments	Fair value reserve	Impairment	Book Value
Treasury bonds - Portugal												
. Maturity in one year	5.617	24	-	(2)	-	5.639	-	-	-	-	-	-
. Maturity between one and three years	825.852	6.635	28.427	(244.873)	-	616.041	105.085	1.493	-	(3.399)	-	103.179
. Maturity between three and five years	-	-	-	-	-	-	1.184.490	9.001	15.428	(99.743)	-	1.109.176
. Maturity between five and ten years	790.657	18.687	82.522	(443.167)	-	448.699	791.634	18.737	34.061	(134.634)	-	709.798
Treasury bills - Portugal	508.440	-	-	(316)	-	508.124	10.222	-	-	(52)	-	10.170
Other	487	6	-	-	(373)	120	734	10	-	(16)	(231)	487
	2.131.053	25.352	110.949	(688.358)	(373)	1.578.623	2.092.165	29.241	49.489	(237.844)	(231)	1.932.820
Treasury bonds - Spain												
. Maturity in one year	5.596	23	-	62	-	5.681	-	-	-	-	-	-
. Maturity between one and three years	-	-	-	-	-	-	1.447.264	27.772	(2.077)	(36.537)	-	1.436.422
. Maturity between three and five years	625.354	24.231	-	(10.774)	-	638.811	633.573	24.230	-	(29.973)	-	627.830
. Maturity between five and ten years	1.000.000	22.966	99.192	(146.412)	-	975.746	1.000.000	23.028	25.625	(118.265)	-	930.388
Other	7.716	86	-	460	-	8.262	7.468	82	-	341	-	7.891
	1.638.686	47.306	99.192	(156.664)	-	1.628.500	3.088.305	75.112	23.548	(184.434)	-	3.002.531
	3.769.719	72.658	210.141	(845.022)	(373)	3.207.123	5.180.470	104.353	73.037	(422.278)	(231)	4.935.351

As at December 31, 2011 and 2010, the Bank held in its portfolio Treasury Bonds of Portugal and Spain in the amount of tEuros 1,558,315 and tEuros 4,725,398, respectively, used as collateral in financing operations (Note 19).

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As at December 31, 2011 and 2010 the caption “Debt Instruments – issued by other Portuguese entities” includes the following securities:

Description	2011				2010 (Pro forma)					
	Acquisition Cost	Accrued interest	Fair value reserve	Impairment	Book Value	Acquisition Cost	Accrued interest	Fair value reserve	Impairment	Book Value
Acquired within securitization operations										
ENERGYON NO.2 CLASS A NOTES MAY	99.111	154	(22.227)	-	77.038	105.283	134	(17.471)	-	87.946
TAGUS ROSE-07 1 SEC NOTES DEC/12	34.935	43	(571)	-	34.407	69.867	72	(1.953)	-	67.986
Other	50	-	-	-	50	49	1	(7)	-	43
	<u>134.096</u>	<u>197</u>	<u>(22.798)</u>	<u>-</u>	<u>111.495</u>	<u>175.199</u>	<u>207</u>	<u>(19.431)</u>	<u>-</u>	<u>155.975</u>
Unsubordinated debt										
PARPÚBLICA 3.5 07-2013	139.863	2.370	(37.663)	-	104.570	139.772	2.376	2.209	-	144.357
BANCO ESPÍRITO SANTO 3.75% 01/12	77.171	2.750	(480)	-	79.441	77.586	2.750	(2.148)	-	78.188
SONAE DISTRIBUIÇÃO SET 2007/2015	70.000	501	(10.701)	-	59.800	70.000	370	(10.115)	-	60.255
BANCO INTL DO FUNCHAL SA 3.25 5/	59.994	1.268	(1.713)	-	59.549	59.976	1.272	(2.141)	-	59.107
IBERWIND II P. CONSULTORIA SENIO A	33.967	59	170	-	34.196	35.903	52	1.189	-	37.144
OBRIGACOES ZON MULTIMEDIA 2010/2	24.300	63	(1.195)	-	23.168	24.300	63	-	-	24.363
BANCO COMERC PORTUGUES 3.625% 01	23.605	813	(142)	-	24.276	23.708	813	(654)	-	23.867
EDIA 2010/2030	19.250	336	(8.627)	-	10.959	19.250	291	(4.289)	-	15.252
AUTO SUECO 2009/2014	15.000	5	(1.552)	-	13.453	15.000	4	(1.454)	-	13.550
GALP ENERGIA 05-2013	-	-	-	-	-	90.000	514	1.341	-	91.855
CAIXA GERAL DEPOSITOS 3.875% 12/	-	-	-	-	-	74.176	156	(1.492)	-	72.840
Commercial paper	475.961	1.460	769	-	478.190	-	-	-	-	-
Other	10.210	25	42	(231)	10.046	11.277	21	41	(231)	11.108
	<u>949.321</u>	<u>9.650</u>	<u>(61.092)</u>	<u>(231)</u>	<u>897.648</u>	<u>640.948</u>	<u>8.682</u>	<u>(17.513)</u>	<u>(231)</u>	<u>631.886</u>
Subordinated debt										
TOTTA SEGUROS - OBRIG. SUB. 2002	14.000	2	(785)	-	13.217	14.000	2	(892)	-	13.110
Other	2.759	6	(1.323)	-	1.442	5.748	6	(1.666)	-	4.088
	<u>16.759</u>	<u>8</u>	<u>(2.108)</u>	<u>-</u>	<u>14.659</u>	<u>19.748</u>	<u>8</u>	<u>(2.558)</u>	<u>-</u>	<u>17.198</u>

The operations of commercial paper acquired in 2011 in the amount of tEuros 492,462 were recorded under this caption, while the operations acquired in 2010 were recorded under "Loans and advances to customers".

As at December 31, 2011 and 2010 the caption “Debt Instruments – issued by other non residents” includes the following securities:

Description	2011				2010 (Pro forma)			
	Acquisition Cost	Accrued interest	Fair value reserve	Book Value	Acquisition Cost	Accrued interest	Fair value reserve	Book Value
Acquired in securitization operations								
Commercial paper	16.500	130	102	16.732	-	-	-	-
LEASETOTTA NO.1 LTD CL A VAR	-	-	-	-	1.040.000	2.895	(43.875)	999.020
	<u>16.500</u>	<u>130</u>	<u>102</u>	<u>16.732</u>	<u>1.040.000</u>	<u>2.895</u>	<u>(43.875)</u>	<u>999.020</u>

During 2010 the Group sold off securitization securities of the Santander Group, recording a realized capital loss of tEuros 211,452 (Note 35).

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As at December 31, 2011 and 2010 the caption “Available-for-sale financial assets – Equity instruments” includes the following securities:

Description	2011			2010 (Pro forma)			Book Value	
	Acquisition Cost	Fair value reserve	Impairment	Acquisition Cost	Fair value reserve	Impairment		
Valued at fair value								
BPI	27.782	-	(22.031)	5.751	33.418	-	(15.219)	18.199
F.I.I. FECHADO IMORENDIMENTO II	18.663	-	-	18.663	-	-	-	-
FUNDO RECUPERAÇÃO FCR	18.356	-	-	18.356	11.816	-	-	11.816
GARVAL - SOC.DE GARANTIA MUTUA S.A.	2.506	-	-	2.506	3.154	-	-	3.154
Other	9.905	328	(3.292)	6.941	10.100	225	(3.001)	7.324
Securities with 100% impairment losses	32.050	-	(32.050)	-	34.174	-	(34.174)	-
	<u>109.262</u>	<u>328</u>	<u>(57.373)</u>	<u>52.217</u>	<u>92.662</u>	<u>225</u>	<u>(52.394)</u>	<u>40.493</u>
Valued at historical cost								
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (ex-AENOR)	3.749	-	(404)	3.345	3.749	-	(4)	3.745
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Prestações Suplementares) (ex-AENOR)	3.749	-	-	3.749	3.749	-	-	3.749
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS SARL	3.461	-	-	3.461	3.461	-	-	3.461
Other	6.812	-	(1.262)	5.550	9.510	-	(1.261)	8.249
Securities with 100% impairment losses	5.027	-	(5.027)	-	5.027	-	(5.027)	-
	<u>22.798</u>	<u>-</u>	<u>(6.693)</u>	<u>16.105</u>	<u>25.496</u>	<u>-</u>	<u>(6.292)</u>	<u>19.204</u>

During the first half of 2011 the Group has sold off 2,360,640 shares of Banco BPI, in the overall amount of tEuros 2,870. Consequently, the Bank has recorded a realized capital gain of 26 tEuros having used the impairment for this purpose (Note 22).

On May 17, 2011 the Group has received 1,177,461 shares of Banco BPI, as result of capital increase by incorporating reserves of that bank.

On December 31, 2011 and 2010, the Group had 11,956,434 shares and 13,139,614 shares of Banco BPI, S.A. at an acquisition cost of tEuros 27,882 and tEuros 33,418, respectively. In the years 2011 and 2010, the Bank increased the impairment for these securities in tEuros 9,604 and tEuros 15,219, respectively.

During 2011, the Bank responded to call-up capital by the Fundo Recuperação, FCR in the amount of tEuros 6,540. In this context subscribed 30,000 units of this fund, having paid-up until December 31, 2011 approximately 61.2%.

In 2011, the Bank has acquired 2,748,238 units of the Fundo Fechado de Investimento Imobiliário - Imorendimento II in the amount of tEuros 18,663, following a debt settlement agreement.

As at December 31, 2011 and 2010 the negative fair value reserve resulting from the valuation at fair value had the following percentages in relation to cost:

	2011					2010 (Pro forma)				
	Acquisition Cost	Accrued interest	Gain on hedging operations	Negative reserve	Book Value	Acquisition Cost	Accrued interest	Gain 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	5.838.401	11.121	73.037	(517.975)	5.404.584
. between 25% and 50%	1.051.519	9.603	28.427	(335.379)	754.170	2.756	5	-	(1.305)	1.456
. higher than 50%	675.000	17.680	82.522	(392.364)	382.838	-	-	-	-	-
	<u>4.666.525</u>	<u>81.769</u>	<u>210.141</u>	<u>(942.404)</u>	<u>4.016.031</u>	<u>5.841.157</u>	<u>11.126</u>	<u>73.037</u>	<u>(519.280)</u>	<u>5.406.040</u>
Equity instruments										
. between 0% and 25%	-	-	-	-	-	500	-	-	(93)	407
	-	-	-	-	-	500	-	-	(93)	407
	<u>4.666.525</u>	<u>81.769</u>	<u>210.141</u>	<u>(942.404)</u>	<u>4.016.031</u>	<u>5.841.657</u>	<u>11.126</u>	<u>73.037</u>	<u>(519.373)</u>	<u>5.406.447</u>

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10. LOANS AND ADVANCES TO BANKS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Loans and advances - Bank of Portugal	1,150,000	500,000
	-----	-----
Loans and advances to other Portuguese banks		
Loans	57,428	3,370,561
Purchase operations with resale agreements	368,711	-
Subordinated applications	-	50,000
Deferred income	(150)	-
Accrued interest	953	6,624
	-----	-----
	426,942	3,927,185
	-----	-----
Loans and advances to other foreign banks		
Very short term loans and advances	65,215	564
Deposits	918,705	1.106,000
Other applications	102,345	141,787
Accrued interest	29,704	34,285
	-----	-----
	1,115,969	1,282,636
	-----	-----
	2,692,911	5,209,821
	=====	=====

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11. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Unsecuritized credit		
Domestic loans		
To companies		
Credit on current account	1,334,775	1,594,663
Loans	3,325,033	5,100,288
Finance leases	526,117	1,052
Discount and credit securities	184,867	254,255
Overdrafts	438,299	429,993
Factoring	1,231,364	-
Other credits	39,165	10,554
To individuals		
Mortgage loans	9,141,345	5,781,267
Consumer credit and others	1,255,346	2,072,693
Foreign loans		
To companies		
Credit on current account	12,240	244,631
Loans	82,077	548,047
Finance leases	4,239	-
Discount and credit securities	49	92
Overdrafts	5,294	4,622
Factoring	91,558	-
Other credits	3,432	3,077
To individuals		
Mortgage loans	397,570	387,392
Consumer credit and others	22,035	44,472
	-----	-----
	18,094,805	16,477,098
	-----	-----
Credit securities		
Non subordinated debt securities		
Commercial paper	40,000	2,633,386
	-----	-----

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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	<u>2011</u>	<u>2010</u> (Pro forma)
Non-derecognized securitized assets (Note 44)		
To companies		
Loans		
. BST SME No. 1	1,327,390	-
. Totta Consumer No. 1	36,331	-
Finance leases		-
. Leasetotta No. 1	652,910	-
Credit securities – Commercial paper		
. BST SME No. 1	615,200	-
To individuals		
Loans		
Mortgage loans		
. Hipototta nº 1	225,469	268,027
. Hipototta nº 2	-	876,988
. Hipototta nº 3	-	1,543,260
. Hipototta nº 4	1,255,543	1,422,287
. Hipototta nº 5	1,049,819	1,231,046
. Hipototta nº 7	1,275,981	1,601,178
. Hipototta nº 8	-	978,832
. Hipototta nº 10	-	802,442
. Hipototta nº 11	1,736,471	1,873,515
. Hipototta nº 12	1,216,021	-
Consumer credit		
. Totta Consumer No. 1	747,758	-
Finance leases		
. Leasetotta No. 1	1,803	
	-----	-----
	10,140,696	10,597,575
	-----	-----
Overdue loans and interest		
Up to 90 days	47,748	26,912
More than 90 days	539,251	335,099
Non-derecognized securitized assets	94,737	99,369
	-----	-----
	681,736	461,380
	-----	-----
	28,957,237	30,169,439
	-----	-----
Accrued interest		
Unsecuritized credit	58,914	59,291
Credit securities	1,541	5,510
Non-derecognized securitized assets	31,981	23,953
Deferred expenses	100,227	113,753
Fees and commission relating to amortized cost (net)	(111,287)	(105,363)
Value adjustment of hedged assets	5,327	4,306
	-----	-----
	86,703	101,450
	-----	-----
	29,043,940	30,270,889
Impairment of loans and advances to customers (Note 22)	(671,913)	(497,157)
	-----	-----
	28,372,027	29,773,732
	=====	=====

In 2011 and 2010, part of the mortgage loans and company loans portfolios were sold off. As a result of these operations, the Bank has recorded net realized capital gains of tEuros 1 and tEuros 78, respectively (Note 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

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

The changes in impairment of loans and advances to customers during 2011 and 2010 are presented in Note 22.

Overdue loans and interest as at December 31, 2011 and 2010 is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Up to three months	54,267	29,437
From three to six months	97,880	34,921
From six months to one year	176,115	119,452
From one to three years	258,491	229,202
More than three years	94,983	48,368
	-----	-----
	681,736	461,380
	=====	=====

Loans to customers as at December 31, 2011 and 2010 is made up as follows, by business sector:

	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%
Chemicals	107,122	582	107,704	0.37%
Ceramic, glass and cement	185,302	2,174	187,476	0.65%
Basic metallurgy	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 trade	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%
Other Loans	568,325	6,821	575,146	1.98%
	<u>28,275,501</u>	<u>681,736</u>	<u>28,957,237</u>	<u>100.00%</u>

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	2010 (Pro forma)			
	Performing	Overdue	Total	%
Agriculture and forestry	171,299	3,291	174,590	0.58%
Fishing	3,718	19	3,737	0.01%
Mining	329,969	684	330,653	1.10%
Manufacturing:				
Food, beverage and tobacco	286,035	880	286,915	0.95%
Textiles, leather and clothing	176,428	2,434	178,862	0.59%
Wood and cork	71,656	1,626	73,282	0.24%
Paper and publishing	67,828	744	68,572	0.23%
Chemicals	180,391	556	180,947	0.60%
Ceramic, glass and cement	178,153	1,409	179,562	0.60%
Basic metallurgy	131,054	3,482	134,536	0.45%
Machines and vehicles	274,422	4,686	279,108	0.93%
Electricity, water and gas	229,109	709	229,818	0.76%
Construction and public works	1,963,417	70,429	2,033,846	6.74%
Commerce and hotels:				
Wholesale trade	699,826	10,079	709,905	2.35%
Retail sale	747,852	14,286	762,138	2.53%
Restaurants and hotels	347,584	5,023	352,607	1.17%
Transport and communications	1,031,387	2,771	1,034,158	3.43%
Non-monetary financial institutions	1,147,539	11	1,147,550	3.80%
Government administration	486,162	2,434	488,596	1.62%
Other service companies	2,146,915	35,973	2,182,888	7.24%
Loans to individuals	7,718,688	186,309	7,904,997	26.20%
Non-derecognised securitized assets	10,597,575	99,369	10,696,944	35.46%
Foreign loans	272,812	2,454	275,266	0.91%
Other loans	448,240	11,722	459,962	1.51%
	<u>29,708,059</u>	<u>461,380</u>	<u>30,169,439</u>	<u>100.00%</u>

As at December 31, 2011, the overdue and performing loans, with and without evidence of impairment, are as follows:

	Overdue loans	Performing loans	Total loans
Loans to companies			
Without evidence of impairment	-	9,670,386	9,670,386
With evidence of impairment	302,396	409,940	712,336
	<u>302,396</u>	<u>10,080,326</u>	<u>10,382,722</u>
Mortgage loans			
Without evidence of impairment	-	15,384,875	15,384,875
With evidence of impairment	249,306	779,278	1,028,584
	<u>249,306</u>	<u>16,164,153</u>	<u>16,413,459</u>
Consumer credit			
Without evidence of impairment	-	1,111,840	1,111,840
With evidence of impairment	31,771	88,956	120,727
	<u>31,771</u>	<u>1,200,796</u>	<u>1,232,567</u>

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(Translation of notes originally issued in Portuguese – Note 49)

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

	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>
Loans granted through credit cards			
· Without evidence of impairment	-	262,819	262,819
· With evidence of impairment	25,535	11,696	37,231
	-----	-----	-----
	25,535	274,515	300,050
	-----	-----	-----
Other loans to individuals			
· Without evidence of impairment	-	435,914	435,914
· With evidence of impairment	72,728	119,797	192,525
	-----	-----	-----
	72,728	555,711	628,439
	-----	-----	-----
	681,736	28,275,501	28,957,237
	=====	=====	=====

The overdue and performing loans, with and without evidence of impairment, as at December 31, 2010 (Pro forma) are as follows:

	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>
Loans to companies			
· Without evidence of impairment	-	10,998,831	10,998,831
· With evidence of impairment	166,921	149,891	316,812
	-----	-----	-----
	166,921	11,148,722	11,315,643
	-----	-----	-----
Mortgage loans			
· Without evidence of impairment	-	15,360,671	15,360,671
· With evidence of impairment	202,461	1,263,315	1,465,776
	-----	-----	-----
	202,461	16,623,986	16,826,447
	-----	-----	-----
Consumer credit			
· Without evidence of impairment	-	1,156,902	1,156,902
· With evidence of impairment	20,505	127,372	147,877
	-----	-----	-----
	20,505	1,284,274	1,304,779
	-----	-----	-----
Loans granted through credit cards			
· Without evidence of impairment	-	258,758	258,758
· With evidence of impairment	18,338	24,366	42,704
	-----	-----	-----
	18,338	283,124	301,462
	-----	-----	-----
Other loans to individuals			
· Without evidence of impairment	-	244,496	244,496
· With evidence of impairment	53,155	123,457	176,612
	-----	-----	-----
	53,155	367,953	421,108
	-----	-----	-----
	461,380	29,708,059	30,169,439
	=====	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

12. HEDGING DERIVATIVES

This caption is made up as follows:

	2011			2010 (Pro forma)		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	63,427	253,052	(189,625)	59,310	119,988	(60,678)
Equity swaps	13,286	21,039	(7,753)	16,769	48,112	(31,343)
AutoCallable options	3,897	8,798	(4,901)	14,637	21,161	(6,524)
Cash flow hedges						
Interest rate swaps	86,692	-	86,692	40,796	162	40,634
	<u>167,302</u>	<u>282,889</u>	<u>(115,587)</u>	<u>131,512</u>	<u>189,423</u>	<u>(57,911)</u>

Derivative financial instruments as at December 31, 2011 are made up as follows:

Financial Instruments	2011							Notional amounts	
	Book Value	Notional amounts					Total	Notional amounts	
		Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	Over 3 years		EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased		24.970	13.224	65.692	-	-	103.886	41.739	62.147
. Sold	535	24.771	13.095	65.429	-	-	103.295	58.873	44.422
Currency swaps									
. Purchased		1.299.485	-	-	-	-	1.299.485	-	1.299.485
. Sold	28.998	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		26.929	46.255	60.430	10.796	-	144.410	155	144.255
. Sold	34	26.929	46.255	60.430	10.796	-	144.410	155	144.255
Equity options									
. Purchased		100	9.409	-	-	-	9.509	9.509	-
. Sold	(34)	100	9.409	-	-	-	9.509	9.509	-
Interest rate options									
. Purchased		1.522	1.657	2.289	2.662	885.631	893.761	887.684	6.077
. Sold	(7)	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
	<u>45.453</u>	<u>3.941.408</u>	<u>1.036.716</u>	<u>2.334.287</u>	<u>7.434.279</u>	<u>9.301.674</u>	<u>24.048.364</u>	<u>22.050.997</u>	<u>1.997.367</u>
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
. Available-for-sale financial assets	(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	1.370.021	526.245	2.113.874	1.969.989	143.885
Cash flow hedges									
Interest rate swaps									
. Cash flow	86.692	-	-	-	1.550.000	1.050.000	2.600.000	2.600.000	-
	<u>(115.587)</u>	<u>59.746</u>	<u>100.563</u>	<u>655.965</u>	<u>5.789.532</u>	<u>3.686.532</u>	<u>10.292.338</u>	<u>10.140.647</u>	<u>151.691</u>

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Derivative financial instruments at December 31, 2010 (Pro forma) are made up as follows:

Financial Instruments	Book Value	Notional amounts					Total	Notional amounts	
		Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	Over 3 years		EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased		23.830	41.881	11.296	17.463	-	94.470	50.536	43.934
. Sold	(197)	23.977	41.910	11.337	17.463	-	94.687	45.935	48.752
Currency swaps									
. Purchased		1.069.669	-	22.742	-	-	1.092.411	-	1.092.411
. Sold	(8.279)	1.077.758	-	23.055	-	-	1.100.813	1.100.813	-
Interest rate swaps									
Other	(52.624)	234.117	1.198.751	1.161.421	5.614.127	5.510.785	13.719.201	13.476.659	242.542
Equity swaps									
	(2.747)	196.679	202.148	576.881	3.072.435	1.727.162	5.775.305	5.747.949	27.356
FRA's									
	-	75.000	50.000	-	-	-	125.000	125.000	-
Currency options									
. Purchased		52.435	20.076	11.529	20.284	-	104.324	-	104.324
. Sold	711	52.435	20.076	11.529	20.284	-	104.324	-	104.324
Equity options									
. Purchased		2.212	13.726	306	168	-	16.412	16.412	-
. Sold	(5.227)	2.212	12.881	306	168	-	15.567	15.567	-
Interest rate options									
. Purchased		2.320	-	-	2.103	916.074	920.497	918.176	2.321
. Sold	(12)	2.320	-	-	1.522	-	3.842	1.522	2.320
Caps									
	10	111.712	16.868	68.512	850.613	1.730.064	2.777.769	2.777.769	-
Floors									
	(1.608)	104.000	-	16.000	97.754	608.001	825.755	791.628	34.127
	(69.973)	3.030.676	1.618.317	1.914.914	9.714.384	10.492.086	26.770.377	25.067.966	1.702.411
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	(170.388)	421	42.844	51.736	2.518.592	1.245.164	3.858.757	3.784.511	74.246
. Available-for-sale financial assets	109.710	-	-	-	700.000	2.075.000	2.775.000	2.775.000	-
AutoCallable Options									
	(6.524)	70.938	179.905	284.547	541.686	-	1.077.076	1.076.695	381
Equity swaps									
	(31.343)	248.000	229.060	164.080	458.849	728.597	1.828.586	1.706.983	121.603
Cash flow hedges									
Interest rate swaps									
. Cash flow	40.634	1.918.200	1.000.000	-	550.000	200.000	3.668.200	3.668.200	-
	(57.911)	2.237.559	1.451.809	500.363	4.769.127	4.248.761	13.207.619	13.011.389	196.230

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

13. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Property received as settlement of defaulting loans	177,737	114,013
Own property for sale	26,525	20,788
Equipment	3,982	-
Other properties	100	-
	-----	-----
	208,344	134,801
	-----	-----
Accumulated Impairment (Note 22)	(67,181)	(45,678)
	-----	-----
	<u>141,163</u>	<u>89,123</u>
	=====	=====

The movements in this caption for the years ended December 31, 2011 and 2010 are made up as follows:

	December 31, 2010		Totta IFC Merger		2011		2011			December 31, 2011		Net amount	
	Gross amount	Impairment	Gross amount	Impairment	Increases	Sales	Transfers from tangible fixed assets (Note 14)	Increase in impairment	Reversal of impairment	Utilization of impairment	Gross amount		Impairment
Property received as settlement of defaulting loans	114.013	(36.052)	16.866	(4.424)	132.419	(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	-	-	2.554	(1.670)	3.019	(1.601)	-	(1.519)	310	94	3.982	(2.785)	1.197
	<u>134.801</u>	<u>(46.678)</u>	<u>19.430</u>	<u>(6.094)</u>	<u>135.528</u>	<u>(91.398)</u>	<u>9.999</u>	<u>(37.483)</u>	<u>7.447</u>	<u>14.627</u>	<u>208.344</u>	<u>(67.181)</u>	<u>141.163</u>

	December 31, 2009		2010 (Pro forma)		2010 (Pro forma)			December 31, 2010		Net amount	
	Gross amount	Impairment	Increases	Sales	Transfers from tangible fixed assets (Note 14)	Increase in impairment	Reversal of impairment	Utilization of impairment	Gross amount		Impairment
Property received as settlement of defaulting loans	119.343	(37.919)	85.486	(90.816)	-	(23.457)	11.787	13.537	114.013	(36.052)	77.961
Own property for sale	20.048	(3.693)	83	-	657	(6.398)	465	-	20.788	(9.626)	11.162
	<u>139.391</u>	<u>(41.612)</u>	<u>85.569</u>	<u>(90.816)</u>	<u>657</u>	<u>(29.855)</u>	<u>12.252</u>	<u>13.537</u>	<u>134.801</u>	<u>(45.678)</u>	<u>89.123</u>

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14. OTHER TANGIBLE AND INTANGIBLE ASSETS

The movements in these captions during the year ended December 31, 2011 were as follows:

	31 12/2010			Entry and/or exit of entities in the consolidation perimeter			Acquisitions	Write offs			Transfers				Depreciation and amortization for the year	Foreign exchange differences			31 12/2011			Net				
	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)		Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	From/to assets held for sale (Note 5)		Between fixed assets			Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)		Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	
											Gross amount	Accumulated depreciation and amortization	Gross amount	Accumulated depreciation and amortization												
Tangible assets																										
Property																										
Property for own use	423,263	15,791	2,486	4,076	477	-	1,179	-	-	-	(13,426)	(3,531)	380	-	7,977	-	-	-	-	-	-	-	415,472	120,714	2,486	292,272
Leasehold improvements	133,393	99,167	-	-	-	-	1,379	-	-	-	(549)	(549)	1	-	6,574	-	6	5	-	-	-	-	134,230	105,217	-	29,016
Other property	1,542	295	697	-	-	-	1	654	40	654	(315)	(255)	(227)	-	1	-	-	-	-	-	-	347	1	43	303	
Work in progress																										
Property for own use	3	-	-	-	-	-	392	-	-	-	-	-	(155)	-	-	-	-	-	-	-	-	-	240	-	-	240
Leasehold improvements	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	22,308	15,617	-	107	107	-	380	236	237	-	-	-	-	-	2,201	-	1	1	-	-	-	-	23,100	17,689	-	5,411
Machinery and tools	4,028	3,864	-	8	8	-	27	152	152	-	-	-	-	-	86	-	1	1	-	-	-	-	4,115	3,817	-	298
Computer hardware	19,884	99,703	-	371	351	-	4,829	1029	902	-	-	(40)	-	-	7,963	-	-	-	-	-	-	-	14,015	107,115	-	16,900
Interior installations	89,482	79,619	-	114	114	-	1,968	35	35	-	(218)	-	-	-	3,065	-	-	-	-	-	-	-	91,268	82,545	-	8,723
Vehicles	16,389	10,139	-	428	334	-	3,064	3,403	3,290	-	-	-	-	-	3,815	-	4	4	-	-	-	-	16,482	11,002	-	7,480
Security equipment	27,777	26,343	-	2	2	-	88	152	150	-	-	-	-	-	552	-	-	-	-	-	-	-	27,895	26,737	-	1,158
Other equipment	4,486	2,617	-	-	-	-	79	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)	-	18,428	-	6	6	-	-	-	-	294,315	252,264	-	42,051
Other tangible assets																										
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Art collections	1,525	-	-	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,535	-	-	1,535
Other	39	39	-	-	-	-	39	39	39	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1,845	320	-	10	-	-	39	39	39	-	-	-	-	-	-	-	-	-	-	-	-	-	1,815	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	219,918	-	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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The movements in these captions during the year ended December 31, 2010 (Pro forma) were as follows:

	Transfers																			31/12/2010	Net			
	31/12/2009				Entry and/or exit of entities in the consolidation perimeter				Write-offs			From/to assets held for sale (Note 13)				Between fixed assets		Depreciation and amortization for the year	Foreign exchange differences					
	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation and amortization	Impairment	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)					
Tangible assets																								
Property																								
Property for own use	43,576	107,703	2,386	(2,673)	(276)	(20)	1115	80	16	-	(533)	111	1549	309	7,931	108	309	29	12	423,263	16,791	2,486	304,986	
Leasehold improvements	26,319	90,530	-	4,061	2,965	-	4,557	4	-	-	(15)	(5)	(1,550)	(313)	5,997	-	21	13	13	133,393	99,817	-	34,206	
Other property	1,538	274	707	-	-	-	-	-	-	-	-	-	-	-	21	-	-	-	(10)	1542	295	697	550	
Work in progress																								
Property for own use	5,418	-	-	(6,126)	-	-	3	-	-	-	-	-	-	-	-	-	708	-	-	-	3	-	-	3
Leasehold improvements	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
	546,852	98,507	3,093	(4,738)	2,689	(20)	15,679	80	16	-	(548)	106	(1)	(4)	13,949	108	1,038	42	2	558,202	215,273	3,833	339,746	
Equipment																								
Furniture and fixtures	20,762	12,336	-	967	1,103	-	1,166	-	-	-	-	-	1	-	2,165	-	32	13	-	22,908	15,617	-	7,291	
Machinery and tools	3,013	2,759	-	960	963	-	38	2	2	-	-	-	-	(1)	135	-	19	10	-	4,028	3,864	-	164	
Computer hardware	119,720	87,065	-	3,405	3,404	-	7,027	321	310	-	(3)	(3)	-	-	9,519	-	56	28	-	119,884	99,703	-	20,811	
Interior installations	88,547	76,298	-	95	241	-	847	34	27	-	(4)	(1)	2	3	3,095	-	29	10	-	89,482	79,619	-	9,863	
Vehicles	12,263	9,696	-	379	112	-	4,189	3,916	-	-	-	-	-	-	3,767	-	73	50	-	13,389	11,119	-	8,250	
Security equipment	27,345	25,640	-	36	77	-	390	-	-	-	(1)	(1)	-	1	622	-	7	4	-	27,777	26,343	-	1434	
Other equipment	5,105	1,979	-	(1)	(1)	-	384	-	-	-	-	-	(2)	1	638	-	-	-	-	5,486	2,617	-	2,869	
Tangible assets in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	271,755	215,683	-	5,841	5,889	-	14,021	3,872	3,735	-	(8)	(5)	1	4	19,841	-	216	116	-	287,954	237,902	-	50,052	
Other tangible assets																								
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Art collections	1523	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	1,525	-	-	1,525
Other	39	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39	-	-	39
	1843	320	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,845	320	-	1,525
	820,450	414,511	3,093	1,104	8,588	(20)	29,700	3,952	3,751	-	(556)	101	-	-	33,890	108	1,255	157	2	848,001	453,495	3,833	391,323	
Intangible assets																								
Software purchased	249,580	179,316	-	10,188	8,675	-	25,872	6,560	6,560	-	7,704	-	-	-	32,433	-	65	54	-	286,849	213,916	-	72,931	
Intangible assets in progress	-	-	-	-	-	-	9,168	-	-	-	(7,704)	-	-	-	-	-	-	-	-	-	1444	-	-	1444
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	-	-	3,585
Other	-	-	-	29	28	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	29	29	-	-
	253,165	182,901	-	10,217	8,703	-	35,020	6,560	6,560	-	-	-	-	-	32,434	-	65	54	-	291,907	217,532	-	74,375	

Part of the impairment loss recognized in tangible assets – other property as at December 31, 2010, in the amount of tEuros 653, relates to an unrealised loss on the property named “Centro Comercial Gemini”, which is reflected in the books of the subsidiary Totta Urbe – Empresa de Administração e Construções, S.A..

As at December 31, 2011 and 2010, the amounts of tEuros 72,054 and tEuros 61,241, respectively, recorded under the caption software, net of depreciation, acquired to Santander Tecnologia y Operaciones A.E.I.E., an European Economic Interest Group. The company is owned by the Santander Group.

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15. INVESTMENTS IN ASSOCIATES

As at December 31, 2011 and 2010 this caption was made up as follows:

	2011		2010 (Pro forma)	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
. Benim - Sociedade Imobiliária, S.A.	25.81	2,326	25.81	2,221
. Totta Crédito Especializado, IFIC, S.A.	-	-	16.81	25,506
. Partang, SGPS, S.A.	49.00	103,470	49.00	103,922
. Unicre - Instituição Financeira de Crédito, S.A.	21.50	27,756	21.50	27,697
		-----		-----
		133,552		159,346
		-----		-----
Impairment of investments in associates (Note 22)				
. Benim – Sociedade Imobiliária, S.A.		(500)		(500)
		-----		-----
		133,052		158,846
		=====		=====

Benim – Sociedade Imobiliária, S.A. is indirectly owned by the Bank through Totta Urbe - Empresa de Administração e Construções, S.A. (Totta Urbe).

As at December 31, 2010 Totta Crédito Especializado, IFIC, S.A. was 99.98% owned by Santander Totta, SGPS, S.A., which has an effective participation of 99.86% in the Bank. In 2011 this company was incorporated by merger into BST.

As described in Note 4, Partang, SGPS, SA owns 51% of Banco Totta Caixa Geral de Angola. The Group has a put option to Caixa Geral de Depósitos, S.A. of their participation in Partang exercisable within four years time as from July 2, 2011. In addition, CGD also has a call option over the Group's share in Partang, with a cap of 80% of the share capital and voting rights, exercisable in the first month of the fifth anniversary of the date of the share capital increase of Partang (July 2, 2009).

In March 2010 a project for a new shareholder structure and a governance model of Unicre – Instituição Financeira de Crédito, S.A. (“Unicre”) has been presented. Following this project, Caixa Geral de Depósitos, S.A., BNP Paribas, Banco Português de Negócios, S.A. and Unicre itself sold off their stakes to Banco Comercial Português, S.A. (BCP), which acted as a distribution vehicle. Subsequently, BCP sold off part of the shares purchased to the remaining shareholders, which therefore increased their participations.

As result of the foregoing operation, on June 30, 2010 BST has increased its participation from 361,729 shares (18.08% of the share capital of Unicre) to 430,000 shares (21.50%). Consequently, the participation in Unicre has been reclassified to the caption “Investment in associates”, as the Bank’s participation exceeds 20%. As a result of this operation, in accordance with IAS 27, the Bank valued at fair value the participation previously held and recognized a capital gain of tEuros 21,201 (Note 35).

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16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

As at December 31, 2011 and 2010 these captions were made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Current tax assets:		
. Corporate income tax receivable	17,613	22,159
. Other	19	(174)
	-----	-----
	17,632	21,985
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	1,501	1,703
. Other	5,044	4,905
	-----	-----
	6,545	6,608
	=====	=====
Deferred tax assets:		
. Due to temporary differences	701,127	477,690
. Due to tax losses carried forward	13,690	-
	-----	-----
	714,817	477,690
	=====	=====
Deferred tax liabilities:		
. Due to temporary differences	62,863	43,573
. Due to tax credits	4,109	4,312
	-----	-----
	66,972	47,885
	=====	=====

Taxes in the statement of income for the years ended December 31, 2011 and 2010 are made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Current tax		
. For the year	(17,777)	(58,605)
. Special contribution for the banking sector	(13,303)	-
. Consortiums ("ACE's")	(1,624)	(1,771)
. Other	21,503	(18,811)
	-----	-----
	(11,201)	(79,187)
	-----	-----
Deferred tax		
. Increases and reversals of temporary differences	26,997	(5,121)
. (Expense)/Income for tax credits	13,687	-
	-----	-----
	40,684	(5,121)
	-----	-----
	29,483	(84,308)
	=====	=====

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Following the change in the accounting policy stated in Note 1.5., and the subsequent retrospective application to the financial statements of December 31, 2010, the Bank has recorded in December 31, 2011 and 2010, deferred tax assets in the amount of tEuros 61,992 and 97,247, respectively, relating to the impact of the mentioned change in the accounting policy.

The movements in deferred tax assets and liabilities for the years ended December 31, 2011 and 2010 were as follows:

	Balance as at 31-12-2010 (Pro forma)	Incorporation by merger of Totta IFIC	Shareholders' equity	Statement of income	Balance as at 31-12-2011
Retirement pensions	44.427	-	-	(9.813)	34.614
Transferences of pension liabilities to the social security	-	-	-	6.047	6.047
Change in accounting policy on pensions (Note 1.5.)	97.247	-	61.992	-	159.239
Tangible assets	153	-	-	(69)	84
Intangible assets	562	-	-	(561)	1
Deferred fees and commission	5.855	-	-	(3.192)	2.663
Long service bonus	7.894	-	-	(423)	7.471
Early retirements to reserves prior to 2001	19.841	-	-	(298)	19.543
Other Deferred tax assets resulting from temporary differences	143.243	7.235	387	31.634	182.499
Other Deferred tax liabilities resulting from temporary differences	-	-	-	(8.324)	(8.324)
Tax losses carried forward	-	-	-	12.503	12.503
Tax gains that are not accounting gains	(1.892)	-	-	38	(1.854)
Revaluation of tangible fixed assets	(4.339)	-	-	229	(4.110)
Valuation of associated companies in accordance with the equity method	(401)	-	-	(1)	(402)
Pension Fund - London Branch	386	-	-	(193)	193
Long term incentives	2.316	-	-	782	3.098
Securitization operations:					
. Premium/discounted of debt issued	(496)	-	-	57	(439)
. Accrued income - Hipotóttas	(6.897)	(717)	-	(1.008)	(8.622)
. Results of intragroup securities purchases	(30.406)	-	-	13.276	(17.130)
Investments in subsidiaries, associates and joint ventures	5.809	-	-	-	5.809
Hedging derivatives - Cash flow	(1.874)	-	(15.104)	-	(16.978)
Available-for-sale financial assets:					
. Deferred tax assets	149.957	-	131.096	-	281.053
. Deferred tax liabilities	(1.580)	-	(7.533)	-	(9.113)
	<u>429.805</u>	<u>6.518</u>	<u>170.838</u>	<u>40.684</u>	<u>647.845</u>
Deferred tax assets	477.690				714.817
Deferred tax liabilities	(47.885)				(66.972)
	<u>429.805</u>				<u>647.845</u>

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	Balance as at 31-12-2009	Other	Shareholders' equity	Statement of income	Exit of entities from the consolidation perimeter	Balance as at 31-12-2010 (Pro forma)
Retirement pensions	49.735	-	-	(5.308)	-	44.427
Change in accounting policy on pensions (Note 1.5.)	77.530	1	19.716	-	-	97.247
Tangible assets	208	(1)	-	(54)	-	153
Intangible assets	-	174	-	388	-	562
Deferred fees and commission	2.079	-	-	3.776	-	5.855
Long service bonus	6.917	-	-	977	-	7.894
Early retirements recognized by charge to reserves prior to 2001	22.970	-	-	(3.129)	-	19.841
Provisions temporarily not tax deductible	112.650	700	-	29.254	639	143.243
Tax losses carried forward of Totta Urbe	2.634	-	-	(2.634)	-	-
Tax gains that are not accounting gains	1.761	(94)	-	(3.559)	-	(1.892)
Revaluation of tangible fixed assets	(4.155)	-	-	(184)	-	(4.339)
Valuation of associated companies in accordance with the equity method	(441)	-	-	40	-	(401)
Pension Fund - London Branch	579	-	-	(193)	-	386
Long term incentives	-	-	-	2.316	-	2.316
Temporary differences on derivatives held for trading	(2.010)	(1.120)	-	3.130	-	-
Securitization operations:						
Premium/discounted of debt issued	368	-	-	(864)	-	(496)
. Accrued income - Hipotottas	(4.076)	-	-	(2.821)	-	(6.897)
. Results of intragroup securities purchases	(3.382)	-	-	(27.024)	-	(30.406)
Investments in subsidiaries, associates and joint ventures	5.308	-	-	501	-	5.809
Hedging derivatives:						
. Cash flow	(6.856)	-	4.982	-	-	(1.874)
. Fair value of assets	3.648	(3.814)	-	166	-	-
. Fair value of liabilities	(3.814)	3.814	-	-	-	-
Available-for-sale financial assets:						
. Deferred tax liabilities	(6.936)	-	5.356	-	-	(1.580)
. Deferred tax assets	11.214	-	139.389	-	(646)	149.957
Gain on participating units	(101)	-	-	101	-	-
	<u>265.830</u>	<u>(340)</u>	<u>169.443</u>	<u>(5.121)</u>	<u>(7)</u>	<u>429.805</u>
Deferred tax assets	297.601					477.690
Deferred tax liabilities	(31.771)					(47.885)
	<u>265.830</u>					<u>429.805</u>

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Reconciliation between the nominal and effective income tax rates for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010 (Pro forma)	
	Income tax rate	Amount	Income tax rate	Amount
Income before income tax		17.585		487.651
Income tax based on the current tax rate in Portugal and countries where the subsidiaries are established	-113,67%	(19.989)	23,47%	114.437
Early retirements	0,00%	-	-1,19%	(5.800)
Profits exempt from income tax	0,00%	-	0,00%	3
Deductible tax losses	-2,78%	(489)	-0,24%	(1.176)
Tax exempt dividends, net of taxes paid abroad	0,00%	-	-3,02%	(14.726)
Provisions	5,73%	1.008	0,70%	3.424
Tax benefits	-1,63%	(287)	-0,04%	(218)
Non deductible tax costs	8,13%	1.430	0,66%	3.226
Insufficiency/(Excess) of the estimate	-45,10%	(7.931)	0,24%	1.178
Differences in the tax rate used for purposes of determining current and deferred taxes	-27,56%	(4.846)	0,00%	-
Additional tax assessments	0,00%	-	0,26%	1.256
Sale of associated companies	0,00%	-	0,67%	3.251
Impact of state surcharge in the deferred tax	0,00%	-	-3,20%	(15.619)
Extraordinary tax on the banking sector	75,65%	13.303	0,00%	-
Autonomous taxation	14,59%	2.566	0,62%	3.000
Valuation of subsidiaries	0,00%	-	-5,25%	(25.578)
Other	-81,02%	(14.248)	3,62%	17.650
Income tax for the year	-167,66%	(29.483)	17,29%	84.308

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The tax authorities may review the Bank's tax situation during a period of four years, except when tax losses carried forward have been used, in which case the right to corrections expires in six years. This may result in possible additional tax assessments for the years subject to review, due to different interpretations of the tax legislation.

The Bank was subject to tax inspections for the years up to 2009 inclusive, excluding the year 2006.

As a result of these inspections, the Bank received additional tax assessments, mainly related to corporate income tax. The corrections made relate to several matters, including, amongst others, early retirement costs, provisions in excess of the minimum limits set forth in Bank of Portugal's Notice 3/95, questions regarding exemption of income of the offshore financial branch in the Autonomous Region of Madeira, taxes of other branches and increases in shareholders' equity, sale value of properties, amongst others. Some of these corrections are only temporary, namely those relating to early retirement costs and provisions in excess of the minimum limits required by the supervisory authority.

The Bank paid the full amount or part of the amount of the additional tax assessments or, when applicable, gave a bank guarantee. However, the Bank has challenged against 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).

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17. OTHER ASSETS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Accrued income:		
· from management of securities investment funds	2,113	5,855
· from custody and safekeeping	808	-
· from credit operations	-	1,041
· from placement of securities investment funds	-	953
· from other services rendered	23,816	24,655
· from other interest and similar income	18,523	32,417
· other	7,066	2,033
Deferred expenses	5,760	6,960
Other receivables	25,081	25,878
Promises and other assets received as settlement of defaulting loans	89,888	38,835
Gold, other precious metals and coin collections	2,459	2,540
Subsidies receivable from the Portuguese Government	8,345	9,063
Debtors resulting from operations with futures	2,580	82,226
Other funds	353	348
Liability with pensions and other benefits (Note 43)	3,297	-
Shareholders' loans:		
· Propaço – Sociedade Imobiliária de Paço de Arcos, Lda. (Propaço)	2,443	2,443
· Fafer – Empreendimentos Urbanísticos Construção, S.A. (Fafer)	364	513
· Gestínsua – Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Other equity investments:		
· Nortrem – Aluguer de Material Ferroviário, A.C.E. (Nortrem)	2,281	3,487
· Trem II – Aluguer de Material Circulante (Trem II)	682	936
· Trem I – Aluguer de Material Circulante, A.C.E. (Trem I)	220	355
Over-the-counter transactions pending from settlement	-	62,035
Other	1,904	2,456
	-----	-----
	198,109	305,155
	-----	-----
Impairment (Note 22):		
· Shareholders' loans	(2,042)	(2,192)
· Other	(19,611)	(9,035)
	-----	-----
	(21,653)	(11,227)
	-----	-----
	176,456	293,928
	=====	=====

As at December 31, 2011 and 2010 the caption "Accrued income – from other services rendered" corresponds mainly to commissions to be received from the placement of products of Santander Totta Seguros - Companhia de Seguros de Vida, S.A..

As at December 31, 2011 and 2010, the caption "Accrued income – from other interest and similar income" refers to the amount receivable resulting from "Swap Agreements" established between the Bank and Santander Group and between the Santander Group and securitization asset managers. The amount payable for these transactions is recorded in the caption "Other liabilities - other interest and similar charges (Note 24).

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).

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As at December 31, 2010 the caption "Over-the-counter transactions pending from settlement" refers to the amount receivable for a sale of the Class C Notes of the Hipototta 4 PLC, which settlement occurred after the balance sheet date.

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Resources of the European Central Bank		
Sales with repurchase agreement	4,913,227	4,802,150
Resources of other Central Banks		
Deposits	7	5,011
Accrued interest	-	1
	-----	-----
	<u>4,913,234</u>	<u>4,807,162</u>
	=====	=====

As at December 31, 2011 and 2010 the caption "Resources of the European Central Bank" corresponds to funding operations from the Euro System using BST a part of its eligible assets portfolio. As at December 31, 2011 and 2010, the total amount of eligible assets portfolio backing funding obtained from the European Central Bank was as follows:

2011					
Type of asset	Principal	Interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations	2.500.000	17.830	(5.270)	2.512.560	March 2012
Bonds issued in securitization operations	2.400.000	27.000	(26.333)	2.400.667	January 2013
	<u>4.900.000</u>	<u>44.830</u>	<u>(31.603)</u>	<u>4.913.227</u>	
2010 (Pro forma)					
Type of asset	Principal	Interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations	4.590.000	3.605	(1.595)	4.592.010	January 2011
Commercial paper	210.000	245	(105)	210.140	January 2011
	<u>4.800.000</u>	<u>3.850</u>	<u>(1.700)</u>	<u>4.802.150</u>	

The bonds issued in securitization operations include tEuros 780,000 of securities held in the available-for-sale financial assets portfolio and debt securities issued by Hipotottas PLC/Ltd (Note 21).

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19. RESOURCES OF OTHER FINANCIAL INSTITUTIONS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Resources of domestic financial institutions		
Deposits	191,740	1,348,862
Sale operations with repurchase agreements	368,899	-
Very short term resources	-	70,000
Other resources	2,762	-
Accrued interest	999	4,151
Deferred expenses	(250)	-
	-----	-----
	564,150	1,423,013
	-----	-----
Resources of foreign financial institutions		
Consigned resources	339,000	489,000
Sale operations with repurchase agreements	1,880,953	4,979,144
Very short term resources	41,168	252,188
Deposits	777,401	2,452,332
Other resources	8,402	15,851
Accrued interest	458	3,153
	-----	-----
	3,047,382	8,191,668
	-----	-----
	3,611,532	9,614,681
	=====	=====

The caption "Consigned resources" as at December 31, 2011 and 2010 refer to loans from the European Investment Bank (EIB), to be used exclusively to finance small and medium size projects previously submitted to the EIB for approval. The loans are as follows:

	<u>2011</u>	<u>2010</u>
Refund in less than one year	-	150,000
Refund between three and five years	250,000	250,000
Refund between five and ten years	29,000	29,000
Refund for over ten years	60,000	60,000
	-----	-----
	<u>339,000</u>	<u>489,000</u>
	=====	=====

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As at December 31, 2011 and 2010 the caption “Resources of foreign financial institutions - sale operations with repurchase agreements” has the following composition, by type of underlying asset, which have a residual term up to 3 months:

Assets	2011			
	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 the BST Group	316,217	858	(111)	316,964
	<u>1,874,532</u>	<u>9,791</u>	<u>(3,370)</u>	<u>1,880,953</u>

Assets	2010 (Pro forma)			
	Principal	Interest	Deferred costs	Total
Treasury bonds - Portugal	1,840,871	2,246	(738)	1,842,379
Treasury bonds - Spain	2,884,527	5,040	(3,228)	2,886,339
Bonds issued by the BST Group	250,314	942	(830)	250,426
	<u>4,975,712</u>	<u>8,228</u>	<u>(4,796)</u>	<u>4,979,144</u>

The bonds issued by the BST Group in securitization operations relates to debt securities issued by Hipotottas PLC/Ltd (Note 21).

20. RESOURCES OF CUSTOMERS AND OTHERS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Demand deposits	5,034,181	6,088,004
Term deposits	12,758,347	10,280,732
Structured deposits	1,668,085	1,237,251
Savings deposits	116,103	198,054
Prior notice deposits	25,609	33,600
Cheques and orders payable	99,636	105,940
Accrued interest and costs	141,682	75,413
Value adjustments by hedging operations	461	(12,558)
	-----	-----
	<u>19,844,104</u>	<u>18,006,436</u>
	=====	=====

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21. DEBT SECURITIES ISSUED

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Bonds outstanding		
Covered bonds		
Issued	5,630,000	3,000,000
Repurchased	(3,580,750)	(39,000)
Accrued interest	21,666	51,318
Bonds issued within securitization operations		
Issued	2,942,534	2,779,937
Repurchased	(717,679)	(822,334)
Accrued interest	2,882	614
Deferred cost	-	(2,488)
Cash bonds		
Issued	740,376	1,423,859
Repurchased	(10,691)	(155,069)
Accrued interest	4,348	17,913
	-----	-----
	5,032,685	6,254,750
	-----	-----
Other		
EMTN Programme	2,289,570	2,470,420
Repurchased	(22,920)	-
Euro Commercial Paper	-	112,493
Accrued interest	31,661	24,671
	-----	-----
	2,298,311	2,607,584
	-----	-----
Value adjustments by hedging operations	62,868	18,012
	-----	-----
	7,393,865	8,880,346
	=====	=====

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

In 2011 and 2010, the Group repurchased bonds issued within securitization operations, having realized capital gains of tEuros 2,103 and tEuros 305,665, respectively (Note 37).

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Between May 2008 and November 2011, BST has made seven issues of Covered Bonds under the program “€ 12.500.000 Covered Bonds Programme”. During the year 2011, occurred the expiration of the first issue. As at December 31, 2011 and 2010 the covered bonds had an autonomous pool of assets comprised by:

	<u>2011</u>	<u>2010</u> (Pro forma)
Loans and advances to banks	355,804	720,708
Accrued interest	647	987
	-----	-----
	356,451	721,695
	-----	-----
Loans and advances to customers	7,567,003	3,168,738
Accrued interest	15,150	4,918
Commissions	(37,605)	(19,915)
Deferred costs	18,364	10,574
	-----	-----
	7,562,912	3,164,315
	-----	-----
Hedging derivatives	47,423	39,945
	-----	-----
	7,966,786	3,925,955
	=====	=====

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As at December 31, 2011 the Bank had the following bonds issued under the Euro Medium Term Notes Programme:

Serie	Date of Maturity	Remuneration	Amount
25 th	June 27, 2016	Euribor 6 months plus 0.5%	1,250
26 th	June 27, 2016	Euribor 6 months plus 0.5%	31,050
29 th	May 7, 2014	Indexed to a basket of shares	51,280
30 th	February 26, 2014	Indexed to a basket of shares	32,860
31 th	April 2, 2014	Indexed to a basket of shares	26,170
32 th	April 26, 2014	Indexed to a basket of shares	2,600
33 th	March 20, 2012	Indexed to a basket of shares	3,200
34 th	January 25, 2012	Indexed to a basket of shares	3,050
35 th	June 12, 2012	Fixed rate of 3.75%	1,000,000
37 th	October 26, 2017	Fixed rate of 4.206% ⁽¹⁾	20,000
38 th	November 30, 2017	Fixed rate of 4.207% ⁽²⁾	40,600
39 th	December 31, 2017	Fixed rate of 4.04% ⁽³⁾	28,350
40 th	January 22, 2018	Fixed rate of 3.700% ⁽⁴⁾	41,100
41 th	May 21, 2013	Fixed rate of 2.527%	4,050
42 th	May 21, 2013	Fixed rate of 2.527%	4,050
43 th	May 21, 2013	Fixed rate of 2.527%	4,050
44 th	May 21, 2013	Fixed rate of 2.527%	4,050
45 th	May 21, 2013	Fixed rate of 2.527%	4,150
50 th	June 25, 2015	Fixed rate of 3.11%	16,875
51 th	June 25, 2020	Fixed rate of 3.410% ⁽⁵⁾	21,100
52 th	July 27, 2012	Fixed rate of 2.9231%	39,500
53 th	July 27, 2015	Fixed rate of 3.1%	8,650
54 th	July 27, 2020	Fixed rate of 3.4180% ⁽⁶⁾	9,850
56 th	September 3, 2012	Fixed rate of 2.8973%	88,000
57 th	September 3, 2015	Fixed rate of 3.62375%	13,600
58 th	September 3, 2020	Fixed rate of 3.90% ⁽⁷⁾	16,900
59 th	September 28, 2012	Fixed rate of 2.828%	47,800
60 th	September 29, 2015	Fixed rate of 3.414%	8,850
61 th	September 29, 2018	Fixed rate of 3.350% ⁽⁸⁾	10,050
62 th	October 26, 2015	Fixed rate of 3.488%	4,950
63 th	October 26, 2012	Fixed rate of 2.947%	43,450
64 th	October 26, 2018	Fixed rate of 3.40% ⁽⁹⁾	5,910
66 th	November 18, 2012	Fixed rate of 2.975%	38,800
67 th	November 18, 2015	Fixed rate of 3.70%	6,000
68 th	November 18, 2018	Fixed rate of 3.55% ⁽¹⁰⁾	4,900
69 th	September 27, 2013	Fixed rate of 3.225%	27,750
70 th	December 23, 2015	Fixed rate of 3.88%	5,025
71 th	December 21, 2018	Fixed rate of 3.90% ⁽¹¹⁾	6,150
73 th	September 26, 2013	Fixed rate of 3.14%	31,350
74 th	January 26, 2016	Fixed rate of 4.019%	4,950
75 th	June 28, 2019	Fixed rate of 3,85% ⁽¹²⁾	12,100
76 th	September 26, 2013	Fixed rate of 3,592%	31,550
77 th	June 28, 2019	Fixed rate of 4,05% ⁽¹³⁾	10,550
78 th	October 11, 2013	Fixed rate of 4,186%	35,050
79 th	July 12, 2019	Fixed rate of 4,25% ⁽¹⁴⁾	27,400
80 th	November 8, 2013	Fixed rate of 4,885%	33,200
81 th	July 26, 2019	Fixed rate of 5% ⁽¹⁵⁾	28,900
82 th	April 30, 2012	Fixed rate of 3,67%	13,150
83 th	May 21, 2012	Fixed rate of 3,7%	11,050
84 th	May 28, 2012	Fixed rate of 3,97%	1,550
85 th	June 11, 2012	Fixed rate of 3,76%	5,000
86 th	June 24, 2012	Fixed rate of 3,71%	4,000
87 th	June 30, 2012	Fixed rate of 3,74%	11,350
88 th	September 7, 2012	Fixed rate of 3,78%	6,900
89 th	September 28, 2012	Fixed rate of 3,8%	3,100
90 th	November 5, 2012	Fixed rate of 4,61%	900
91 th	October 21, 2013	Fixed rate of 5,18%	3,750
92 th	February 27, 2014	Fixed rate of 5,29%	4,250
93 th	November 13, 2013	Fixed rate of 5,2%	4,150
94 th	May 27, 2014	Fixed rate of 5,4%	12,950
95 th	June 25, 2014	Fixed rate of 5,37%	4,500

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Serie	Date of Maturity	Remuneration	Amount
96 th	August 28, 2015	Fixed rate of 5,74%	3,250
97 th	December 29, 2015	Fixed rate of 5,8%	11,800
98 th	February 8, 2016	Fixed rate of 5,82%	15,100
99 th	April 4, 2016	Fixed rate of 5,85%	11,200
100 th	June 8, 2016	Fixed rate of 5,88%	3,250
101 th	June 27, 2016	Fixed rate of 5,88%	8,800
102 th	September 4, 2016	Fixed rate of 5,91%	9,000
103 th	November 8, 2016	Fixed rate of 5,93%	5,700
104 th	December 12, 2016	Fixed rate of 5,95%	2,850
105 th	September 21, 2012	Fixed rate of 4,84%	2,500
106 th	September 30, 2012	Fixed rate of 4,7%	12,600
107 th	November 8, 2012	Fixed rate of 4,71%	6,500
108 th	December 9, 2012	Fixed rate of 4,72%	7,600
109 th	January 21, 2013	Fixed rate of 4,74%	1,650
110 th	February 12, 2013	Fixed rate of 4,75%	4,400
111 th	April 28, 2013	Fixed rate of 4,77%	4,950
112 th	May 26, 2013	Fixed rate of 4,79%	1,100
113 th	June 18, 2013	Fixed rate of 4,8%	2,900
114 th	October 20, 2013	Fixed rate of 4,89%	6,550
115 th	November 24, 2013	Fixed rate of 4,91%	10,800
116 th	December 23, 2013	Fixed rate of 5,14%	10,800
117 th	January 26, 2014	Fixed rate of 5,16%	13,700
118 th	February 26, 2014	Fixed rate of 5,19%	9,450
119 th	March 30, 2014	Fixed rate of 5,21%	15,400
120 th	April 27, 2014	Fixed rate of 5,23%	15,250
121 th	May 26, 2014	Fixed rate of 5,25%	6,450
122 th	June 10, 2014	Fixed rate of 5,26%	4,400
123 th	July 7, 2014	Fixed rate of 5,27%	3,500
124 th	August 11, 2014	Fixed rate of 5,29%	5,550
125 th	October 5, 2014	Fixed rate of 5,33%	1,500
126 th	April 26, 2015	Fixed rate of 5,52%	6,100
127 th	June 28, 2015	Fixed rate of 5,55%	4,200
128 th	November 29, 2015	Fixed rate of 5,62%	16,200
129 th	December 28, 2015	Fixed rate of 5,69%	4,150
130 th	February 7, 2016	Fixed rate of 5,71%	2,050
131 th	May 29, 2016	Fixed rate of 5,76%	10,750
			2,289,570

⁽¹⁾ Remuneration applicable until October 26, 2012. The "spread" increases in the subsequents periods.

⁽²⁾ Remuneration applicable until November 30, 2013. The "spread" increases in the subsequents periods.

⁽³⁾ Remuneration applicable until December 28, 2012. The "spread" increases in the subsequents periods.

⁽⁴⁾ Remuneration applicable until January 22, 2013. The "spread" increases in the subsequents periods.

⁽⁵⁾ Remuneration applicable until June 25, 2012. The "spread" increases in the subsequents periods.

⁽⁶⁾ Remuneration applicable until July 27, 2012. The "spread" increases in the subsequents periods.

⁽⁷⁾ Remuneration applicable until September 03, 2012. The "spread" increases in the subsequents periods.

⁽⁷⁾ Remuneration applicable until September 28, 2012. The "spread" increases in the subsequents periods.

⁽⁹⁾ Remuneration applicable until October 26, 2012. The "spread" increases in the subsequents periods.

⁽¹⁰⁾ Remuneration applicable until November 18, 2012. The "spread" increases in the subsequents periods.

⁽¹¹⁾ Remuneration applicable until December 21, 2012. The "spread" increases in the subsequents periods.

⁽¹²⁾ Remuneration applicable until January 26, 2012. The "spread" increases in the subsequents periods.

⁽¹³⁾ Remuneration applicable until February 25, 2012. The "spread" increases in the subsequents periods.

⁽¹⁴⁾ Remuneration applicable until March 25, 2012. The "spread" increases in the subsequents periods.

⁽¹⁵⁾ Remuneration applicable until April 28, 2012. The "spread" increases in the subsequents periods.

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22. CHANGES IN PROVISIONS AND IMPAIRMENT

The movements in provisions and impairment in 2011 and 2010 were as follows:

	2011							31-12-2011
	31-12-2010	Entry and/or exit of entities from the consolidation perimeter				Foreign exchange differences		
		Increases	Reversals	Utilizations	Other			
Provision for tax contingencies (Note 16)	32.982	-	1.169	-	(2.468)	(15.000)	-	16.683
Provision for pension 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

	2010 (Pro forma)							31-12-2010
	31-12-2009	Entry and/or exit of entities from the consolidation perimeter				Foreign exchange differences		
		Increases	Reversals	Utilizations	Other			
Provision for tax contingencies (Note 16)	16.864	1.057	2.356	(2.270)	(125)	15.100	-	32.982
Provision for pension and other charges	9.402	(631)	1.086	(71)	(301)	-	80	9.565
Impairment and provisions for guarantees and other sureties given	29.413	(633)	14.132	(9.972)	-	-	53	32.993
Other provisions	25.831	(821)	7.269	(2.352)	(1.373)	-	99	28.653
	81.510	(1.028)	24.843	(14.665)	(1.799)	15.100	232	104.193

	2011							31-12-2011	Impairment recovery
	12/31/2010 Pro forma	Entry and/or exit of entities from the consolidation perimeter	Impairment losses	Reversal impairment losses	Utilizations	Other			
Impairment of loans and advances to customers (Note 11):									
Domestic loans	162.074	19.252	110.529	(67.406)	(4.619)	-	219.830	-	
Foreign loans	1.860	-	240	(1.231)	-	-	869	-	
Non-derecognized securitized loans	53.894	8.322	42.321	(36.582)	-	-	67.955	-	
Other loans and receivables securitized	7.680	-	-	(4.586)	-	-	3.094	-	
Impairment of overdue loans and interest (Note 11):									
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 loans and receivables securitized	779	-	-	(728)	-	-	51	-	
	497.157	39.290	414.569	(171.372)	(107.731)	-	671.913	(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 associates (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)	(127.929)	(16)	828.446	(15.371)	

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2010 (Pro forma)								
	31-12-2009	Entry and/or exit of entities from the consolidation perimeter	Impairment losses	Reversal impairment losses	Utilizations	Foreign exchange differences	31-12-2010	Impairment recovery
Impairment of loans and advances to customers (Note 11):								
Domestic loans	197.350	190	42.994	(78.460)	-	-	162.074	-
Foreign loans	2.627	(1.486)	1.017	(481)	-	183	1.860	-
Non-derecognized securitized loans	57.538	-	9.970	(13.614)	-	-	53.894	-
Other loans and receivables securitized	-	-	7.680	-	-	-	7.680	-
Impairment of overdue loans and interest (Note 11):								
Domestic loans	146.476	-	137.032	(4.045)	(63.535)	-	215.928	(10.698)
Foreign loans	5.987	(979)	5.210	(1.384)	(3.996)	439	5.277	(19)
Non-derecognized securitized loans	43.453	-	13.072	(3.374)	(3.486)	-	49.665	-
Other loans and receivables securitized	-	-	779	-	-	-	779	-
	453.431	(2.275)	217.754	(101.358)	(71.017)	622	497.157	(10.717)
Impairment of other financial assets:								
Impairment of available-for-sale financial assets (Note 9)								
	43.587	1	15.591	(30)	(1)	-	59.148	-
Impairment of investments in associates (Note 15)								
	500	-	-	-	-	-	500	-
	44.087	1	15.591	(30)	(1)	-	59.648	-
Impairment of non financial assets:								
Non-current assets held for sale (Note 13)								
	41.612	-	29.855	(12.252)	(13.537)	-	45.678	-
Tangible assets (Note 14)								
	3.093	(20)	108	-	-	2	3.183	-
Other assets (Note 17)								
	4.841	1	8.030	(1.168)	(477)	-	11.227	-
	49.546	(19)	37.993	(13.420)	(14.014)	2	60.088	-
	547.064	(2.293)	271.338	(114.808)	(85.032)	624	616.893	(10.717)

As at December 31, 2011 the provision for pensions and other charges includes tEuros 20,271 relating to a provision for a restructuring plan and to the supplementary pension plan of the Board of Directors. As at December 31, 2010 this caption refers to the supplementary pension plan of the Board of Directors (Note 45).

As at December 31, 2011 and 2010 the caption "Other provisions" includes:

- Provision for lawsuits by customers and Bank employees, in the amounts of tEuros 6,438 and tEuros 12,178, respectively. The legal area of the Bank estimates the expected loss for each process, based on its evolution as reported by the lawyer responsible for the respective process;
- Provisions for contingencies relating to operational risk (fraud, pending confirmation operations, open items and fines) in the amounts of tEuros 13,023 and tEuros 15,638, respectively.

23. SUBORDINATED LIABILITIES

This caption is made up as follows:

	2011	2010 (Pro forma)
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	41,541
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-----	-----
	288,540	316,263
Repurchased securities	(284,265)	(284,265)
Accrued interest	53	318
	-----	-----
	4,328	32,316
	=====	=====

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

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24. OTHER LIABILITIES

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Suppliers	1,914	1,486
Invoices subject to approval	36,650	38,763
Income tax withheld	17,344	29,737
Social Security contributions	3,886	2,892
Contributions to other health systems	1,534	1,529
VAT payable	8,455	4,864
Personnel costs:		
· Long service bonus	25,762	27,221
· Vacation and vacation subsidy	30,846	28,915
· Other variable remuneration	26,336	31,820
· Other payroll expenses	859	12,806
Captive account resources	28,026	25,493
Other resources	1,365	1,330
Creditors' balances pending settlement	9,147	14,781
Creditors for factoring contracts	38,249	-
Dividends	191	184
Amounts to be settled with banks and customers	10,970	85,687
Amount payable related to the acquisition of own portfolio securities	-	118
Creditors for futures operations (Note 17)	2,580	82,226
Other interest and similar charges (Note 17)	18,283	32,398
Operations pending to be settled	4,548	20,571
Underfunded liability of the pension fund (Note 43)	-	2,947
Other	22,644	298
	-----	-----
	289,589	446,066
	=====	=====

The caption "Amounts to be settled with banks and customers" as at December 31, 2011 and 2010 corresponds to inter-bank electronic transfers that were cleared in the first days of the following year.

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25. SHAREHOLDERS' EQUITY

The Bank's share capital as at December 31, 2010 was made up of 620,104,983 subscribed and fully paid up shares of one Euro each, held as follows:

	<u>2010</u>		
	<u>Number of shares</u>	<u>% stake</u>	<u>Amount</u>
Santander Totta, SGPS, S.A.	604,651,319	97.51	604,651
Taxagest, SGPS, S.A.	14,593,315	2.35	14,593
Other	807,584	0.13	808
Treasury shares	52,765	0.01	53
	-----	-----	-----
	620,104,983	100.00	620,105
	=====	=====	=====

As mentioned in the Introductory Note and in Note 1.3., on April 1, 2011 the merger by incorporation of Totta IFIC has been recorded, being its assets and liabilities 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:

	<u>Totta IFIC</u>	<u>BST</u>
Subscribed share capital (excluding treasury shares)	34.562.675	620.052.218
Nominal value per share (in Euros)	<u>5</u>	<u>1</u>
Number of shares	6.912.535	620.052.218
Independent valuation of the shareholders' equity (in Euros)	<u>318.666.145</u>	<u>4.488.702.452</u>
Value per share (in Euros)	46,10	7,24
Terms of exchange		<u>6,3680</u>
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		66.304.974
Share premium increase (in Euros)		<u><u>29.686.673</u></u>

Therefore on March 18, 2011, BST's share capital has been increased by 36,618,301 Euros, equivalent to 36,618,301 shares of 1 Euro each, had been realized by Santander Totta, SGPS, S.A. through the transference 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 at the date of the merger, has been recorded in the merger reserve, which has been determined as explained in Note 1.3.

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Consequently, the Bank's share capital as at December 31, 2011 was made up of 656,723,284 shares, fully subscribed for and paid up of 1 Euro each, held as follows:

	<u>2011</u>		
	<u>Number of shares</u>	<u>% stake</u>	<u>Amount</u>
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A.	14,593,315	2.22	14,593
Other	761,414	0.11	761
Treasury shares	98,930	0.02	99
	-----	-----	-----
	656,723,284	100.00	656,723
	=====	=====	=====

In accordance with Ministerial Order no. 408/99, dated June 4, published in the Portuguese Republic Official Journal – I B Series no. 129, the share premium of 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 previous approval of the Bank of Portugal.

The revaluation reserves as at December 31, 2011 and 2010 were made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Revaluation reserves -		
Reserves resulting from fair value revaluation of:		
Available-for-sale financial assets (Note 9)	(939,956)	(513,926)
Cash flow hedging instruments	58,546	6,463
Revaluation reserves of companies under the equity method	(274)	84
Legal revaluation reserves as of the transition date for IFRS	23,245	23,245
Actuarial deviations related to pension liabilities (Note 1.5.)	(554,267)	(340,502)
Foreign exchange differences in consolidation	(6,116)	(3,545)
	-----	-----
	(1,418,822)	(828,181)
	-----	-----
Deferred tax reserves -		
Temporary differences relating to:		
Available-for-sale financial assets	272,376	148,969
Hedging instruments	(16,578)	(1,874)
Revaluation of tangible assets	(4,675)	(4,515)
Actuarial deviation (Note 1.5.)	159,238	97,247
	-----	-----
	410,361	239,825
	-----	-----
	(1,008,461)	(588,356)
	=====	=====

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Revaluation reserves

In 1998 the Bank revalued tangible fixed assets in accordance with Decree-Law no. 31/98, dated February 11, resulting in a net increase of such assets by approximately tEuros 23,245, which has been recorded in revaluation reserves. The net amount resulting from the revaluation recorded can be used only to increase share capital or to cover up losses, through used (depreciation) or sale.

The caption “Other reserves and retained earnings” as at December 31, 2011 and 2010 is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Legal reserve	243,633	215,832
	-----	-----
Other reserves		
Reserves of consolidated companies	194,447	171,006
Reserves of companies valued under the equity method	70,463	78,577
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	-
Other	2,296	2,369
	-----	-----
	934,465	828,691
	-----	-----
Retained earnings	226,484	94,177
	-----	-----
	1,404,582	1,138,700
	=====	=====

Legal reserve

In accordance with Decree-Law no. 298/92, dated December 31, amended by Decree-Law no. 201/2002, dated September 26, the Bank must retain at least 10% of its annual net income on a stand-alone basis until the legal reserve equals the greater of the share capital amount or the sum of the free reserves plus retained earnings.

This reserve can only be used to cover up accumulated losses or to increase share capital.

Merger reserve

In accordance with current legislation, the merger reserve is equivalent to the legal reserve and can only be used to cover up accumulated losses or to increase share capital.

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26. CONSOLIDATED NET INCOME FOR THE YEAR

Consolidated net income for 2011 and 2010 is made up as follows:

	2011		2010 (Pro forma)	
	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	22.289	22.289	278.010	278.010
Impact of change in accounting policy (Note 1.5.)			5.168	5.168
Net income of the remaining Group companies:				
Serfin International Bank & Trust (SIBT)	240	240	204	204
Totta Ireland, Plc.	95.713	95.713	63.971	63.971
Santotta - Internacional, SGPS	5.693	5.693	149	149
Partang, SGPS	16.653	8.160	4.944	2.423
Banco Caixa Geral Totta de Angola	36.842	9.207	30.895	7.721
Totta Urbe	2.166	2.166	(1.195)	(1.195)
Totta Crédito Especializado - IFIC	-	-	24.958	4.196
Santander Gestão de Activos, SGPS, S.A.	9.582	9.582	23	23
Santander Asset Management, SGFIM, S.A.	(20.266)	(20.266)	6.331	6.331
Santander Pensões	1.000	1.000	1.137	1.137
Totta & Açores, Inc. - New ark	113	113	56	56
Totta & Açores, Financing, Ltd (TAF)	12.360	12.360	12.360	12.360
Taxagest	(5.307)	(5.254)	(2.435)	(2.411)
BST International Bank, Inc	16.204	16.204	18.150	18.150
Unicre	8.745	1.880	11.270	2.423
	<u>179.738</u>	<u>136.798</u>	<u>170.818</u>	<u>115.538</u>
Elimination of dividends:				
Totta Ireland, Plc.		(93.651)		(67.642)
Totta Crédito Especializado - IFIC		-		(5.592)
Taxagest		-		(8.366)
Santander Gestão de Activos, SGPS, S.A.		-		(21.000)
Santander Asset Management, SGFIM, S.A. and Santander Pensões		(13.000)		-
Santotta - Internacional, SGPS		(4.800)		(4.800)
Partang, SGPS		(5.390)		-
Banco Caixa Geral Totta Angola		(3.879)		(4.545)
Unicre		(1.574)		-
		<u>(122.294)</u>		<u>(111.945)</u>
Elimination of deferred commissions in the Totta Crédito Especializado's balance sheet		7.868		-
Transference of leased properties for own property		772		747
Transference of reserves - BSN merger		-		4.161
Transference of reserves - Totta IFIC merger		(996)		-
Recognition of the results of the former Totta IFIC until the date of the merger		1.359		-
Elimination of Santander Gestão de Activos, SGPS, S.A. gains on the sale to BST of the stake in the former Totta IFIC		(2.072)		-
Sale of 1% of Partang and consequent lost of joint control in 2010:				
. Elimination of separate results		-		(855)
. Elimination of foreign exchange fluctuations on the date of sale		-		(1.982)
. Recognition of fair value at the date of lost of joint control (Note 4)		-		56.027
. Proportion of the net income in the first half of 2010 of Partang and of the Banco Caixa Geral Totta de Angola		-		152
Aquisition of Unicre and valuation at equity method:				
. Elimination of the income of the first half of 2010 Unicre		-		(1.183)
. Valuation at fair value on the date of acquisition of significant influence		-		21.201
Elimination of the realized capital loss recorded by BST in the sale of covered bonds		5.998		-
Adjustments related to securitization operations (Hipotottas):				
. Gains on the repurchase of Notes		-		65.061
. Elimination of the gains on the repurchase of Notes		(32.506)		-
. Elimination of the effects of the settlements and the derecognition of loans securitized by the Bank		26.227		-
. Elimination of BST gains on the sale of Notes		-		7.482
. Elimination of the provision for subordinated loans in BST		(822)		-
. Recognition of accrued interest on the Notes with a higher degree of subordination		771		19.780
. Impairment and commissions for securitized loans		-		(61.123)
Elimination of equity method applied to SIBT in Santotta Internacional		-		601
Elimination of the provision of Santander Gestão de Activos, SGPS for supplementary contributions to Santander Asset Management, SGFIM		5.000		-
Application of IAS/IFRS - Retirement pensions		4.427		8.018
Reversal of provisions for securities recorded by Totta Urbe which do not refer to impairment losses		-		(2.936)
Elimination of equity method applied to Banco Caixa Geral Totta de Angola		(5.094)		-
Other		(604)		(2.726)
Consolidated net income for the year		<u>47.121</u>		<u>399.196</u>

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27. MINORITY INTEREST

Third party participation in Group's companies in 2011 and 2010 was as follows:

	2011		2010 (Pro forma)	
	Balance sheet	Statement of income	Balance sheet	Statement of income
Preference shares of BST International Bank, Inc	278,229	-	269,421	-
Preference shares of TAF	300,000	-	300,000	-
Interim dividends	(1,459)	-	(1,432)	-
Banco Caixa Geral Totta de Angola (former Banco Totta de Angola)	-	-	-	4,185
Taxagest	550	(54)	604	(39)
Other	200	1	199	1
	-----	----	-----	-----
	577,520	(53)	568,792	4,147
	=====	==	=====	=====

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 for 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 as 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 for and paid up by Banco Santander, S.A.. The Bank guarantees a non cumulative dividend on these shares corresponding to 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.

These issues were classified as equity in accordance with IAS 32. In accordance with IAS 32, 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.

As mentioned in Note 4, the Bank no longer consolidates Banco Caixa Geral Totta de Angola since the second semester of 2010, following the sale of 1% of Partang's share capital to CGD. The result presented in minority interests was determined in the first semester of 2010.

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28. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,488,455	1,702,347
Open documentary credits	570,363	588,817
Assets pledged as guarantee		
Bank of Portugal	121,723	150,000
Deposit Guarantee Fund	70,345	62,175
Investor Indemnity System	4,079	4,739
Other	-	15,253
Other contingent liabilities	6	6
	-----	-----
	2,254,971	2,523,337
	=====	=====
Commitments		
Credit lines		
Revocable	4,792,257	4,781,211
Irrevocable	1,217,742	1,982,317
Term deposit contracts	85,933	31,978
Survival and pension liabilities not yet recognized	-	378
Deposit Guarantee Fund	54,092	53,656
Investor Indemnity System	3,119	3,254
Other irrevocable commitments	16,141	31,141
Other revocable commitments	27,751	115
	-----	-----
	6,197,035	6,884,050
	=====	=====
Liabilities for services rendered		
Custody and safekeeping	55,382,093	77,601,150
Amounts for collection	130,762	146,661
Assets managed by the institution		
Other	7,264,208	9,358,257
	-----	-----
	62,777,063	87,106,068
	=====	=====

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 it 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.

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In 2011 and 2010, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amounts of tEuros 3,918 and tEuros 3,620, respectively (Note 38). 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 unpaid amount of the commitment totalled tEuros 54,092 as at December 31, 2011 (tEuros 53,656 as at December 31, 2010). The assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet accounts at market value.

Investor Indemnity System (IIS)

The responsibility 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, 2011 the commitment amounted to tEuros 3,119 (tEuros 3,254 as at December 31, 2010).

In accordance to CMVM's regulation, an extraordinary contribution to the IIS has been made by the Bank in the amount of tEuros 4,163 regarding the Banco Privado Português case (Note 38).

29. INTEREST INCOME

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Interest on cash and deposits		
At Central Banks		
At the Bank of Portugal	4,522	4,021
At credit institutions	821	65
Interest on loans and advances		
Banks in Portugal		
Bank of Portugal	2,595	305
Other banks	21,756	40,048
Foreign banks	59,716	38,955
Interest on loans to customers		
Domestic loans	679,304	509,699
Foreign loans	21,024	35,822
Other loans and receivables (commercial paper)	26,026	45,895
Commission and fees received related to amortized cost	40,772	34,575
Interest from securitized assets not derecognized	291,147	221,572
Interest on overdue credit (Note 47)	8,521	2,741
Interest income on other financial assets		
Financial assets held for trading		
Securities	2	979
Available-for-sale financial assets		
Securities	162,624	252,080
Acquired under securitization operations	-	8,933
Other financial assets designated at fair value through profit or loss	4,206	4,210
Hedging derivatives	255,370	598,653
Debtors and other applications	6	147
Other interests and similar income		
Swap agreements	112,519	211,881
Other interest	1,763	1,503
	-----	-----
	1,692,694	2,012,084
	=====	=====

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30. INTEREST EXPENSE

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Interest on customers' deposits		
Public sector	16,139	5,098
Emigrants	17,695	11,356
Other residents	344,376	151,981
Non residents	20,799	14,564
	-----	-----
	399,009	182,999
	-----	-----
Interest on other resources of customers	2,305	4,610
Interest on resources of Central Banks		
Bank of Portugal	46,667	42,589
Other Central Banks	13	32
Interest on resources of credit institutions		
Domestic	24,557	23,602
Foreign	112,408	61,900
Interest on debt securities issued		
Non-subordinated		
Bonds	115,110	165,631
Commissions	1,161	496
Euro Commercial Paper	208	12,987
EMTN	96,803	79,889
Interest on hedging derivatives	234,116	543,898
Interest and commissions on subordinated liabilities	316	4,944
Commissions paid related to amortized cost of credit	1,862	111
Other interest and similar charges		
Swap agreements	114,626	214,824
	-----	-----
	750,152	1,155,513
	-----	-----
	1,149,161	1,338,512
	=====	=====

31. INCOME FROM EQUITY INSTRUMENTS

This caption refers to dividends received and is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Available-for-sale financial assets:		
Unicre	-	2,080
Banco BPI	-	946
SIBS	1,072	1,086
Other	206	195
	-----	-----
	1,278	4,307
	=====	=====

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32. FEES AND COMMISSION INCOME

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
On guarantees given		
Guarantees and sureties	15,317	17,062
Open documentary credits	3,450	1,972
On commitments to third parties		
Irrevocable	2,200	4,307
Revocable	3,268	1,648
On services rendered		
Amounts for collection	13,843	16,250
Fund management	31,517	45,762
Card transactions	67,945	66,725
Annuities	14,289	14,285
Credit operations	56,424	52,005
Other	9,544	9,538
On operations carried out on behalf of third parties		
Securities	27,657	18,837
Other	490	192
Other fees and commission received		
Insurance	101,923	110,152
Specialized credit	721	5,134
Demand deposits	15,789	15,858
Cheques	14,934	15,136
Booklets	16,498	10,512
Other	1,376	576
	-----	-----
	397,185	405,951
	=====	=====

33. FEES AND COMMISSION EXPENSE

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
On guarantees received		
Guarantees and sureties	1,275	1,357
On banking services rendered by third parties		
Asset management and amounts for collection	4,872	5,574
Credit operations	14,345	12,629
Customer transactions	24,557	26,331
Other	3,297	2,950
On operations carried out by third parties		
Securities	2,912	2,143
Other	1,862	1,854
Other fees and commissions paid	1,206	382
	-----	-----
	54,326	53,220
	=====	=====

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34. RESULT OF ASSETS AND LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption is made up as follows:

	2011			2010 (Pro forma)		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets held for trading:						
Debt instruments	227	(44)	183	672.454	(671.030)	1.424
Equity instruments	14.269	(19.931)	(5.662)	22.440	(17.646)	4.794
Derivative instruments:						
FRA's	333	(369)	(36)	100	(150)	(50)
Swaps						
Foreign exchange rate contracts	115.713	(115.500)	213	48.233	(49.006)	(773)
. Interest rate contracts	2.018.302	(1.997.615)	20.687	6.814.982	(6.911.345)	(96.363)
. Equity contracts	43.596	(43.254)	342	73.038	(77.410)	(4.372)
. Other	144.604	(144.478)	126	192.441	(136.813)	55.628
Options:						
Foreign exchange rate contracts	56.526	(56.379)	147	176.220	(173.541)	2.679
. Interest rate contracts	403	(400)	3	-	-	-
. Equity contracts	558.673	(559.098)	(425)	1.592.395	(1.556.721)	35.674
. Other	10.366	(10.367)	(1)	1.003.316	(1.033.153)	(29.837)
Fixed interest rate contracts	1.141.733	(1.141.358)	375	2.506.227	(2.503.887)	2.340
Financial assets and liabilities at fair value through profit or loss	-	(12.466)	(12.466)	108.583	(107.572)	1.011
	<u>4.104.745</u>	<u>(4.101.259)</u>	<u>3.486</u>	<u>13.210.429</u>	<u>(13.238.274)</u>	<u>(27.845)</u>
Hedging derivatives:						
Swaps						
. Interest rate contracts	192.352	(323.913)	(131.561)	41.782	(71.947)	(30.165)
. Equity contracts	24.311	(50.493)	(26.182)	8.015	(46.972)	(38.957)
Options						
. "Auto-callable"	233.056	(230.342)	2.714	574.027	(568.577)	5.450
Value adjustments of hedged assets and liabilities	240.848	(87.410)	153.438	143.905	(79.267)	64.638
	<u>690.567</u>	<u>(692.158)</u>	<u>(1.591)</u>	<u>767.729</u>	<u>(766.763)</u>	<u>966</u>
Total assets and liabilities valued at fair value through profit or loss	<u>4.795.312</u>	<u>(4.793.417)</u>	<u>1.895</u>	<u>13.978.158</u>	<u>(14.005.037)</u>	<u>(26.879)</u>

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35. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	2011			2010 (Pro forma)		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	-	(57,487)	(57,487)	9	(19,524)	(19,515)
Other residents	-	-	-	-	(2,970)	(2,970)
Issued by non residents						
Foreign public issuers	-	(25,858)	(25,858)	2,493	(656)	1,837
Other residents	-	-	-	-	(211,452)	(211,452)
Equity instruments						
Valued at fair value	792	(52)	740	-	-	-
Valued at historical cost	-	-	-	25,851	-	25,851
Other	6,337	(969)	5,368	-	(11,103)	(11,103)
	<u>7,129</u>	<u>(84,366)</u>	<u>(77,237)</u>	<u>28,353</u>	<u>(245,705)</u>	<u>(217,352)</u>

In 2011, this caption relates mainly to realized capital losses on the sale of Portuguese and Spanish treasury bonds in the amount of tEuros 83,331.

In 2010, the caption “Debt Instruments – Other non residents” relates to realized capital losses on the sale of bonds issued under securitization operations of Santander Group (Note 9). The bonds were sold by Totta Ireland in October 2010 to a Santander Group company, by the amount of tEuros 952,254.

In 2010, the caption “Equity instruments – Valued at historical cost” includes the gain resulting from the revaluation of the Bank’s stake in Unicre in the amount of tEuros 21,201 (Note 15).

36. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Gain on revaluation of the foreign exchange position	64,946	45,356
Loss on revaluation of the foreign exchange position		
. Sale of Banco Caixa Geral Totta de Angola	-	(1,982)
. Dividends paid by Banco Caixa Geral Totta de Angola	-	(503)
. Other	(59,651)	(31,887)
	-----	-----
	<u>5,295</u>	<u>10,984</u>
	=====	=====

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37. RESULT OF OTHER ASSETS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Gain on the sale/fair value revaluation of the stake in Banco Caixa Geral Totta de Angola	-	56,027
Gain on the sale of customers loans (Note 11)	1	78
Gain on non-current assets held for sale	1,064	1,333
Gain on tangible assets	763	829
Gain on the repurchase by the Group of bonds issued under mortgage securitized loans (Note 21)	2,103	305,879
Other	34	23
	-----	-----
	3,965	364,169
	-----	-----
Loss on non-current assets held for sale	(2,380)	(1,410)
Loss on tangible assets	(169)	(20)
Loss on the repurchase by the Group of bonds issued under mortgage securitized loans (Note 21)	-	(214)
Other	(410)	(493)
	-----	-----
	(2,959)	(2,137)
	-----	-----
	1,006	362,032
	=====	=====

In 2010, the caption "Gains and losses on the repurchase by the Group of bonds issued under mortgage securitized loans" include gains of tEuros 282,069 and losses of tEuros 214, resulting from the repurchase of these bonds from Santander Group entities.

38. OTHER OPERATING RESULTS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Other operating income		
Operating lease	331	333
Reimbursement of expenses	4,744	4,936
Income for sundry services rendered	6,112	2,787
Other	17,985	19,278
	-----	-----
	29,172	27,334
	-----	-----
Other operating expenses		
Subscriptions and donations	(3,621)	(3,071)
Contributions to the Deposit Guarantee Fund (Note 28)	(3,918)	(3,620)
Extraordinary payment under the Investor Indemnity System (Note 28)	(4,163)	-
Other operating expenses	(27,824)	(26,250)
Other taxes		
Direct	(2,788)	(1,649)
Indirect	(902)	(1,018)
	-----	-----
	(43,216)	(35,608)
	-----	-----
	(14,044)	(8,274)
	=====	=====

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39. PERSONNEL COSTS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Remuneration		
Management and supervisory boards (Note 45)	4,522	6,171
Employees	185,723	190,306
Other variable remuneration	16,994	33,521
	-----	-----
	207,239	229,998
	-----	-----
Mandatory social charges		
Charges on remuneration	52,747	37,902
Pensions and other benefit costs (Note 43)	591	10,392
Early retirement (Note 43)	3,763	3,539
Effect of transfer of pension liabilities for social security (Note 43)	20,851	-
Other mandatory social charges	3,421	1,881
	-----	-----
	81,373	53,714
	-----	-----
Other personnel costs		
Indemnities for early retirements (Note 43)	2,455	1,283
Personnel transfers	587	675
Supplementary retirement plan (Note 43)	583	4,430
Other	4,397	6,629
	-----	-----
	8,022	13,017
	-----	-----
	296,634	296,729
	=====	=====

40. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Specialized services	43,713	43,727
Communications	16,040	16,933
Maintenance of software and hardware	33,307	34,222
Maintenance and repairs	2,972	3,256
Advertising and publishing	13,352	14,137
Rent and leases	11,779	12,048
Supplies		
Water, electricity and fuel	8,198	7,972
Current consumable material	2,554	2,985
Other	299	433
Travel, lodging and representation expenses	5,453	7,133
Transportation	2,499	2,356
Personnel training	2,027	2,444
Insurance	744	725
Other	3,920	4,815
	-----	-----
	146,857	153,186
	=====	=====

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41. NET INCOME OF ASSOCIATES

This caption is made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Totta Crédito Especializado, IFIC, S.A. (Note 1.4.)	1,360	4,211
Banco Caixa Geral Totta de Angola	9,407	3,477
Unicre - Instituição Financeira de Crédito, S.A.	1,880	1,240
Partang, SGPS, S.A.	(62)	(18)
Benim - Sociedade Imobiliária, S.A.	105	(150)
Leasetotta N° 1 Limited	203	-
	-----	-----
	12,893	8,760
	=====	=====

42. INSURANCE BROKERAGE SERVICES RENDERED

The 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 32), and it is as follows:

	<u>2011</u>			<u>2010</u> (Pro forma)		
	Life Insurance	Non-life Insurance	Total	Life Insurance	Non-life Insurance	Total
Santander Totta Seguros	91,376	257	91,633	101,524	250	101,774
Other	-	9,783	9,783	-	8,378	8,378
	-----	-----	-----	-----	-----	-----
	91,376	10,040	101,416	101,524	8,628	110,152
	=====	=====	=====	=====	=====	=====

As at December 31, 2011 and 2010, the caption "Other assets – receivables from other services rendered" (Note 17) include the commissions to be received from insurers, as follows:

	<u>2011</u>	<u>2010</u>
Santander Totta Seguros	19,558	22,473
Other	1,309	299
	-----	-----
	20,867	22,772
	=====	=====

These amounts represent mainly the commissions related to insurance premiums placed in the last quarter of 2011 and in the last semester of 2010, respectively, which were received after the balance sheet date.

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43. EMPLOYEES' POST EMPLOYMENT BENEFITS

For purposes of determining BST's past service liability relating to the servicing and retired employees, actuarial calculations were made in 2011 and 2010 by Towers Watson International Limited, Portuguese branch (formerly Watson Wyatt). The present value of the past service liability and corresponding current service cost were determined based on the Projected Unit Credit method.

The liability with retirement pensions, healthcare benefits and death subsidy as at December 31, 2011 and for the four previous years, as well as the respective funding are as follows:

	2011	2010	2009	2008	2007
Estimated past service liability:					
- Pensions					
. Serving employees	210.669	275.580	255.009	231.114	241.071
. Pensioners	18.455	36.406	34.692	34.895	35.054
. Retired and early retired personnel	387.608	855.952	896.251	973.904	1.045.467
	<u>616.732</u>	<u>1.167.938</u>	<u>1.185.952</u>	<u>1.239.913</u>	<u>1.321.592</u>
- Healthcare benefits (SAMS)	117.422	127.822	127.877	132.522	139.806
- Death subsidy	16.973	18.184	17.728	17.994	18.767
	<u>751.127</u>	<u>1.313.944</u>	<u>1.331.557</u>	<u>1.390.429</u>	<u>1.480.165</u>
Funding of the liability:					
- Value of the fund assets	758.244	1.312.888	1.395.849	1.391.585	1.486.078
	<u>758.244</u>	<u>1.312.888</u>	<u>1.395.849</u>	<u>1.391.585</u>	<u>1.486.078</u>
Overfund / (Underfund)	<u>7.117</u>	<u>(1.056)</u>	<u>64.292</u>	<u>1.156</u>	<u>5.913</u>
Actuarial and financial deviations					
- Change in methodology	(103.831)	-	(51.086)	(100.674)	(54.502)
- Experience adjustments:					
. Other actuarial (Gains) / Losses	(23.708)	(29.458)	(21.172)	(4.100)	76.028
. Financial (Gains) / Losses	339.627	103.392	61.639	306.680	4.221
	<u>315.919</u>	<u>73.934</u>	<u>40.467</u>	<u>302.580</u>	<u>80.249</u>
	<u>212.088</u>	<u>73.934</u>	<u>(10.619)</u>	<u>201.906</u>	<u>25.747</u>

As indicated in Note 1.3. k), in December 2011 a tripartite agreement has been established between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE) towards the transference to the Social Security of part of the liabilities with retired and pensioners that as at December 31, 2011 were covered by the substitutive regime of the Social Security as for the Collective Labor 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 the 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 1 year
Mortality table female population	TV 88/90
Actuarial technical rate (discount rate)	4%

The liabilities transferred to the Social Security were determined based on the assumptions described above and amounted to tEuros 456,111.

The liabilities calculated by the Bank immediately before the transference, 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 December 31 (tEuros 456,111) and those used by the Bank (tEuros 435,260), in the amount of tEuros 20,851, have been recorded under the caption "Personnel costs" of the statement of income (Note 39).

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The assumptions used by the Bank for the determination of responsibilities, immediately before the transference to Social Security, were as follows:

	<u>Serving employees</u>	<u>Retired employees</u>
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above assumptions amounted to tEuros 1,186,387 of which tEuros 435,260 corresponds to liabilities transferred to the Social Security, as previously mentioned.

The following main assumptions were used as at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	5.50%	5.50%
Actuarial technical rate (discount rate)		
- Serving	5.92%	5.25%
- Non-serving	5.00%	5.25%
Salary growth rate	2.35%	3.20%
Pension growth rate	1.35%	1.75%
Inflation rate	1.75%	1.75%

The discount rate of 5.00% for serving employees and 5.92% for the inactives correspond to an average of 5.5%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 5.5% for the entire population had been used.

To determine the amount of social security pension which, under ACT, should reduce the pension to be provided under the ACT, it was used the following assumptions:

Salary growth rate to calculate the deductible pension	2.35%
Inflation (No 1 of Article 27)	1.75%
Inflation (No 1 of Article 27)	2.00%
Sustainability factor accumulated until 2011	Reduction of 3.14%
Future sustainability factor	Reduction of 0.5% per year

The pension cost for 2011 has been determined based on the assumptions used to calculate the liability as at December 31, 2010.

The basis for the return on assets expected rate of the Pension Fund is the estimated return on assets of the Fund's portfolio as at December 31, 2011, which is determined by the actuaries in charge.

The discount rates used in the actuarial studies have been determined based on market rates of highly rated corporate bonds in Euros for similar maturities of those of the Plan's liabilities, splitting between serving and inactive (non-serving) employees, respectively.

More specifically, among other sources, the rates of return on a sample of bonds of private corporations in Euros with credit quality of Aa-(credit risk rating, based on four rating agencies - Moody's, Standard & Poor's, Fitch and Dominion Bond Rating Service) were used. This information was taken from Bloomberg.

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The liability for healthcare benefits resulting from a variation of 1% in the contribution rate as at December 31, 2011 and December 31, 2010 is made up as follows:

	2011			2010 (Pro forma)		
	Number of beneficiaries	Contribution tax -1%	Contribution tax + 1%	Number of beneficiaries	Contribution tax -1%	Contribution tax + 1%
Serving employees (Defined Benefit Plan)	5,451	20,811	28,379	5,431	25,930	35,630
Serving employees (Defined Contribution Plan)	157	25	33	175	24	32
Pensioners	926	4,183	5,705	912	4,165	5,679
Retired and early retired personnel	5,338	74,338	101,370	5,381	78,038	106,416
	<u>11,872</u>	<u>99,357</u>	<u>135,487</u>	<u>11,899</u>	<u>108,157</u>	<u>147,757</u>

The movements in the Bank's past service liability for the years ended December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Liability at the beginning of the year	1,313,944	1,331,557
Current service cost	2,237	15,389
Interest cost	66,962	68,280
Actuarial (gain)/loss	(127,539)	(29,458)
Early retirement	3,763	3,539
Amounts paid	(76,337)	(78,567)
Employees' contributions	2,313	2,426
Transference of responsibilities to the Social Security	(435,260)	-
Accrued liabilities (former Totta IFIC)	1,044	-
Accrued liabilities (former BSN)	-	778
	-----	-----
Liability at the end of the year	<u>751,127</u>	<u>1,313,944</u>
	=====	=====

Employee pensions and other benefits cost for the year includes current service and interest cost, deducted from the estimated return on the Fund's assets. Pension costs for 2011 and 2010 are made up as follows (Note 39):

	<u>2011</u>	<u>2010</u> (Pro forma)
Current service cost	2,237	15,389
Interest cost	66,962	68,280
Estimated income	(70,118)	(74,572)
	-----	-----
Cost for the year – Defined benefits plan	(919)	9,097
Cost for the year – Defined contribution plan	37	32
Cost for the year – London branch plan	429	485
Cost for the year – Increase of liability with IFIC	1,044	-
Cost for the year – Increase of liability with BSN	-	778
	-----	-----
	<u>591</u>	<u>10,392</u>
	===	=====

The decrease in the current service cost results from the transference 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 such transference, the retirement pension will correspond to the difference between the ACT pension and the Social Security one.

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The movements in actuarial deviations in 2011 and 2010 are as follows:

Balance as at December 31, 2009	265,033

. Actuarial gain on pensions generated in 2010	(26,243)
. Financial loss on pensions generated in 2010	92,075
. Actuarial gain on healthcare benefits and death subsidy in 2010	(3,215)
. Financial loss on healthcare benefits and death subsidy in 2010	11,317

Balance as at December 31, 2010 – Pro Forma (Note 25)	338,967

. Actuarial gain on pensions generated in 2011	(112,771)
. Financial loss on pensions generated in 2011	301,625
. Actuarial gain on healthcare benefits and death subsidy in 2011	(14,768)
. Financial loss on healthcare benefits and death subsidy in 2011	38,002

Balance as at December 31, 2011 (Note 25)	551,055
	=====

As a result of the change in the accounting policy described in Note 1.3. k), the actuarial deviation on December 31, 2011 is deducted under the caption "Revaluation reserves".

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The balance sheet amount relating to the pension plan as at December 31, 2010 and 2009 is made up as follows (Note 17 and Note 24):

	<u>2011</u>	<u>2010</u> (Pro forma)
(Underfunded)/Overfunded liability	7,117	(1,056)
Underfunded liability (London branch)	(3,820)	(1,891)
	-----	-----
	3,297	(2,947)
	=====	=====

The actuarial deviation of pensions in 2011 and 2010 is due to the following:

	<u>2011</u>	<u>2010</u> (Pro forma)
Changes in actuarial assumptions	(92,234)	-
Changes in the salary table in 2011/ 2010		
with impact in pensions and salaries	(15,957)	(18,601)
Changes in the population	1,336	(735)
Mortality deviations		
. Due to exits	(9,700)	(9,721)
. Due to maintenance	6,720	6,947
Transference from early retirements to retirements	(2,936)	(4,133)
	-----	-----
	(112,771)	(26,243)
	=====	=====

In 2011, the changes of actuarial assumptions include the effect of the discount rate increase from 5.25% to 5.5% and the changes in the pensions and salaries growth rate from 1.75% to 1.35% and 3.2% to 2.35%, respectively.

The actuarial deviations in healthcare and death subsidy in 2011 and 2010 are due to the following:

	<u>2011</u>	<u>2010</u> (Pro forma)
Changes in discount rate	(11,597)	-
Changes in the salary table	(2,598)	(2,481)
Other	(573)	(734)
	-----	-----
	(14,768)	(3,215)
	=====	=====

The increase in the liability for early retirements in 2011 and 2010, regarding 24 and 20 employees, in the amount of tEuros 3,763 and tEuros 3,539 (Note 39), respectively, and indemnities paid out for early retirements, in the amount of tEuros 2,455 and tEuros 1,283, respectively, were recorded against the statement of income (Note 39).

The actual increase of salaries in 2011 and 2010 for purposes of Social Security contributions regarding the employees of the former Totta was 1.18% and 5.8%, respectively.

The actual increase of the pensions and wages in 2011 and 2010 was 0% and 1%, respectively.

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As at December 31, 2011 and 2010 Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. managed the Group's Pension Funds. The number of participants in the Funds as of those dates was the following:

	<u>2011</u>	<u>2010</u> (Pro forma)
Serving employees ⁽¹⁾	5,608	5,606
Pensioners	926	912
Retired and early retired personnel	5,338	5,381
	-----	-----
	<u>11,872</u>	<u>11,899</u>
	=====	=====

(1) From which 157 and 175 employees are included in the new defined contribution plan, on December 31, 2011 and 2010, respectively.

The main demographic changes in 2011 and 2010 were as follows:

	<u>Serving employees</u>	<u>Retired and early retired personnel</u>	<u>Pensioners</u>
Total as at December 31, 2009	5.548	5.430	879
Exits:			
. Serving employees	(110)	-	-
. By death	-	(80)	(21)
. Other	-	-	(12)
Transferences	(21)	21	-
Entry of BSN employees	84	-	-
Other entries	105	10	66
Total as at December 31, 2010	----- 5.606	----- 5.381	----- 912
Exits:			
. Serving employees	(111)	-	-
. By death	-	(86)	(19)
. Other	-	-	(25)
Transferences	(36)	36	-
Entry of Totta IFIC employees	99	-	-
Other entries	50	7	58
Total as at December 31, 2011	----- <u>5.608</u>	----- <u>5.338</u>	----- <u>926</u>

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The movements in the Pension Fund's net asset value in 2011 and 2010 were as follows:

Net asset value as at December 31, 2009	1,395,849

Contributions by the Bank (cash)	22,000
Contributions by the employees	2,426
Net return of the fund	(28,820)
Pensions paid	(78,567)

Net asset value as at December 31, 2010	1,312,888

Contributions by the Bank (cash)	245,000
Contributions by the employees	2,313
Net return of the fund	(269,509)
Pensions paid	(76,337)
Transference to the Social Security	(456,111)

Net asset value as at December 31, 2011	758,244
	=====

The investment return of the Pension Fund in 2011 and 2010 were negative in 20.53% and 2.1%, respectively.

Due to the negative trend in equity markets and credit in 2011 and considering the Fund's existing exposure, the investment return of the Pension Fund has been adversely affected.

The portfolio of BST's pension fund as at December 31, 2011 and 2010 breakdown by asset as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Debt instruments	385,693	632,370
Real estate investment funds	222,339	229,267
Securities investment funds	139,059	130,708
Equity instruments	152	2,221
Property	87,215	88,155
Deposits	125,255	223,664
Other	(201,470)	6,503
	-----	-----
	758,244	1,312,888
	=====	=====

As at December 31, 2011 the balance of the caption "Other" includes the amount to be transferred to the Social Security by the Bank's pension fund in the amount of tEuro 201.575 as set out under the Decree-Law No 127/2011.

The portfolio of the pension funds as at December 31, 2011 and 2010 included the following assets with Santander Group companies:

	<u>2011</u>	<u>2010</u> (Pro forma)
Leased property	22,966	23,839
Securities (including participating units in funds)	154,464	209,548
	-----	-----
	177,430	233,387
	=====	=====

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In 2010, a life insurance policy has been underwrote to cover the liability arisen out from a new supplementary retirement plan for Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2011, the premium paid by the Bank amounted to tEuros 583 (Note 39).

Defined benefit pension plan – London branch

The main assumptions used to calculate the liability for retirement pensions relating to the pension plan that covers London branch employees as at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Mortality table	AMC00/AFC00	AM92/AF92
Pension fund investment return rate	5.02%	5.50%
Actuarial technical rate (discount rate)	4.90%	5.70%
Salary growth rate	2.70%	3.50%
Pension growth rate	1.90%	3.20%
Inflation rate	2.70%	3.50%

The London branch's defined benefit pension plan liability and its coverage as at December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Estimated past service liability	29,260	25,003
Funding of the liability – net asset value of the fund	25,440	23,112
	-----	-----
Underfunded liability – London branch	(3,820)	(1,891)
	=====	=====

The movements in the past service liability of the London branch in the year ended December 31, 2011 and 2010 are as follows:

Liability as at December 31, 2009	24,012

Current service cost	239
Interest cost	1,395
Actuarial loss	(817)
Amounts paid	(589)
Foreign exchange fluctuations	763

Liability as at December 31, 2010	25,003

Current service cost	174
Interest cost	1,450
Actuarial loss	2,551
Amounts paid	(680)
Foreign exchange fluctuations	762

Liability as at December 31, 2011	29,260
	=====

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The movements in the London branch Pension Fund's net asset value in 2011 and 2010 were as follows:

Net asset value as at December 31, 2009	21,457

Net return of the fund	1,378
Contributions by the Bank	184
Pensions paid	(589)
Exchange fluctuations	682

Net asset value as at December 31, 2010	23,112

Net return of the fund	2,125
Contributions by the Bank	179
Pensions paid	(680)
Exchange fluctuations	704

Net asset value as at December 31, 2011	25,440
	=====

The cost of the London branch for 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Contributions by the Bank – Fund financing	-	184
Current service cost	174	239
Interest cost	1,450	1,395
Estimated return	(1,195)	(1,333)
	-----	-----
	429	485
	====	====

The actuarial deviations of the London Branch in 2011 and 2010 are made up as follows:

	<u>2011</u>	<u>2010</u> (Pro forma)
Actuarial loss on pensions in 2009	3,630	3,630
Financial gain on pensions in 2009	(1,315)	(1,315)
Actuarial gain on pensions in 2010	(817)	(817)
Financial gain on pensions in 2010	(45)	(45)
Actuarial gain on pensions in 2011	2,551	-
Financial gain on pensions in 2011	(930)	-
Foreign exchange fluctuation	138	82
	-----	-----
Actuarial deviations (Note 25)	3,212	1,535
	=====	=====

The portfolio of the London branch Pension Fund as at December 31, 2011 and 2010 included the following assets:

	<u>2011</u>	<u>2010</u> (Pro forma)
Debt instruments	21,763	19,254
Equity instruments	3,608	3,758
Deposits	69	100
	-----	-----
Fund's net asset value	25,440	23,112
	=====	=====

44. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST sold 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 last two securitization operations (Hipototta No. 11 and Hipototta No. 12), which were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus).

In April 2009, Totta IFIC proceeded to the securitization of 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 securitized 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 securitized loans for tEuros 1,752,357.

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 securitized, 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 March 2011, BST proceeded to the securitization of part of its commercial paper and loans to companies portfolio 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 1,100,000. The loans were sold at their nominal value to Tagus.

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.

To finance the operation, the Hipototta and Leasetotta No. 1 FTC Funds have issued participating units in the same amount of the loan portfolio purchased, which were fully subscribed for by Hipototta PLC/Ltd. and Leasetotta, both based in Ireland.

The Hipototta FTC and Leasetotta No.1 FTC Funds pays all 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.

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To finance these operations, the Hipottota and the LeaseTotta PLC/Ltd. and Tagus have issued notes with different levels of subordination and rating and, consequently, of return. As at December 31, 2011, the outstanding issued notes have the following characteristics:

Hipottta PLC No.1								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Fitch			Up to early redemption date	After early redemption date
Class A	1.053.200	206.222	AAA	Aaa	November 2034	August 2012	Euribor 3 m + 0.27%	Euribor 3 m + 0.54%
Class B	32.500	14.448	A+	A1	November 2034	August 2012	Euribor 3 m + 0.65%	Euribor 3 m + 0.95%
Class C	14.300	6.367	BBB+	Baa1	November 2034	August 2012	Euribor 3 m + 1.45%	Euribor 3 m + 1.65%
	<u>1.100.000</u>	<u>227.037</u>						
Class D	17.600	11.000			November 2034	August 2012	Residual income of the securitized portfolio	
	<u>1.117.600</u>	<u>238.037</u>						

Hipottta PLC No.4								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Fitch			Up to early redemption date	After early redemption date
Class A	2.616.040	1.097.946	AAA		December 2048	December 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%
Class B	44.240	41.450	AA-		December 2048	December 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%
Class C	139.720	130.908	A		December 2048	December 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%
	<u>2.800.000</u>	<u>1.270.304</u>						
Class D	14.000	14.000			December 2048	December 2014	Residual income of the securitized portfolio	
	<u>2.814.000</u>	<u>1.284.304</u>						

Hipottta PLC No.5								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Fitch			Up to early redemption date	After early redemption date
Class A1	200.000	-	AAA	Aaa	February 2060	February 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1.693.000	955.362	AAA	Aaa	February 2060	February 2014	Euribor 3 m + 0.13%	Euribor 3 m + 0.26%
Class B	26.000	26.000	AA	Aa2	February 2060	February 2014	Euribor 3 m + 0.17%	Euribor 3 m + 0.34%
Class C	24.000	24.000	A	A1	February 2060	February 2014	Euribor 3 m + 0.24%	Euribor 3 m + 0.48%
Class D	26.000	26.000	BBB	Baa2	February 2060	February 2014	Euribor 3 m + 0.50%	Euribor 3 m + 1.00%
Class E	31.000	31.000	BB	Ba3	February 2060	February 2014	Euribor 3 m + 1.75%	Euribor 3 m + 3.50%
	<u>2.000.000</u>	<u>1.062.362</u>						
Class F	10.000	10.000	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2.010.000</u>	<u>1.072.362</u>						

Hipottta No.7 Ltd							
Issued debt	Amount		Rating		Redemption date	Remuneration	
	Initial	Actual	S&P	Moody's		Up to early redemption date	After early redemption date
Class A1	200.000	-	AAA	Aaa	February 2061	Euribor 3 m + 0.20%	
Class A2	1.596.000	1.090.545	AAA	Aaa	February 2061	Euribor 3 m + 0.30%	
Class B	60.000	60.000	AA	Aa2	February 2061	Euribor 3 m + 0.60%	
Class C	50.000	50.000	A	A2	February 2061	Euribor 3 m + 1.2%	
Class D	44.000	44.000	BBB	Baa2	February 2061	Euribor 3 m + 2.75%	
Class E	50.000	50.000	BB	B1	February 2061	Euribor 3 m + 4.75%	
	<u>2.000.000</u>	<u>1.294.545</u>					
Class F	20.000	20.000	CCC-	Ca	February 2061	Residual income of the securitized portfolio	
	<u>2.020.000</u>	<u>1.314.545</u>					

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Hipototta No.11

Issued debt	Amount		Rating Moody's	Redemption date	Remuneration
	Initial	Actual			
Class A	1.760.000	1.514.633	AAA	2063	Euribor 3 m + 0.20%
Class B	240.000	240.000	BBB+	2063	Euribor 3 m + 0.60%
	<u>2.000.000</u>	<u>1.754.633</u>			
Class C	40.000	40.000		2063	Residual income of the securitized portfolio
	<u>2.040.000</u>	<u>1.794.633</u>			

Hipototta No. 12

Issued debt	Amount		Rating S&P	Redemption date	Remuneration
	Initial	Actual			
Class A	1.079.000	1.000.650	AAA	2065	Euribor 3 m + 0,20%
Class B	221.000	221.000		2065	Euribor 3 m + 0,60%
	<u>1.300.000</u>	<u>1.221.650</u>			
Class C	39.800	39.800		2065	Residual income of the securitized portfolio
	<u>1.339.800</u>	<u>1.261.450</u>			

BST SME No. 1

Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	1.020.000	1.020.000	AAA	2041	Euribor 3 m + 0,20%
Class B	980.000	980.000		2041	Euribor 3 m + 0,60%
	<u>2.000.000</u>	<u>2.000.000</u>			
Class C	40.800	40.800		2041	Residual income of the securitized portfolio
	<u>2.040.800</u>	<u>2.040.800</u>			

Totta Consumer No. 1

Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	700.000	552.096	AA	2038	Euribor 3 m + 3%
Class B	300.000	300.000		2038	Euribor 3 m + 3,25%
	<u>1.000.000</u>	<u>852.096</u>			
Class C	100.400	100.400		2038	Residual income of the securitized portfolio
	<u>1.100.400</u>	<u>952.496</u>			

Leasetotta No. 1 Ltd

Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	1.040.000	460.139	AAA	2042	Euribor 3 m + 0,30%
Class B	260.000	260.000		2042	Euribor 3 m + 4,75%
	<u>1.300.000</u>	<u>720.139</u>			
Class C	65.000	65.000		2042	Residual income of the securitized portfolio
	<u>1.365.000</u>	<u>785.139</u>			

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The notes issued by Hipototta PLC No. 1, Hipototta PLC No. 4, Hipototta No. 12 and BST SME No. 1 bear interest payable quarterly on March 30, June 30, September 30 and December 31 of each year. The notes 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 notes issued by Hipototta No.11 (Tagus) and Totta Consumer No. 1 bear interest payable quarterly on January 30, April 30, July 31 and October 31 of each year. The notes issued by Leasetotta No. 1 Limited bear interest payable quarterly on January 15, April 15, July 15 and October 15 of each year.

BST has the option to early redeem the notes 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.

Additionally, 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 notes of Hipototta No. 1 and Hipototta No. 4, the Class F notes for Hipototta No.5, Hipototta No.7 and the Class C notes for the Hipototta No. 11, Hipototta No. 12, Leasetotta No. 1 Limited, Totta Consumer No. 1 and BST SME No. 1 are the last liabilities to be paid.

Remuneration of these classes of Notes corresponds to the difference between the income generated by the securitized loan portfolio and the sum of all the costs of the operation, namely:

- Taxes;
- Expenses and fees calculated based on the amounts of the portfolio (custodian fee and service fee, both charged by BST, and management fee, charged by the Hipototta FTC Funds and Tagus);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were launched, the estimated income of the securitized loan portfolios included in the calculation of the remuneration of the Class D notes 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 notes of Hipotottas No. 7 and the Class C notes of Hipototta No.11 and Leasetotta No. 1, it corresponded to an annual average rate of 0.7% of each of the loan portfolios. For the Class C notes of Hipototta No. 12, BST SME and Totta Consumer corresponded to an average annual rate of 1%, 1.23% and 5.25%, respectively of each of the loan portfolios.

The Group holds the majority of the bonds issued in securitization transactions. The bonds held by other entities in the amount of tEuros 2,224,855 are recorded under "Debt securities issued" and are detailed in Appendix I.

When the securitizations were issued, subordinated loans were granted by BST to Hipotottas, for facilities / credit lines in case of need for liquidity by Hipotottas. There were also signed "Swap Agreements" between the Santander Group and the first issued Hipotottas 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 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 securitized 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.

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45. RELATED PARTIES

BST has the following related entities with which it had balances or transactions in 2011 and 2010:

Related entities	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd	Cayman Islands
Serfin International Bank & Trust	Cayman Islands
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, LDA	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander, 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
Totta Crédito Especializado, IFIC, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta De Angola	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
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 Negócios 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
Multi-Rent, Aluguer e Comércio de Automóveis, 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 Titulización 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

BANCO SANTANDER TOTTA, S.A.

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<u>Related entities</u>	<u>Head office</u>
<u>Special Purpose Entities</u>	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11)	Portugal
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12)	Portugal
TAGUS (BST SME NO. 1)	Portugal
TAGUS (TOTTA CONSUMER NO. 1)	Portugal

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The balances with related entities as at December 31, 2011 were as follows:

	Entities that directly or indirectly control the Group	Entities 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 to banks	1.011.381	-	371.170
Loans and advances to customers	-	-	32.502
Hedging derivatives	136.090	-	-
Investments in associates	-	134.050	-
Other assets	21.016	5.395	23.014
Liabilities:			
Financial liabilities held for trading	1.440.410	-	68.602
Resources of other financial institutions	668.304	103.227	391.231
Resources of customers and others	108.163	11.004	711.466
Debt securities issued	699.812	-	1.658.447
Hedging derivatives	277.632	-	-
Subordinated liabilities	-	-	4.328
Other liabilities	18.430	-	1.547
Costs:			
Interest expense	326.109	234	83.914
Fees and commission expense	1.118	-	269
Result of assets and liabilities valued at fair value through profit or loss	2.901.332	-	200.887
Result of available-for-sale financial assets	75.247	-	-
Result of foreign exchange revaluation	2.418	-	-
General administrative costs	-	16	35.203
Result of other assets	2.817	-	-
Other operating results	-	-	1
Income:			
Interest income	321.961	26	8.494
Result of assets and liabilities valued at fair value through profit or loss	2.281.194	-	162.403
Result of available-for-sale financial assets	-	-	715
Fees and commission income	588	721	96.663
Results of associates and joint-ventures	-	11.330	-
Other operating results	-	-	176
Off-balance sheet items:			
Guarantees 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

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The balances with related entities as at December 31, 2010 were as follows:

	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under direct or indirect common control by the Group	Special Purpose Entities significantly influenced by the Group
Assets:				
Balances due from banks	13.517	-	9.928	-
Financial assets held for trading	199.977	-	10.172	-
Available-for-sale financial assets	-	2.632	46.978	999.020
Loans and advances to banks	1.140.625	3.295.230	68	3
Loans and advances to customers	-	-	159.428	-
Hedging derivatives	122.826	-	-	-
Investments in associates	-	159.203	-	-
Other assets	173.492	2.931	24.838	2.385
Liabilities:				
Financial liabilities held for trading	1.102.372	-	51.568	-
Resources of other financial institutions	2.669.914	1.120.825	843.713	-
Resources of customers and others	184.386	7.776	410.446	432.392
Debt securities issued	131.946	-	1.210.138	-
Hedging derivatives	164.490	-	-	-
Subordinated liabilities	-	-	32.316	-
Other liabilities	29.227	1.301	549	1.909
Costs:				
Interest expense	642.116	11.394	52.763	15.139
Fees and commission expense	1.160	-	92	-
Result of assets and liabilities valued at fair value through profit or loss	8.626.735	382	421.221	-
Result of foreign exchange revaluation	-	-	-	-
Result of available-for-sale financial assets	214.422	-	-	-
Result of other assets	214	-	-	-
General administrative costs	-	62	35.552	-
Income:				
Interest income	688.037	41.297	19.421	11.388
Result of assets and liabilities valued at fair value through profit or loss	7.931.819	382	421.387	-
Result of foreign exchange revaluation	4.705	-	-	-
Result of equity instruments	-	-	552	-
Fees and commission income	56	5.317	104.578	273
Result of other assets	282.069	-	-	-

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MANAGEMENT AND SUPERVISORY BOARDSBoard of Directors

The loans and advances to members of management and supervisory boards as at December 31, 2011 and 2010, considered key management personnel, amounted to tEuros 1,289 and tEuros 1,228, respectively. Fixed and variable remuneration at these dates amounted to tEuros 4,522 and tEuros 6,171, 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. The cost recognized in "Personnel Costs" for the Board of Directors, as at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Second cycle – PI10 – assigned in 2007 exercisable in July 2010	-	148
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	168	355
Fourth cycle – PI12 - assigned in 2009 and exercisable in July 2012	286	304
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	366	158
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	8	-
	-----	-----
	828	965
	===	===

On July 6, 2009 the first cycle of the action plan linked to objectives was completed. In this respect, the total number of shares allocated to members of the Board of Directors was 97,676 at the price of 8.49 Euros per share.

On July 8, 2010, the second cycle of the action plan linked to objectives was completed. In this context, the total number of shares allocated to members of the Board of Directors was 136,719, at a price of 8.77 Euros per share.

On July 11, 2011, the third cycle of the action plan linked to objectives was completed. In this context, the total number of shares allocated to members of the Board of Directors was 133,727, at a price of 7.51 Euros per share.

In what regards post-employment benefits, the key management personnel with labour link to BST are included in the pension plan of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" - ACT) for the banking sector subscribed by BST. 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 equals to or is greater than ten years, and 75% of gross annual salary, whenever the time in office equals to or is greater than twelve years. This defined benefit plan is a supplementary plan dependent from the general Social Security system.

As at December 31, 2011 and 2010 the liability relating to this plan amounted to tEuros 9,686, and was covered by a provision of the same amount recorded in the caption "Provision for pensions and other charges" (Note 22).

In 2010, the new supplementary retirement pension plan for the Bank executives, include members of the Board of Directors who were not included in the supplementary defined benefit pension plan mentioned above.

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As regards employment termination benefits, in accordance with Commercial Company Law (“Código das Sociedades Comerciais”), whenever the term of a member of management or supervisory boards is early terminated by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

Statutory Auditors

The remuneration of the Bank’s statutory auditors and its subsidiaries in 2011, excluding VAT, was as follows:

Services rendered for statutory audit and external auditor	717
Other assurance services	976
Tax consulting	196

	1,889
	=====

46. INCENTIVE PLANS – SHARES

In the Shareholders’ General Meeting of Banco Santander the “Share Plan Linked to the Santander Group’s Objectives” was approved. This plan is divided into cycles, have been approved so far six cycles. BST is also included in this plan.

Each beneficiary of the plan has the right to receive a maximum number of Banco Santander 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 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:

<u>Cycle</u>	<u>Maturity date</u>	<u>Total number of shares granted</u>	<u>Value per share</u>
First	July 6, 2009	326,681	8.49
Second	July 8, 2010	540,822	8.77
Third	July 11, 2011	571,640	7.51

As mentioned 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 statement of income for the year under the caption “Personnel 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.

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In 2011 and 2010, the total cost of the plan for all BST employees covered is as follows:

Share Plan Linked to the Santander Group's Objectives	<u>2011</u>	<u>2010</u>
Second cycle – PI10 – assigned in 2007 and exercisable in July 2010	-	607
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	633	1,253
Fourth cycle – PI12 - assigned in 2009 and exercisable in July 2012	1,150	1,137
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	1,473	723
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	532	-
	-----	-----
	<u>3,788</u>	<u>3,720</u>
	=====	=====

The employees are entitled to stocks upon their permanence in Santander Group (vesting condition). Shares as well as dates to deliver the shares are summarized in the table below:

Stocks' plans	Shares' number	Cost per share (Euro)	Estimated date of delivery of the shares	Number of employees	Entitlement date
Plans in place as at December 31, 2009					
PI10	536.223	5,6936	Jul-2010	269	2007
PI11	609.081	5,4419	Jul-2011	280	2008
PI12	660.497	4,5112	Jul-2012	277	2009
Change in 2010:					
PI10 - Reversals (*)	(22.850)	-	-	-2	-
PI10 - Shares available	(540.822)	-	Jul-2010	-306	-
PI10 - Shares not available (**)	(56.591)	-	-	-	-
PI11 - Reversals (*)	(28.890)	-	-	-7	-
PI12 - Reversals (*)	(2.030)	-	-	-3	-
PI10 - Integration of employees per firm entry (***)	84.040	-	-	39	-
PI11 - Integration of employees per firm entry (***)	81.830	-	-	38	-
PI12 - Integration of employees per firm entry (***)	95.872	-	-	37	-
PI13 - Entitlement	778.723	5,5707	Jul-2013	310	2010
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 (*)	(1.750)	-	-	-1	-
PI11 - Shares available	(571.640)	-	Jul-2011	-321	-
PI11 - Shares not available (**)	(95.001)	-	-	-	-
PI12 - Reversals (*)	(15.250)	-	-	-5	-
PI13 - Reversals (*)	(13.870)	-	-	-4	-
PI11 - Integration of employees per firm entry (****)	6.370	-	-	11	-
PI12 - Integration of employees per firm entry (****)	7.970	-	-	12	-
PI13 - Integration of employees per firm entry (****)	10.590	-	-	13	-
PI13 - Corrections (*****)	3.769	-	-	1	-
PI14 - Entitlement	565.953	4,5254	Jul-2014	290	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	565.953	4,5254	Jul-2014	290	2011

Notas:

(*) Reversal of the rights granted to beneficiaries who have not completed the permanence requirements in the Santander Group established in the Regulation Plan.

(**) 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.

(****) Corresponds to employees from BSN integrated into the BST following the merger occurred in the first half of 2010, as well as the employees of subsidiaries of BSN that started to be consolidated.

(****) Corresponds to employees from Totta IFIC integrated into the BST following the merger occurred in the first half of 2011.

(*****) Difference between the values indicated by Santander in Spain December 2010 (estimate) and March 2011 (actual).

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In addition, the Santander Group, which includes BST, had a long-term incentive plan worldwide (PI06), covering 2,601 employees, which consisted of options over Banco Santander shares, subject to the increase in value of share price and increase in earnings per share in relation to a group of comparable banks. The dates of the beginning and end of the right were from January 15, 2008 to January 15, 2009.

For BST, the plan covered 157 employees, including key management personnel. The conditions of the plan were achieved, which enabled the options to be exercised in 2008 at 9,09 Euros.

For the stock plans linked to objectives in force as at December 31, 2011 (fourth, fifth and sixth cycles) the fair value has been determined according to 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.

	<u>PI12</u>	<u>PI13</u>	<u>PI14</u>
Volatility (*)	42.36%	49.65%	51.35%
Annual dividend yield in recent years	4.88%	6.34%	6.06%
Risk-free interest rate	2.040%	3.330%	4.073%

(*) Historical volatility of the corresponding period (2 or 3 years)

Application of the simulation model results in a percentage of 55.42% for PI12, 62.62% for PI13 and 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.

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47. DISCLOSURES IN ACCORDANCE WITH IFRS 7**BALANCE SHEET***Category of financial instruments*

Financial instruments as at December 31, 2011 and 2010 had the following book values:

	2011				
	Valued at fair value	Valued at amortized cost	Valued at historical cost	Impairment	Net
<u>Assets</u>					
Cash and deposits at central banks	-	201.130	186.707	-	387.837
Balances due from banks	-	274.320	82.642	-	356.962
Financial assets held for trading	1.995.784	-	-	-	1.995.784
Financial assets designated 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	53.573	28.990.367	-	(671.913)	28.372.027
Hedging derivatives	167.302	-	-	-	167.302
	<u>6.778.257</u>	<u>32.158.728</u>	<u>292.147</u>	<u>(736.583)</u>	<u>38.492.549</u>
<u>Liabilities</u>					
Resources of central banks	-	4.913.234	-	-	4.913.234
Financial liabilities held for trading	1.663.299	-	-	-	1.663.299
Resources of other financial institutions	-	3.611.532	-	-	3.611.532
Resources of customers and others	1.832.184	18.011.920	-	-	19.844.104
Debt securities issued	4.816.609	2.577.256	-	-	7.393.865
Hedging derivatives	282.889	-	-	-	282.889
Subordinated liabilities	-	4.328	-	-	4.328
	<u>8.594.981</u>	<u>29.118.270</u>	<u>-</u>	<u>-</u>	<u>37.713.251</u>
<u>Assets</u>					
Cash and deposits at central banks	-	99.074	217.798	-	316.872
Balances due from banks	-	124.918	111.301	-	236.219
Financial assets held for trading	1.649.296	-	-	-	1.649.296
Financial assets designated at fair value through profit or loss	93.286	-	-	-	93.286
Available-for-sale financial assets	6.958.775	-	25.496	(59.148)	6.925.123
Loans and advances to banks	-	5.209.821	-	-	5.209.821
Loans and advances to customers	65.072	30.205.817	-	(497.157)	29.773.732
Hedging derivatives	131.512	-	-	-	131.512
	<u>8.897.941</u>	<u>35.639.630</u>	<u>354.595</u>	<u>(556.305)</u>	<u>44.335.861</u>
<u>Liabilities</u>					
Resources of central banks	-	4.807.162	-	-	4.807.162
Financial liabilities held for trading	1.312.988	-	-	-	1.312.988
Resources of other financial institutions	-	9.614.681	-	-	9.614.681
Resources of customers and others	1.358.148	16.648.288	-	-	18.006.436
Debt securities issued	4.862.204	4.018.142	-	-	8.880.346
Hedging derivatives	189.423	-	-	-	189.423
Subordinated liabilities	-	32.316	-	-	32.316
	<u>7.722.763</u>	<u>35.120.589</u>	<u>-</u>	<u>-</u>	<u>42.843.352</u>

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There were no reclassifications of financial assets in the years ended December 31, 2011 and 2010, except the reclassification of commercial paper as described in Note 9.

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.

STATEMENT OF INCOME

The net gain and loss on financial instruments in the years ended December 31, 2011 and 2010 were as follows:

	2011					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gain	Loss	Net	Gain	Loss	Net
Financial assets and liabilities held for trading	4.104.748	(4.088.794)	15.954	-	-	-
Financial assets designated 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)
Loans and advances to banks	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 of central banks and other financial institutions	-	(183.645)	(183.645)	-	-	-
Resources of customers and others	40.281	(415.074)	(374.793)	-	-	-
Debt securities issued	103.676	(286.933)	(183.257)	-	-	-
Subordinated liabilities	-	(316)	(316)	-	-	-
	<u>6.674.311</u>	<u>(6.353.644)</u>	<u>320.667</u>	<u>52.083</u>	<u>(426.027)</u>	<u>(373.944)</u>
Guarantees given	28.990	(197)	28.793	-	-	-
Credit lines	<u>22.864</u>	<u>(2.683)</u>	<u>20.181</u>	-	-	-

	2010					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gain	Loss	Net	Gain	Loss	Net
Financial assets and liabilities held for trading	13.107.150	(13.130.701)	(23.551)	-	-	-
Financial assets designated at fair value through profit or loss	112.793	(105.058)	7.735	-	-	-
Available-for-sale financial assets	358.973	(261.296)	97.677	-	(475.663)	(475.663)
Loans and advances to banks	83.394	-	83.394	-	-	-
Loans and advances to customers	1.006.922	(232.347)	774.575	-	-	-
Hedging derivatives	1.430.034	(1.446.219)	(16.185)	-	(19.410)	(19.410)
Financial liabilities at fair value through profit or loss	-	(2.514)	(2.514)	-	-	-
Resources of central banks and other financial institutions	2.771	(128.123)	(125.352)	-	-	-
Resources of customers and others	76.138	(208.166)	(132.028)	-	-	-
Debt securities issued	359.949	(317.713)	42.236	-	-	-
Subordinated liabilities	-	(4.944)	(4.944)	-	-	-
	<u>16.538.124</u>	<u>(15.837.081)</u>	<u>701.043</u>	<u>-</u>	<u>(495.073)</u>	<u>(495.073)</u>
Guarantees given	19.858	(896)	18.962	-	-	-
Credit lines	<u>15.101</u>	<u>(13.236)</u>	<u>1.865</u>	-	-	-

The above amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the years ended December 31, 2011 and 2010 amounted to net gains of tEuros 5,295 and tEuros 10,984, respectively.

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Interest income and expense on financial assets not recorded at fair value through profit or loss, computed in accordance with the effective rate method, for the years ended December 31, 2011 and 2010 were as follows:

	2011			2010		
	Income	Expense	Net	Income	Expense	Net
<u>Assets</u>						
Cash and deposits at central banks	4,522	-	4,522	4,021	-	4,021
Balances due from banks	821	-	821	65	-	65
Available-for-sale financial assets	162,624	-	162,624	261,013	-	261,013
Loans and advances to banks	84,067	-	84,067	79,308	-	79,308
Loans and advances to customers	1,072,711	(1,862)	1,070,849	856,189	(111)	856,078
	<u>1,324,745</u>	<u>(1,862)</u>	<u>1,322,883</u>	<u>1,200,596</u>	<u>(111)</u>	<u>1,200,485</u>
<u>Liabilities</u>						
Resources of central banks	-	(46,680)	(46,680)	-	(42,621)	(42,621)
Resources of other financial institutions	-	(136,965)	(136,965)	-	(85,502)	(85,502)
Resources of customers and others	8,373	(401,314)	(392,941)	8,400	(187,609)	(179,209)
Debt securities issued	-	(213,282)	(213,282)	-	(259,003)	(259,003)
Subordinated liabilities	-	(316)	(316)	-	(4,944)	(4,944)
	<u>8,373</u>	<u>(798,557)</u>	<u>(790,184)</u>	<u>8,400</u>	<u>(579,679)</u>	<u>(571,279)</u>
Guarantees given	18,767	-	18,767	19,034	-	19,034
Credit lines	5,468	-	5,468	5,953	-	5,953

Fees and commission income and expense on financial assets and liabilities not recorded at fair value through profit or loss, not included in the computation of the effective rate, for the years ended December 31, 2011 and 2010 were as follows:

	2011			2010		
	Income	Expense	Net	Income	Expense	Net
<u>Assets</u>						
Loans and advances to customers	56,424	(16,207)	40,217	36,853	(14,483)	22,370
<u>Liabilities</u>						
Resources of customers and others	30,723	-	30,723	(46,146)	-	(46,146)

In 2011 and 2010 the Bank has recognized interest income of tEuros 8,521 and tEuros 2,741, respectively, on overdue or impaired credit (Note 29).

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OTHER DISCLOSURES*Hedge accounting*

Hedging derivatives and the financial instruments designated as hedged items as at December 31, 2011 and 2010 were as follows:

	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 others	(1,822,365)	(1,831,722)	(461)	(1,832,183)	1,811,861	2,600
Debt securities issued	(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
	<u>(899,655)</u>	<u>8,469,226</u>	<u>152,139</u>	<u>8,621,365</u>	<u>10,315,670</u>	<u>(115,587)</u>
	2010					
	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	60,277	60,561	4,306	64,867	60,279	(4,639)
Available-for-sale financial assets	2,799,668	2,866,636	73,037	2,939,673	2,775,000	(109,711)
Resources of customers and others	(1,362,918)	(1,370,706)	12,558	(1,358,148)	1,492,218	(24,096)
Debt securities issued	(4,782,508)	(4,844,192)	(18,012)	(4,862,204)	5,211,922	39,901
Cash flow hedge:						
Loans and advances to customers	3,061,904	3,061,904	-	3,061,904	2,709,100	55,600
Resources of other financial institutions	(959,100)	(959,100)	-	(959,100)	959,100	(14,966)
	<u>(1,182,677)</u>	<u>(1,184,897)</u>	<u>71,889</u>	<u>(1,113,008)</u>	<u>13,207,619</u>	<u>(57,911)</u>

Cash flow hedges

The expected cash flows by period that might affect the profit or loss for the year are as follows:

	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
Cash flow hedge:						
Interest rate sw aps	18.568	5.780	(8.270)	56.938	13.676	86.692
	<u>18.568</u>	<u>5.780</u>	<u>(8.270)</u>	<u>56.938</u>	<u>13.676</u>	<u>86.692</u>
	2010					
	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
Cash flow hedge:						
Interest rate sw aps	7.519	29.107	(3.842)	5.992	1.858	40.634
	<u>7.519</u>	<u>29.107</u>	<u>(3.842)</u>	<u>5.992</u>	<u>1.858</u>	<u>40.634</u>

During the years ended December 31, 2011 and 2010, hedge ineffectiveness did not have an impact in the statement of income.

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The gain or loss on fair value hedging operations recognized in the statement of income in the years ended December 31, 2011 and 2010 were as follows:

	Results of assets and liabilities valued at fair value through profit or loss					
	2011			2010		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	1.020	(1.020)	-	224	(224)	-
Available-for-sale financial assets	137.104	(137.104)	-	65.270	(66.420)	(1.150)
Resources of central banks	-	-	-	2.771	(2.771)	-
Resources of customers and others	(12.575)	12.448	(127)	1.035	(1.046)	(11)
Debt securities issued	27.889	(29.353)	(1.464)	(4.662)	6.789	2.127
	<u>153.438</u>	<u>(155.029)</u>	<u>(1.591)</u>	<u>64.638</u>	<u>(63.672)</u>	<u>966</u>

Fair value of financial instruments

Financial instruments as at December 31, 2011 and 2010 are made up as follows:

	2011		
	Valued at fair value	Not valued at fair value	Total
<u>Assets</u>			
Cash and deposits at central banks	-	387.837	387.837
Balances due from banks	-	356.962	356.962
Financial assets held for trading	1.995.784	-	1.995.784
Financial assets designated at fair value through profit or loss	80.121	-	80.121
Available-for-sale financial assets	4.423.499	16.106	4.439.605
Loans and advances to banks	-	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
	<u>6.720.274</u>	<u>31.772.275</u>	<u>38.492.549</u>
<u>Liabilities</u>			
Resources of central banks	-	4.913.234	4.913.234
Financial liabilities held for trading	1.663.299	-	1.663.299
Resources of other financial institutions	-	3.611.532	3,611.532
Resources of customers and others	1.832.184	18,011.920	19,844.104
Debt securities issued	4,816.609	2,577.256	7,393.865
Hedging derivatives	282.889	-	282.889
Subordinated liabilities	-	4.328	4.328
	<u>8.594.981</u>	<u>29.118.270</u>	<u>37.713.251</u>

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	2010		
	Valued at fair value	Not valued at fair value	Total
<u>Assets</u>			
Cash and deposits at central banks	-	316.872	316.872
Balances due from banks	-	236.219	236.219
Financial assets held for trading	1.649.296	-	1.649.296
Financial assets designated at fair value through profit or loss	93.286	-	93.286
Available-for-sale financial assets	6.905.919	19.204	6.925.123
Loans and advances to banks	-	5.209.821	5.209.821
Loans and advances to customers	64.867	29.708.865	29.773.732
Hedging derivatives	131.512	-	131.512
	<u>8.844.880</u>	<u>35.490.981</u>	<u>44.335.861</u>
<u>Liabilities</u>			
Resources of central banks	-	4.807.162	4.807.162
Financial liabilities held for trading	1.312.988	-	1.312.988
Resources of other financial institutions	-	9.614.681	9.614.681
Resources of customers and others	1.358.148	16.648.288	18.006.436
Debt securities issued	4.862.204	4.018.142	8.880.346
Hedging derivatives	189.423	-	189.423
Subordinated liabilities	-	32.316	32.316
	<u>7.722.763</u>	<u>35.120.589</u>	<u>42.843.352</u>

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.

The fair value of financial assets and liabilities valued at fair value or subject to fair value adjustments in accordance with hedge accounting as at December 31, 2011 and 2010 were as follows:

	2011					Net book value
	Acquisition Cost	Accrued Interest	Valuation	Value adjustments due to hedging operations	Impairment and amortization	
<u>Assets</u>						
Financial assets held for trading	286.984	-	1.708.800	-	-	1.995.784
Financial assets designated at fair value through profit or loss	91.202	1.340	(12.421)	-	-	80.121
Available-for-sale financial assets	5.127.670	83.579	(939.913)	210.141	(57.978)	4.423.499
Loans and advances to customers	47.809	437	-	5.327	(5)	53.568
Hedging derivatives	-	-	167.302	-	-	167.302
	<u>5.553.665</u>	<u>85.356</u>	<u>923.768</u>	<u>215.468</u>	<u>(57.983)</u>	<u>6.720.274</u>
<u>Liabilities</u>						
Financial liabilities held for trading	-	-	1.663.299	-	-	1.663.299
Resources of customers and others	1.822.365	9.357	-	462	-	1.832.184
Debt securities issued	4.696.585	57.156	-	62.868	-	4.816.609
Hedging derivatives	-	-	282.889	-	-	282.889
	<u>6.518.950</u>	<u>66.513</u>	<u>1.946.188</u>	<u>63.330</u>	<u>-</u>	<u>8.594.981</u>

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	2010					Net book value
	Acquisition Cost	Accrued Interest	Valuation	Value adjustments due to hedging operations	Impairment and amortization	
Assets						
Financial assets held for trading	406.355	-	1.242.941	-	-	1.649.296
Financial assets designated at fair value through profit or loss	91.898	1.343	45	-	-	93.286
Available-for-sale financial assets	7.282.532	117.132	(513.926)	73.037	(52.856)	6.905.919
Loans and advances to customers	60.277	489	4.306	-	(205)	64.867
Hedging derivatives	-	-	131.512	-	-	131.512
	<u>7.841.062</u>	<u>118.964</u>	<u>864.878</u>	<u>73.037</u>	<u>(53.061)</u>	<u>8.844.880</u>
Liabilities						
Financial liabilities held for trading	-	-	1.312.988	-	-	1,312,988
Resources of customers and others	1,362,918	7,788	-	(12,558)	-	1,358,148
Debt securities issued	4,782,508	61,684	-	18,012	-	4,862,204
Hedging derivatives	-	-	189,423	-	-	189,423
	<u>6,145,426</u>	<u>69,472</u>	<u>1,502,411</u>	<u>5,454</u>	<u>-</u>	<u>7,722,763</u>

The methods used to determine fair value are based on market prices on active markets or other valuation techniques, such as discounted cash flows. The book value of financial instruments valued at fair value or subject to value adjustments due to hedging operations, by valuation methodology, as at December 31, 2011 and 2010, is as follows:

	2011			
	Method of determining fair value			Total
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		
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	3.615.429	804.088	3.982	4.423.499
Loans and advances to customers	-	53.568	-	53.568
Hedging derivatives	-	167.302	-	167.302
	<u>3.982.560</u>	<u>2.733.732</u>	<u>3.982</u>	<u>6.720.274</u>
Liabilities				
Financial liabilities held for trading	-	1.663.299	-	1.663.299
Resources of customers and others	-	1.832.184	-	1.832.184
Debt securities issued	-	4.816.609	-	4.816.609
Hedging derivatives	-	282.889	-	282.889
	<u>-</u>	<u>8.594.981</u>	<u>-</u>	<u>8.594.981</u>

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	2010			Total
	Method of determining fair value			
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		
<u>Assets</u>				
Financial assets held for trading	406.281	1.243.015	-	1.649.296
Financial assets designated at fair value through profit or loss	93.286	-	-	93.286
Available-for-sale financial assets	5.448.530	454.015	1.003.374	6.905.919
Loans and advances to customers	-	64.867	-	64.867
Hedging derivatives	-	131.512	-	131.512
	<u>5.948.097</u>	<u>1.893.409</u>	<u>1.003.374</u>	<u>8.844.880</u>
<u>Liabilities</u>				
Financial liabilities held for trading	-	1.312.988	-	1.312.988
Resources of customers and others	-	1.358.148	-	1.358.148
Debt securities issued	-	4.862.204	-	4.862.204
Hedging derivatives	-	189.423	-	189.423
	<u>-</u>	<u>7.722.763</u>	<u>-</u>	<u>7.722.763</u>

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 in active markets, comprising mainly government debt, private debt 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 available-for-sale financial assets and derivative instruments used for hedging and trading. Note 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 ("present value model").

For derivative financial instruments, the main valuation techniques were as follows:

<u>Derivative</u>	<u>Main Valuation Technique</u>
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.

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The most representative interest rate curves by maturity and currency are:

	12/31/2011		12/31/2010	
	EUR	USD	EUR	USD
Overnight	1.00%	0.30%	0.38%	0.17%
1 month	1.10%	1.55%	0.80%	0.60%
3 months	1.40%	1.85%	1.02%	1.02%
6 months	1.65%	2.15%	1.10%	0.85%
9 months	1.83%	2.25%	1.18%	0.90%
1 year	1.98%	2.40%	1.27%	0.95%
3 years	1.39%	0.88%	1.92%	1.35%
5 years	1.74%	1.28%	2.50%	2.25%
7 years	2.07%	1.69%	2.90%	2.90%
10 years	2.38%	2.06%	3.29%	3.46%

The book value and fair value of the financial instruments valued at amortized cost or historical cost as at December 31, 2011 and 2010 were as follows:

	2011		
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	387,837	387,837	-
Balances due from banks	356,962	356,962	-
Available-for-sale financial assets	16,106	16,106	-
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)
	<u>31,772,275</u>	<u>29,789,783</u>	<u>(1,982,492)</u>
<u>Liabilities</u>			
Resources of central banks	4,913,234	4,883,949	29,285
Resources of other financial institutions	3,611,532	3,534,077	77,455
Resources of customers and others	18,011,920	18,070,005	(58,085)
Debt securities issued	2,577,256	1,740,447	836,809
Subordinated liabilities	4,328	4,263	65
	<u>29,118,270</u>	<u>28,232,741</u>	<u>885,529</u>
<u>2010</u>			
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	316,872	316,872	-
Balances due from banks	236,219	236,219	-
Available-for-sale financial assets	19,204	19,204	-
Loans and advances to banks	5,209,821	5,309,782	99,961
Loans and advances to customers	29,708,865	29,020,351	(688,514)
	<u>35,490,981</u>	<u>34,902,428</u>	<u>(588,553)</u>
<u>Liabilities</u>			
Resources of central banks	4,807,162	4,807,714	(552)
Resources of other financial institutions	9,614,681	9,638,308	(23,627)
Resources of customers and others	16,648,288	16,728,440	(80,152)
Debt securities issued	4,018,142	3,917,327	100,815
Subordinated liabilities	32,316	32,166	150
	<u>35,120,589</u>	<u>35,123,955</u>	<u>(3,366)</u>

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As at December 31, 2011, if the fair value of the most of the debt issued subject to hedging operations including the debt securities issued had been determined, namely the second and third covered bonds issues and the 35th EMTN issue, it would be lower than the respective carrying amount by some tEuros 596,042.

The main assumptions used in determining fair value, by financial instrument type, were as follows:

- 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, in the last month of the year, considering the different products;
- 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 recognizes 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".

Such procedure has been implemented as result of the client segmentation and in accordance with 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 – Large companies and institutional entities (financial sector entities, such as banks and insurance companies and public sector companies);
- Retail clients.

As at December 31, 2011 the unrecognized gain on these operations amounted to tEuros 8,503 being recorded under the caption "Financial liabilities held for trading" (tEuros 15.088 as at December 31, 2010).

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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.

Counterparty risk consists of the potential credit risk on transactions on 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 daily based on 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 considering economic capital, incorporating in the quantitative control the variables relating to the credit quality of each counterparty.

The maximum exposure to credit risk and corresponding book value of the financial instruments as at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	387.837	387.837	316.872	316.872
Balances due from banks	356.962	356.962	236.219	236.727
Financial assets held for trading	1.995.784	1.995.784	1.649.296	1.649.296
Financial assets designated at fair value through profit or loss	80.121	80.121	93.286	93.286
Available-for-sale financial assets	4.439.605	4.439.605	6.925.123	6.925.123
Loans and advances to banks	2.692.911	2.692.911	5.209.821	5.209.821
Loans and advances to customers	28.372.027	34.382.026	29.773.732	36.537.260
Hedging derivatives	167.302	167.302	131.512	131.512
	<u>38.492.549</u>	<u>44.502.548</u>	<u>44.335.861</u>	<u>51.099.897</u>
Guarantees given	<u>2.058.818</u>	<u>2.058.818</u>	<u>2.291.164</u>	<u>2.291.164</u>

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The maximum exposure of “Loans and advances to customers” as at December 31, 2011, includes tEuros 1,217,742 and tEuros 4,792,257 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 1,982,317 and tEuros 4,781,211 as at December 31, 2010, respectively).

Credit granted

The Bank periodically reviews customer credit and other amounts receivable 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, customer credit without evidence of impairment as at December 31, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Consumer credit	1,111,840	1,156,902
Mortgage loans	15,384,875	15,360,671
Other loans and advances to individuals	435,914	244,496
Credit cards of individuals	250,675	247,990
Total credit without evidence of impairment granted to individuals	<u>17,183,304</u>	<u>17,010,059</u>
Loans and advances to large companies	1,361,928	2,001,596
Loans and advances to medium size companies	4,684,117	5,582,281
Loans and advances to small companies	652,240	781,568
Leasing	1,045,821	-
Factoring	1,271,079	-
Credit cards of companies	12,144	10,768
Loans and advances to financial institutions	1	-
Commercial paper	655,200	2,633,386
Total credit without evidence of impairment granted to companies	<u>9,682,530</u>	<u>11,009,599</u>
Guarantees given	1,988,824	2,258,311
Total credit granted without evidence of impairment	<u><u>28,854,658</u></u>	<u><u>30,277,969</u></u>

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The risk analysis for clients or economic groups where the Bank has an exposure of more than 500,000 Euros are made by analysts risks that follow customers and is 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 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%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by each weighting parameter, is subsequently introduced into the Bank's IT system.

Generally, the Bank's internal rating system is as follows:

- Rating 1 – 3: Customer with high credit risk;
- Rating 4 – 6: Customer with moderate credit risk;
- Rating 7 – 9: Customer with low credit risk.

Credit granted by the Bank to companies without evidence of impairment, by internal rating, at December 31, 2011 and 2010, is as follows:

	2011		2010	
	Credit granted	Guarantees given	Credit granted	Guarantees given
Rating 7 - 9	369,368	41,815	779,894	80,141
Rating 4 - 6	6,142,092	1,214,133	6,251,377	1,341,733
Rating 1 - 3	697,212	85,918	583,937	83,130
	7,208,672	1,341,866	7,615,208	1,505,004
Without rating	1,806,513	160,073	750,237	115,476
	9,015,185	1,501,939	8,365,445	1,620,480
Credit cards of companies	12,144	-	10,768	-
Financial institutions	1	486,885	-	637,831
Commercial paper	655,200	-	2,633,386	-
	9,682,530	1,988,824	11,009,599	2,258,311

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As regards credit granted to individuals without evidence of impairment, provisions obtained from the impairment model in effect in the Bank as at December 31, 2011 and 2010 were tEuros 37,437 and tEuros 46,504, respectively, corresponding to percentages at those dates of 0.22% and 0.27%, respectively.

Credit granted to customers with evidence of impairment as at December 31, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Maturing loans	1,409,667	1,688,401
Overdue loans:		
. Up to 90 days	54,267	29,437
. From 90 to 180 days	97,880	34,921
. Over 180 days	529,589	397,022
	-----	-----
	2,091,403	2,149,781
	=====	=====
Guarantees given	70,559	32,853
	=====	=====

Overdue credit or impaired credit determined by specific analysis guaranteed by mortgage, pledged deposits at the Bank, debt securities issued by the entity itself or with no guarantee as at December 31, 2011 and 2010, is made up as follows:

	2011		2010	
	Outstanding amount	Value of guarantee/collateral	Outstanding amount	Value of guarantee/collateral
Credit overdue or impaired determined by specific analysis:				
Guarantees in excess of the principal due	464.167	972.751	379.023	887.542
Guarantees lower than the principal due	554.772	215.718	100.417	40.136
Without guarantee	1.474.172	-	604.622	-
	-----	-----	-----	-----
	2.493.111	1.188.469	1.084.062	927.678
	=====	=====	=====	=====

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The book value of executed guarantees and other collateral relating to credit granted as at December 31, 2011 and 2010 amounted to tEuros 215,389 and tEuros 109,332, respectively, and is made up as follows:

	<u>2011</u>	<u>2010</u>
Assets received as settlement of defaulting loans (Note 13)		
. Properties	177,737	114,013
. Equipment	3,982	-
Other assets received as settlement of defaulting loans	89,887	38,835
Available-for-sale financial assets	40,784	22,122
	<u>312,390</u>	<u>174,970</u>
Impairment of assets received as settlement of defaulting loans (Note 13)		
. Properties	(53,639)	(36,052)
. Equipment	(2,785)	-
Impairment of other assets received as settlement of defaulting loans	(18,456)	(7,464)
Impairment of available-for-sale financial assets	(22,121)	(22,122)
	<u>(97,001)</u>	<u>(65,638)</u>
	<u>215,389</u>	<u>109,332</u>

As at December 31, 2011 and 2010, the book value of debt instruments, by external rating, is made up as follows:

	<u>2011</u>	<u>2010</u>
Financial assets designated at fair value through profit or loss		
S&P Rating		
A+ / A / A-	-	93.286
BBB+ / BBB / BBB-	80.121	-
	<u>80.121</u>	<u>93.286</u>
Available-for-sale financial assets		
S&P Rating		
AAA+ / AAA / AAA-	-	1.006.911
AA+ / AA / AA-	1.628.499	2.994.639
A+ / A / A-	-	2.083.849
BBB+ / BBB / BBB-	1.578.621	169.680
BB+ / BB / BB-	209.729	-
Without external rating	954.434	610.347
	<u>4.371.283</u>	<u>6.865.426</u>
	<u>4.451.404</u>	<u>6.958.712</u>

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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 Asset and Liabilities Management 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, 2011 the Bank has an EMTN programme of which tEuros 2,289,570 have been issued.

The Bank does not analyze liquidity risk of financial instruments held for trading.

The non-discounted projected cash flows of financial instruments in accordance with their contractual maturities as at December 31, 2011 and 2010 were as follows:

	2011							Total
	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	
Assets								
Cash and deposits at central banks	186.840	508	1.535	4.076	4.081	290.803	-	487.843
Balances due from banks	356.962	-	-	-	-	-	-	356.962
Financial assets held for trading	1.995.784	-	-	-	-	-	-	1.995.784
Financial assets designated 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 banks	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
Investment in associates	-	-	-	-	-	-	133.552	133.552
	4.381.203	4.843.673	5.546.909	8.099.620	5.790.765	17.707.076	265.613	46.634.859
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 financial institutions	898.441	1.767.346	52.556	196.904	700.795	95.203	-	3.711.245
Resources of customers and others	5.659.027	5.445.875	4.596.317	2.387.104	2.141.908	199.668	-	20.429.899
Debt securities issued	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

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	2010						Undetermined	Total
	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		
Assets								
Cash and deposits at central banks	251.029	161	503	1.328	1.328	63.958	-	318.307
Balances due from banks	236.219	-	-	-	-	-	-	236.219
Financial assets held for trading	1.649.296	-	-	-	-	-	-	1.649.296
Financial assets designated at fair value through profit or loss	-	-	4.831	98.302	-	-	-	103.133
Available-for-sale financial assets	2	116.397	430.242	2.774.724	2.724.861	2.485.731	118.384	8.650.341
Loans and advances to banks	558.787	1.177.348	2.794.610	130.396	381.511	403.707	-	5.446.359
Loans and advances to customers	577.860	3.220.865	3.753.021	8.858.311	4.135.549	13.934.168	-	34.479.774
Hedging derivatives	131.512	-	-	-	-	-	-	131.512
	3.404.705	4.514.771	6.983.207	11.863.061	7.243.249	16.887.564	118.384	51.014.941
Liabilities								
Resources of central banks	1.800.011	3.008.855	-	-	-	-	-	4.808.866
Financial liabilities held for trading	1.312.988	-	-	-	-	-	-	1.312.988
Resources of other financial institutions	2.171.566	5.560.418	918.333	55.120	628.076	405.527	-	9.739.040
Resources of customers and others	6.781.450	4.025.061	4.113.239	1.487.046	1.768.794	21.884	-	18.197.474
Debt securities issued	105.000	982.924	2.005.721	3.024.114	1.722.867	1.670.444	-	9.511.070
Hedging derivatives	189.423	-	-	-	-	-	-	189.423
Subordinated liabilities	-	32.444	-	-	-	-	-	32.444
	12.360.438	13.609.702	7.037.293	4.566.280	4.119.737	2.097.855	-	43.791.305

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. The following main assumptions were used to determine the projected cash flows:

- 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, 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, which purpose is to manage the market risk. In this respect, 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 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.

Calculated VaR represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

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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 summary, the analysis of scenarios endeavours to identify the potential risk in extreme market conditions in the verge of probability, not covered by VaR.

Daily positions are also monitored, an exhaustive control being made of changes in the portfolios so as to detect the existence of possible situations that require immediate correction. The preparation of a daily statement of income has the objective of identifying 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);
- 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 analyze interest rate structural risk enables all the factors relating to balance sheet market risks to be controlled, namely risk resulting directly from change in the yield curve, given the existing indexing and re-pricing structure that determine sensitivity of the financial margin and sensitivity of the asset value of the balance sheet instruments.

Interest rate risk

Financial instruments, by exposure to interest rate risk, as at December 31, 2011 and 2010 are as follows:

	2011				Total
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	
<u>Assets</u>					
Cash and deposits at central banks	-	201.130	186.707	-	387.837
Balances due from banks	-	-	356.962	-	356.962
Financial assets held for trading	-	-	287.032	1.708.752	1.995.784
Financial assets designated 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 banks	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
	<u>8.672.496</u>	<u>27.469.972</u>	<u>474.027</u>	<u>1.876.054</u>	<u>38.492.549</u>
<u>Liabilities</u>					
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 financial institutions	2.850.564	617.229	143.739	-	3.611.532
Resources of customers and others	14.403.256	5.177.142	263.706	-	19.844.104
Debt securities issued	4.838.253	2.432.154	123.458	-	7.393.865
Hedging derivatives	-	-	-	282.889	282.889
Subordinated liabilities	-	4.274	-	54	4.328
	<u>22.092.073</u>	<u>13.130.806</u>	<u>544.130</u>	<u>1.946.242</u>	<u>37.713.251</u>

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	2010		Not subject to interest rate risk	Derivatives	Total
	Exposure to Fixed rate	Exposure to Variable rate			
Assets					
Cash and deposits at central banks	-	99.074	217.798	-	316.872
Balances due from banks	-	-	236.219	-	236.219
Financial assets held for trading	-	-	406.281	1.243.015	1.649.296
Financial assets designated at fair value through profit or loss	91.898	-	1.388	-	93.286
Available-for-sale financial assets	5.675.738	1.514.132	(264.747)	-	6.925.123
Loans and advances to banks	1.738.203	3.288.917	182.701	-	5.209.821
Loans and advances to customers	1.904.624	27.802.537	66.571	-	29.773.732
Hedging derivatives	-	-	-	131.512	131.512
	<u>9.410.463</u>	<u>32.704.660</u>	<u>846.211</u>	<u>1.374.527</u>	<u>44.335.861</u>
Liabilities					
Resources of central banks	4.805.011	-	2.151	-	4.807.162
Financial liabilities held for trading	-	-	-	1.312.988	1.312.988
Resources of other financial institutions	6.952.145	2.534.824	127.712	-	9.614.681
Resources of customers and others	11.715.609	6.121.934	168.893	-	18.006.436
Debt securities issued	6.048.202	2.722.103	110.041	-	8.880.346
Hedging derivatives	-	-	-	189.423	189.423
Subordinated liabilities	-	31.998	318	-	32.316
	<u>29.520.967</u>	<u>11.410.859</u>	<u>409.115</u>	<u>1.502.411</u>	<u>42.843.352</u>

Financial instruments – structural balance (excluding assets and liabilities held for trading)

Equity value sensitivity is calculated by means of simulating 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, 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 operation (contract);
- for each group previously defined the operations are sub-grouped by re-pricing/maturity date;
- 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 determined;
- for each product considered to be sensitive, that does not have a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models;
- 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 has 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, the possibility of actual changes for different terms of the interest rate curve not being considered;
- different elasticity between the various products is not considered.

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In terms of variation in Equity Value, the 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 considered to be not 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.
- 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.

As at December 31, 2011 and 2010 the sensitivity of the equity value of these financial instruments to variations of 100 basis points (bp's) corresponds to:

	2011		2010	
	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
<u>Assets</u>				
Cash and deposits at central banks	1,954	(1,954)	658	(649)
Available-for-sale financial assets	2,503	(2,499)	12,496	(12,452)
Loans and advances to banks	3,076	(3,077)	37,848	(37,752)
Loans and advances to customers	203,667	(203,378)	210,700	(210,334)
	<u>211,200</u>	<u>(210,908)</u>	<u>261,702</u>	<u>(261,187)</u>
Hedging derivatives	<u>(37,970)</u>	<u>37,966</u>	<u>(28,918)</u>	<u>28,900</u>
<u>Liabilities</u>				
Resources of central banks	47,278	(47,278)	-	-
Resources of other financial institutions	11,853	(11,844)	(150,815)	150,658
Resources of customers and others	88,286	(84,198)	(71,561)	67,813
Debt securities issued	18,692	(18,654)	(15,678)	15,645
	<u>166,109</u>	<u>(161,974)</u>	<u>(238,054)</u>	<u>234,116</u>

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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 loss and gain).
- 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.
- Market data time window: Uses a 2 year time window 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 granting the same weight to the set of 520 observations considered. 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, 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 non linear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

As at December 31, 2011 and 2010 VaR relating to interest rate risk corresponds to:

	2011	2010
VaR Percentil 99%	(34)	(70)
VaR Weighted Percentil 99%	(25)	(47)

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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.

Financial instruments, by currency, as at December 31, 2011 and 2010 are as follows:

	2011			Total
	Euros	US Dollars	Other currencies	
<u>Assets</u>				
Cash and deposits at central banks	382.103	3.631	2.103	387.837
Balances due from 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 designated at fair value through profit and loss	80.121	-	-	80.121
Available-for-sale financial assets	4.429.999	9.606	-	4.439.605
Loans and advances to banks	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
	<u>37.945.102</u>	<u>474.833</u>	<u>72.614</u>	<u>38.492.549</u>
<u>Liabilities</u>				
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 financial institutions	3.126.454	475.918	9.160	3.611.532
Resources of customers and others	18.794.630	891.766	157.708	19.844.104
Debt securities issued	7.393.865	-	-	7.393.865
Hedging derivatives	282.079	810	-	282.889
Subordinated liabilities	4.328	-	-	4.328
	<u>36.170.268</u>	<u>1.375.967</u>	<u>167.016</u>	<u>37.713.251</u>
	2010			
	Euros	US Dollars	Other currencies	Total
<u>Assets</u>				
Cash and deposits at central banks	311.869	2.699	2.304	316.872
Balances due from banks	211.007	14.069	11.143	236.219
Financial assets held for trading	1.635.132	13.140	1.024	1.649.296
Financial assets designated at fair value through profit and loss	93.286	-	-	93.286
Available-for-sale financial assets	6.915.931	9.192	-	6.925.123
Loans and advances to banks	4.755.267	417.406	37.148	5.209.821
Loans and advances to customers	29.604.869	133.558	35.305	29.773.732
Hedging derivatives	131.177	335	-	131.512
	<u>43.658.538</u>	<u>590.399</u>	<u>86.924</u>	<u>44.335.861</u>
<u>Liabilities</u>				
Resources of central banks	4.807.157	-	5	4.807.162
Financial liabilities held for trading	1.298.847	13.117	1.024	1.312.988
Resources of other financial institutions	9.175.318	417.355	22.008	9.614.681
Resources of customers and others	17.030.175	816.220	160.041	18.006.436
Debt securities issued	8.880.346	-	-	8.880.346
Hedging derivatives	188.024	1.399	-	189.423
Subordinated liabilities	32.316	-	-	32.316
	<u>41.412.183</u>	<u>1.248.091</u>	<u>183.078</u>	<u>42.843.352</u>

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As at December 31, 2011 and 2010, VaR associated to foreign exchange risk corresponds to:

	<u>2011</u>	<u>2010</u>
VaR Percentil 99%	(16)	(14)
VaR Weighted Percentil 99%	(9)	(9)

Equity risk of assetsFinancial instruments held for trading

As at December 31, 2011 and 2010, the Bank had no equity risk of its financial instruments held for trading, therefore the VaR related to this risk is nil.

48. CAPITAL MANAGEMENT

BST aims to have significant financial solidity on a consolidated basis, which is substantiated by the maintenance of a capital adequacy ratio – relationship between qualifying capital and risk weighted assets - above 8%, which is the minimum legal ratio requirement established under Notice no 5/2007 of the Bank of Portugal.

The dividends distribution policy is subject to the maintenance of a strong capital base to support the development of the Bank's business operations, considering its risk policies. In 2011 the Bank's Board of Directors is proposing not to distribute dividends.

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 others (sovereign risk, cards and small businesses). As from December 2010, BST has started to use the mixed method for market risk, namely internal models for most of the trading derivatives and part of its financial assets (IRB) and the standard method for the rest of the trading portfolio. BST has used the basic indicator for operational risk on a consolidated basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 AND 2010 (PRO FORMA)

(Translation of notes originally issued in Portuguese – Note 49)

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

The following table summarizes the composition of the consolidated regulatory capital of the Bank, at the end of 2011 and 2010 (amounts in millions of Euros):

	Dec11 (*)	Dec10 (*)
	BIS II	BIS II
A - BASE CAPITAL (TIER I)	2.141	2.258
Qualifying Share Capital	943	877
Qualifying Reserves and Earnings (excluding Minority Interest)	976	1.088
Minority Interest	475	489
IAS adoption impacts (transitory regime)	57	85
Deductions from Base Capital	-310	-281
B - COMPLEMENTARY CAPITAL (TIER II)	0	0
Perpetual subordinated liabilities	4	32
Term subordinated liabilities	0	0
Revaluation Reserves	23	23
Other elements/deductions to complementary capital	-27	-55
C - DEDUCTIONS FROM TOTAL CAPITAL	-6	-9
D - TOTAL QUALIFYING CAPITAL (A+B+C)	2.135	2.248
E - RISK WEIGHTED ASSETS	20.783	22.232
CAPITAL RATIOS	Dec11 (*)	Dec10 (*)
TIER I (A/E)	10,3%	10,2%
CORE TIER I	9,1%	8,8%
TIER II (B/E)	0,0%	0,0%
CAPITAL ADEQUACY RATIO (D/E)	10,3%	10,1%

(*) In accordance with Instruction 16/2004 of the Bank of Portugal, excluding the result generated in 2011, the capital adequacy ratio is 10.3%, TIER I is 10.3% and Core Tier I is 9.1%.

Although under a difficult macroeconomic environment, the Bank solvency ratios increased during 2011. The Tier I ratio and the core capital ratio of the Banco Santander Totta rose from 10.2% and 8.8% in December 2010 to 10.3% and 9.1%, respectively, in December 2011. The capital adequacy ratio increased to 10.3% in December 2011.

The merger of Totta IFIC, the incorporation of results of 2011, as well as the deleveraging process agreed with the Bank of Portugal and certain measures from the special program of inspections contributed to this increase.

49. NOTE ADDED FOR TRANSLATION

These financial statements are a translation of financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2011 (Note 21)

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

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet							
Bonds issued											
Bonds											
América Latina	EUR	2.175	-	2.175	13	7	2.195	Floating	05-20-2011	05-20-2014	Basket of funds
America Latina Top 3	EUR	99.997	-	99.997	625	(540)	100.082	Floating	08-01-2011	10-31-2014	Index FTSE Latibex Top
AutoCallable 80-20	EUR	1.611	-	1.611	-	(161)	1.450	Floating	06-07-2010	06-07-2011	Basket of shares
AutoCallable 80-20 2ª serie	EUR	2.950	-	2.950	-	(192)	2.758	Floating	08-30-2010	08-30-2013	Basket of shares
AutoCallable 85-15	EUR	3.230	-	3.230	-	(307)	2.923	Floating	08-01-2011	10-31-2014	Index FTSE Latibex Top
AutoCallable 85-15a	EUR	570	-	570	-	-	570	Floating	08-01-2011	10-31-2014	Index FTSE Latibex Top
Cabaz Mundial Outubro 2012	EUR	7.050	-	7.050	-	(3.025)	4.025	Floating	10-12-2009	10-12-2012	Basket of indexes
EUA	EUR	74.607	-	74.607	567	(360)	74.814	Floating	06-30-2011	06-30-2014	Index Standard & Poor's 500
Europa 155	EUR	1.920	-	1.920	1	(13)	1.908	Floating	06-28-2010	06-28-2014	Stock exchange index
Europa 5	EUR	7.424	-	7.424	-	(144)	7.280	Floating	03-08-2010	03-08-2013	Basket of shares
Europa 5 2ªserie	EUR	3.094	-	3.094	-	(54)	3.040	Floating	05-25-2010	05-25-2013	Basket of shares
Obrigações Europa 2ªSerie	EUR	1.210	-	1.210	-	(21)	1.189	Floating	11-09-2009	11-09-2012	Basket of shares
Performance Mais	EUR	63.096	-	63.096	67	1.489	64.652	Floating	11-24-2009	11-24-2014	Basket of indexes
Performance Mais II	EUR	13.731	-	13.731	4	215	13.950	Floating	12-22-2009	01-15-2015	Basket of indexes
Rendimento Europeu	EUR	99.796	-	99.796	469	3.052	103.317	Floating	08-06-2009	08-06-2014	Stock exchange index
Rendimento Global	EUR	3.767	-	3.767	-	(57)	3.710	Floating	01-18-2010	01-18-2013	Basket of shares
Rendimento Premium 7,5% 2ª Serie Clientes	EUR	9.020	918	8.102	-	(13)	8.089	Floating	06-01-2006	06-01-2012	Basket of indexes
ST Diversificação Invest 2ª amortização Clientes	EUR	23.913	786	23.127	835	883	24.845	Floating	03-17-2009	03-28-2013	EUR/USD
ST Diversificação Invest 3ª amortização Clientes	EUR	23.913	786	23.127	-	-	23.127	Floating	03-17-2009	03-28-2015	Basket of indexes
ST Diversificação Invest 4ª amortização Clientes	EUR	23.913	786	23.127	-	-	23.127	Floating	03-17-2009	03-28-2017	Basket of indexes
Super Rendimento Campeão Clientes	EUR	58.907	7.415	51.492	-	80	51.572	Floating	08-23-2007	11-23-2012	Basket of 5 shares
Top Alemanha	EUR	65.042	-	65.042	572	738	66.352	Floating	02-14-2011	02-13-2015	Basket of shares
Top Alemanha Fevereiro 2011	EUR	57.892	-	57.892	590	274	58.756	Floating	03-09-2011	03-09-2015	Basket of shares
Valorização China	EUR	56.379	-	56.379	412	(49)	56.742	Floating	04-11-2011	04-02-2015	Index FTSE China 25
Valorização Dolar	EUR	3.645	-	3.645	-	(61)	3.584	Floating	04-12-2010	04-12-2013	Exchange Rate EUR/USD
Valorização Performance 5 anos	EUR	21.533	-	21.533	135	(398)	21.270	Floating	09-30-2010	09-30-2015	Basket of indexes
Valorização Performance 5 anos OUTUBRO 2010	EUR	9.991	-	9.991	58	(260)	9.789	Floating	11-02-2010	11-02-2015	Basket of indexes
		740.376	10.691	729.685	4.348	1.083	735.116				
Covered bonds											
Covered Bonds Hipotecárias 2ª Emissão	EUR	1.000.000	125.750	874.250	4.626	33.173	912.049	3,25%	10-21-2009	10-21-2014	Fixed interest rate
Covered Bonds Hipotecárias 3ª Emissão	EUR	1.000.000	-	1.000.000	18.163	5.243	1.023.406	2,63%	04-15-2010	04-15-2013	Fixed interest rate until maturity, variable if deadline extension
Covered Bonds Hipotecárias IV - 1ª Tr	EUR	750.000	750.000	-	-	-	-	4,01%	01-12-2011	01-12-2014	Fixed interest rate
Covered Bonds Hipotecárias IV - 2ª Tr	EUR	600.000	600.000	-	-	-	-	4,33%	01-21-2011	01-12-2014	Fixed interest rate
Covered Bonds Hipotecárias IV - 4ª Tr	EUR	225.000	225.000	-	-	-	-	3,70%	02-16-2011	01-12-2014	Fixed interest rate
Covered Bonds Hipotecárias IV - 5ª Tr	EUR	175.000	-	175.000	(1.123)	-	173.877	1,81%	03-30-2011	03-30-2014	Fixed interest rate
Covered Bonds Hipotecárias V	EUR	1.250.000	1.250.000	-	-	-	-	3,97%	05-23-2011	05-23-2014	Fixed interest rate
Covered Bonds Hipotecárias VI - 1ª tranche	EUR	250.000	250.000	-	-	-	-	4,08%	11-04-2011	11-04-2014	Fixed interest rate
Covered Bonds Hipotecárias VII - 1ª tranche	EUR	380.000	380.000	-	-	-	-	4,08%	11-04-2011	11-04-2014	Fixed interest rate
		5.630.000	3.580.750	2.049.250	21.666	38.416	2.109.332				

Bonds issued on securitization operations

BANCO SANTANDER TOTTA, S.A.DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2011 (Note 21)(Translation of financial statements originally issued in Portuguese - Note 49)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet							
Hipototta 1 - Class A - Notes	EUR	206.222	141.528	64.694	182	-	64.876	Floating	07-25-2003	11-25-2034	Euribor 3m+0.27% (until early reimbursement August, 2012); Euribor 3m+0.54% (after early reimbursement)
Hipototta 4 - Class A - Notes	EUR	1.097.946	304.717	793.229	(2.098)	-	791.131	Floating	12-09-2005	12-30-2048	Euribor 3m+0.12% (until early reimbursement December, 2014); Euribor 3m+0.24% (after early reimbursement)
Hipototta 4 - Class C - Notes	EUR	130.908	70.007	60.901	6	-	60.907	Floating	12-09-2005	12-30-2048	Euribor 3m+0.29% (until early reimbursement December, 2014); Euribor 3m+0.58% (after early reimbursement)
Hipototta 5 - Class A2 - Notes	EUR	955.362	201.427	753.935	428	-	754.363	Floating	03-22-2007	02-28-2060	Euribor 3m+0.13% (until early reimbursement February, 2014); Euribor 3m+0.26% (after early reimbursement)
Consumer 1 - Class A - Notes	EUR	552.096	-	552.096	4.364	-	556.460	Floating	06-24-2011	06-24-2038	Euribor 3m+0.3%
		2.942.534	717.679	2.224.855	2.882	-	2.227.737				
Other EMTN's	EUR	2.289.570	22.920	2.266.650	31.661	23.369	2.321.680				
		2.289.570	22.920	2.266.650	31.661	23.369	2.321.680				
TOTAL DEBT SECURITIES ISSUED		11.602.480	4.332.040	7.270.440	60.557	62.868	7.393.865				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2011 (Note 23)

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

(Amounts expressed in thousands of Euros – tEuros)

Description	Currency	Amount of the issue			Accrual			Total Consolidated Balance Sheet	Interest Rate	Maturity	Early repayment as from:
		Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet				
Subordinated Perpetual Bonds Totta 2000	EUR	270.447	270.447	-	255	255	-	3,44%	Perpetual	June 22, 2010	
Subordinated Perpetual Bonds CPP 2001	EUR	4.275	-	4.275	53	-	53	3,50%	Perpetual	February 23, 2011	
Subordinated Perpetual Bonds BSP 2001	EUR	13.818	13.818	-	174	174	-	3,50%	Perpetual	February 23, 2011	
		<u>288.540</u>	<u>284.265</u>	<u>4.275</u>	<u>482</u>	<u>429</u>	<u>53</u>				

Consolidated Reports and Opinions



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 ("the Bank" or "BST") for the year ended December 31, 2011, which comprise the consolidated balance sheet as at December 31, 2011 that presents a total of tEuros 40,115,314 and total shareholders' equity of tEuros 1,963,475, including consolidated net income attributable to the shareholders of BST of tEuros 47,121, the consolidated statements of income, consolidated comprehensive income, changes in consolidated shareholders' equity and consolidated 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 results and comprehensive income from their operations, 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 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 work.

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, 2011, the consolidated results 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.

Emphasis of matter

6. Prior to December 31, 2011 the Bank used the corridor method as set out in paragraph 92 of IAS 19 - Employee Benefits for recognition of actuarial losses and gains relating to employees post-employment benefits - defined benefits plan. In compliance with this method, the Bank recognized the net accumulated actuarial losses and gains (post January 1, 2004) in the balance sheet as an asset or a liability. The accumulated actuarial losses and gains were deferred in the balance sheet in the corridor up to the greater of: (i) 10% of the present value of the defined benefits liability; or (ii) 10% of the fair value of the pension fund assets. The actuarial deviations exceeding the corridor limit were amortized to the statement of income over the average period of time up to the expected date of retirement of the employees covered by the plan. In 2011 the Bank changed this accounting policy and started to recognize actuarial losses and gains directly in shareholders' equity (other comprehensive income) in the period in which they occurred as permitted by paragraph 93A of IAS 19. In accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, when an accounting policy is changed voluntarily the new accounting policy must be applied retrospectively ("restatement") to the earliest comparative prior period presented in the financial statements for the year in which the change is made, that is January 1, 2010. In this respect, the accompanying financial statements for 2010 are pro-forma, the effect of the restatement being a decrease in the Bank's shareholders' equity as at January 1, 2010 and December 31, 2010 of tEuros 189,816 and tEuros 238,087, respectively, after considering the tax effect, including an increase in net income for 2010 of tEuros 5,168 (Note 1.5).

Report on other legal requirements

7. It is also our opinion that the financial information contained in the Director's Report is consistent with the consolidated financial statements for 2011 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, March 14, 2012

Deloitte & Associados, SROC S.A.
Represented by Maria Augusta Cardador Francisco