

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

35. RESULT OF AVAILABLE-FOR-SALE ASSETS

This caption is made up as follows:

	2012			2011		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	-	(1)	(1)	-	(57,487)	(57,487)
Of other residents	36	(35)	1	-	-	-
Issued by non-residents						
Of foreign public issuers	758	-	758	-	(25,858)	(25,858)
Of other non-residents	3,097	(3,101)	(4)	-	-	-
Equity instruments						
Valued at fair value	2,199	-	2,199	792	(52)	740
Other	9	(5,658)	(5,649)	6,337	(969)	5,368
	<u>6,099</u>	<u>(8,795)</u>	<u>(2,696)</u>	<u>7,129</u>	<u>(84,366)</u>	<u>(77,237)</u>

In the reporting period ending on 2011, this caption includes realised capital losses on the sale of Portuguese and Spanish treasury bonds amounting to tEuros 83,331.

36. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Gains on the revaluation of the foreign exchange position	42,084	64,946
Losses on the revaluation of the foreign exchange position	(36,432)	(59,651)
	-----	-----
	5,652	5,295
	=====	=====

37. RESULTS FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Gains on the repurchase of bonds issued under mortgage securitization operations (Note 21)	84,193	2,103
Gains on the sale of loans and advances to customers (Note 11)	5,535	1
Gains on non-current assets held for sale	2,855	1,064
Gains on tangible assets	832	763
Other	2	34
	-----	-----
	93,417	3,965
	-----	-----
Losses on non-current assets held for sale	(4,222)	(2,380)
Losses on the sale of loans and advances to customers (Note 11)	(1,418)	-
Losses on tangible assets	(297)	(169)
Other	(1,791)	(410)
	-----	-----
	(7,728)	(2,959)
	-----	-----
	85,689	1,006
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In March 2012, BST made a tender offer for the acquisition of a set of bonds issued under mortgage securitization operations held by entities not part of Santander Group, with a nominal value of tEuros 311,394. As a result of this operation the Bank recorded gains of tEuros 80,409.

In August 2012, BST again acquired bonds issued under mortgage securitization operations, with a nominal value of tEuros 10,370. As a result of this operation, the Bank recorded a gain of tEuros 3,172.

In October 2012 the BST made an exchange offer of tEuros 3,046 of bonds issued under mortgage securitization operations held by entities not part of Santander Group for covered bonds. As a result of this operation the Bank recorded a gain of tEuros 612.

38. OTHER OPERATING RESULTS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Other operating income		
Rent of automatic payment terminals	16,847	16,451
Income from sundry services rendered	5,195	6,112
Reimbursement of expenses	2,942	4,744
Operating leases	322	331
Other	1,534	1,580
	-----	-----
	26,886	29,172
	-----	-----
Other operating expenses		
Subscriptions and donations	(3,820)	(3,621)
Contributions to the Deposit Guarantee Fund (Note 28)	(4,906)	(3,918)
Charges with transactions made by customers	(11,885)	(11,744)
Expenses with automatic teller machines	(4,385)	(4,477)
Other operating expenses	(12,206)	(11,695)
Other taxation		
Direct	(1,596)	(2,788)
Indirect	(848)	(902)
Extraordinary payment under the Investor Indemnity System (Note 28)	-	(4,071)
	-----	-----
	(39,646)	(43,216)
	-----	-----
	(12,760)	(14,044)
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

39. STAFF COSTS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Remuneration		
Management and supervisory boards (Note 45)	5,675	4,522
Employees	187,564	185,723
Stock option plans (Note 45)	3,104	3,788
Other variable remuneration	18,424	13,206
	-----	-----
	214,767	207,239
	-----	-----
Mandatory social charges		
Charges on remuneration	51,291	52,747
Charges with pensions and other benefits (Note 43)	(2,167)	591
Early retirement (Note 43)	-	3,763
Decrease in liabilities with death subsidy (Note 43)	(13,745)	-
Effect of transfer of pension liabilities to the Social Security (Note 43)	59	20,851
Other mandatory social charges	967	966
	-----	-----
	36,405	78,918
	-----	-----
Other staff costs		
Indemnities for early retirements	23	2,455
Staff transfers	556	587
Supplementary retirement plan (Note 43)	583	583
Other	5,302	6,852
	-----	-----
	6,464	10,477
	-----	-----
	257,636	296,634
	=====	=====

In 2012, the Bank did not record any cost with early retirements as it used part of the provision recorded for that purpose (Note 22).

The balance of the caption "Reduction in liabilities with death subsidy" refers to the reduction in liabilities with pensioners resulting from the amendments introduced by Decree Law no. 133/2012 of 27 of June, which introduced a maximum to the amount for the subsidy for death corresponding to six times the amount of the social support index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

40. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Specialised services	40,819	43,713
Maintenance of software and hardware	33,859	33,307
Communications	14,288	16,040
Rent and leases	11,037	11,779
Advertising and publishing	10,489	13,352
External supplies		
Water, electricity and fuel	7,888	8,198
Current consumable material	2,212	2,554
Other	358	299
Travel, lodging and representation expenses	5,007	5,453
Maintenance and repairs	2,545	2,972
Transportation	2,393	2,499
Staff training	1,796	2,027
Insurance	819	744
Other	3,986	3,920
	-----	-----
	137,496	146,857
	=====	=====

41. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Partang, SGPS, S.A.	9,568	9,345
Unicre - Instituição Financeira de Crédito, S.A.	2,420	1,880
Benim - Sociedade Imobiliária, S.A.	(124)	105
Totta Crédito Especializado,, IFIC, S.A. (Note 1.4.)	-	1,360
Leasetotta No. 1 Limited	-	203
	-----	-----
	11,864	12,893
	=====	=====

Partang SGPS, S.A. is 49% owned by the Bank which, in turn, owns 51% of the capital of the Banco Caixa Geral Totta Angola, S.A..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

42. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered refers mainly to the commissions charged to Santander Totta Seguros - Companhia de Seguros de Vida S.A., and to other insurance companies for the placement of their products (Note 17), and it is as follows:

	<u>2012</u>			<u>2011</u>		
	<u>Life Insurance</u>	<u>Non-Life Insurance</u>	<u>Total</u>	<u>Life Insurance</u>	<u>Non-Life Insurance</u>	<u>Total</u>
Santander Totta Seguros	82,313	239	82,552	91,376	257	91,633
Liberty Seguros	-	9,699	9,699	-	9,420	9,420
Other	-	1,338	1,338	-	870	870
	-----	-----	-----	-----	-----	-----
	82,313	11,276	93,589	91,376	10,547	101,923
	=====	=====	=====	=====	=====	=====

On December 31, 2012 and 2011, the caption "Other assets – Income receivable" (Note 17) includes commission receivable from insurance companies, as follows:

	<u>2012</u>	<u>2011</u>
Santander Totta Seguros	13,712	19,558
Other	1,006	1,309
	-----	-----
	14,718	20,867
	=====	=====

These amounts refer essentially to the commissions raised on premiums for insurances sold during the last quarter of 2012 and the last semester of 2011, respectively.

43. EMPLOYEES' POST EMPLOYMENT BENEFITS

For the purpose of determining BST's past service liability relating to the servicing and retired employees, actuarial studies were carried out in 2012 and 2011 by Towers Watson International Limited, Portuguese branch. The present value of the past service liability and corresponding current service cost were determined based on the Projected Unit Credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The liabilities with retirement pensions, healthcare benefits and death subsidy as at December 31, 2012 and in the four previous years, as well as a respective coverage, are as follows:

	2012	2011	2010	2009	2008
Estimated past service liability					
- Pensions					
. Current employees	251,252	210,669	275,580	255,009	231,114
. Pensioners	21,002	18,455	36,406	34,692	34,895
. Retired and early retired staff	388,656	387,608	855,952	896,251	973,904
	<u>660,910</u>	<u>616,732</u>	<u>1,167,938</u>	<u>1,185,952</u>	<u>1,239,913</u>
- Healthcare benefits (SAMS)	129,267	117,422	127,822	127,877	132,522
- Death subsidy	4,331	16,973	18,184	17,728	17,994
	<u>794,508</u>	<u>751,127</u>	<u>1,313,944</u>	<u>1,331,557</u>	<u>1,390,429</u>
Coverage of the liability:					
- Net assets of the Fund	784,937	758,244	1,312,888	1,395,849	1,391,585
	<u>784,937</u>	<u>758,244</u>	<u>1,312,888</u>	<u>1,395,849</u>	<u>1,391,585</u>
Amount overfunded / (underfunded)	<u>(9,571)</u>	<u>7,117</u>	<u>(1,056)</u>	<u>64,292</u>	<u>1,156</u>
Actuarial and financial deviations generated in the year					
- Change in assumptions	73,518	(103,831)	-	(51,086)	(100,674)
- Experience adjustments:					
. Other actuarial (gains) / losses	(25,383)	(23,708)	(29,458)	(21,172)	(4,100)
. Financial (gains) / losses	(15,796)	339,627	103,392	61,639	306,680
	<u>(41,179)</u>	<u>315,919</u>	<u>73,934</u>	<u>40,467</u>	<u>302,580</u>
	<u>32,339</u>	<u>212,088</u>	<u>73,934</u>	<u>(10,619)</u>	<u>201,906</u>

The reduction in liabilities with death subsidy in 2012 is essentially due to the amendments introduced by Decree Law no. 133/2012 of June 27, which introduced a maximum amount for the subsidy for death, corresponding to six times the amount of the social support index. The gain resulting from the reduction in liabilities resulting from this amendment amounted to tEuros 13,745 (Note 39).

As described in Note 1.3.k), a three party agreement was established, in 2011, between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), regarding the transfer to the Social Security of part of the liabilities with pensioners who as at December 31, 2011 were covered by the substitutive regime of the Social Security under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's pension fund assets backing such liabilities were also transferred to the Social Security. Following Decree Law no. 127/2011, dated of December 31, the value of pension liabilities transferred to the Government was determined considering the following assumptions:

Mortality table male population	TV 73/77 less than 1 year
Mortality table female population	TV 88/90
Actuarial technical rate (discount rate)	4%

The liabilities transferred to the Social Security amounting to tEuros 456,111 were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the financial and actuarial assumptions used, amounted to tEuros 435,260.

The difference between the liabilities transferred to the Social Security calculated using the assumptions set out in the Decree Law no. 127/2011, dated of 31 December (tEuros 456,111) and those used by the Bank (tEuros 435,260), amounting to tEuros 20,851, was recorded in the caption "Staff costs" of the income statement for 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The assumptions used by the Bank for the determination of responsibilities immediately before the transfer to the Social Security were the following:

	<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 mentioned above.

The main assumptions used as at December 31, 2012 and 2011 were the following:

	<u>2012</u>	<u>2011</u>
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	5.50%	5.50%
Actuarial technical rate (discount rate)		
- Current employees	4.85%	5.92%
- Non-serving	4.00%	5.00%
Salary growth rate for 2013 and 2014	0.50%	2.35%
Salary growth rate after 2014	2.35%	2.35%
Pension growth rate for 2013 and 2014	0.00%	1.35%
Pension growth rate after 2014	1.35%	1.35%
Inflation rate	1.75%	1.75%

In 2012, the discount rates of 4.85% for serving employees and 4.00% for the inactive correspond to an average rate of 4.5%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 4.5% had been used for the entire population. In 2011 the corresponding rate was 5.5%.

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector, should reduce the pension to be provided under the ACT, the following assumptions were used on December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Salary growth rate to calculate the deductible pension:		
· For 2013 and 2014	0.50%	2.35%
· After 2014	2.35%	2.35%
Inflation (no. 1 of Article 27)	1.75%	1.75%
Inflation (no. 2 of Article 27)	2.00%	2.00%
Sustainability factor accumulated until 2012	Reduction of 3.92%	
Sustainability factor accumulated until 2011	Reduction of 3.14%	
Future sustainability factor	Reduction of 0.5% per year	

The expected rate of return on the Pension Fund assets corresponds to the estimated return on assets of the Fund's portfolio as at December 31, 2012, and was determined by the actuaries in charge.

The discount rate is determined based on the market rates of low risk corporate bonds, for similar maturities as those of the Plan's liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The economic climate and the sovereign debt crisis of the South of Europe have brought volatility and disruption to the debt market in the Euro Zone, with a consequent abrupt reduction in the market yields on the debt of the companies with the best ratings and have limited the available basket of these bonds. In order to maintain the representativeness of the discount rate taking into consideration the universe of the Euro Zone, on December 31, 2012 the Bank incorporated information on interest rates in the determination of the discount rate, which it is possible to obtain on bonds denominated in Euros, including public debt, which it considers to be of high quality in terms of credit risk.

On December 31, 2012 and 2011, the amount of the liabilities with healthcare arising from a 1% variation in the contribution rate may be presented as follows:

	2012			2011		
	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%
Serving employees (Defined Benefit Plan)	5,341	26,997	36,813	5,451	20,811	28,379
Serving employees (Defined Contribution Plan)	177	59	81	157	25	33
Pensioners	954	4,537	6,187	926	4,183	5,705
Retired and early retired staff	5,332	77,787	106,073	5,338	74,338	101,370
	<u>11,804</u>	<u>109,380</u>	<u>149,154</u>	<u>11,872</u>	<u>99,357</u>	<u>135,487</u>

Changes in the Bank's past service liability for the years ended December 31, 2012 and 2011 may be broken down as follows, with regard to the Bank's pension plan:

	<u>2012</u>	<u>2011</u>
Liabilities at the beginning of the year	751,127	1,313,944
Current service cost	398	2,237
Interest cost	37,483	66,962
Actuarial (gains)/ losses	48,135	(127,539)
Early retirement	9,862	3,763
Amounts paid	(41,005)	(76,337)
Reduction of liabilities with death subsidy (Note 39)	(13,745)	-
Correction of liabilities transferred to the Social Security	(44)	-
Contributions of the employees	2,297	2,313
Transfer of liabilities to the Social Security	-	(435,260)
Liabilities of the IFIC arising from the merger	-	1,044
	-----	-----
Liabilities at the end of the year	<u>794,508</u>	<u>751,127</u>
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The cost of the year relating to pensions includes current service and interest cost, deducted from the estimated return from the assets of the Fund. In the years 2012 and 2011, costs with pensions are made up as follows (Note 39):

	<u>2012</u>	<u>2011</u>
Current service cost	398	2,237
Interest cost	37,483	66,962
Estimated return	(40,748)	(70,118)
	-----	-----
Defined benefits plan	(2,867)	(919)
Defined contribution plan	39	37
London branch plan	603	429
Increase of liability with IFIC	-	1,044
Other	58	-
	-----	-----
	(2,167)	591
	=====	=====

In the years 2012 and 2011, the current service cost reflects the transfer to the Social Security General Regime of the serving employees covered by CAFEB and admitted in the sector before March 3, 2009 as set out under Decree Law No 1-A/2011, dated of January 3. As a result of this amendment, after the transition date, the retirement pension for which the Bank is responsible, is a complementary pension that results from the difference between the ACT pension and the Social Security pension.

As from January 1, 2009, employees hired by the Bank were integrated in the Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. The plan is supported by contributions of the employees (1.5%) and from the Bank (1.5%) over the amount of the effective monthly salary. For this purpose, each employee can choose the Pension Fund to which the Bank transfers its contribution.

Change in actuarial gains and losses in 2011 and 2012 was as follows:

Balance on December 31, 2010	338,967

Actuarial gains on pensions generated in 2011	(112,771)
Financial losses on pensions generated in 2011	301,625
Actuarial gains on healthcare benefits and death subsidy in 2011	(14,768)
Financial losses on healthcare and death subsidy in 2011	38,002

Balance on December 31, 2011 (Note 25)	551,055

Actuarial losses on pensions generated in 2012	37,239
Financial gains on pensions generated in 2012	(12,913)
Actuarial losses on healthcare and death subsidy in 2012	10,896
Financial gains on healthcare and death subsidy in 2012	(2,883)

Balance on December 31, 2012 (Note 25)	583,394
	=====

As a result of the change in the accounting policy described in Note 1.3. k), the accumulated actuarial gains and losses are deducted under the caption "Revaluation reserves".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The actuarial deviation on pensions in 2012 and 2011 may be explained as follows:

	<u>2012</u>	<u>2011</u>
Changes in actuarial assumptions	60,058	(92,234)
Changes in the salary table in 2012/2011 with impact on pensions and salaries	(24,152)	(15,957)
Changes in the population	1,837	1,336
Mortality deviations		
. Due to departures	(5,227)	(9,700)
. Due to maintenance	3,636	6,720
. Survival pensions transferred to the Social Security	2,505	-
Transfer from early retirement to retirement	(1,418)	(2,936)
	-----	-----
	37,239	(112,771)
	=====	=====

In 2011, the changes in actuarial assumptions include the effect of an increase in the discount rate from 5.25% to 5.5%, on average, and the changes in the pensions and salaries growth rates from 1.75% to 1.35% and 3.2% to 2.35%, respectively.

The increase in estimated salaries and pensions was revised taking into account the current situation in Portugal and the consequent prospects of smaller increases in the future or even of maintenance the current amounts, particularly in the years 2013 and 2014.

The change in actuarial assumptions in 2012 includes the effect of the decrease in the discount rate from 5.5% to 4.5%, on average, and of the changes to the growth rates of pensions and salaries, for the years 2013 and 2014, from 1.35% to 0% and 2.35% to 0.5%, respectively.

The actuarial deviations in healthcare and death subsidy in 2012 and 2011 are explained as follows:

	<u>2012</u>	<u>2011</u>
Change in assumptions	13,460	(11,597)
Changes in salaries	(2,293)	(2,598)
Other	(271)	(573)
	-----	-----
	10,896	(14,768)
	=====	=====

On December 31, 2012 and 2011, the balance sheet amount related with the pension plan is made up as follows:

	<u>2012</u>	<u>2011</u>
Financing (deficit) / surplus (defined benefit plan)	(9,571)	7,117
Financing (deficit) (London branch)	(3,961)	(3,820)
	-----	-----
	(13,532)	3,297
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The effective salary growth in 2012 and 2011 for the purpose of the contributions to the Social Security relating to the employees of the former Totta was 2.46% and 1.18%, respectively.

There was no effective increase in the pensions and of the salary table in 2012 and 2011.

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. On December 31, 2012 and 2011, the number of participants in the Fund was as follows:

	<u>2012</u>	<u>2011</u>
Serving employees ⁽¹⁾	5,518	5,608
Pensioners	954	926
Retired and early retired staff	5,332	5,338
	-----	-----
	11,804	11,872
	=====	=====

(1) Of whom 177 and 157 employees are included in the new defined contribution plan as at on 31 December 2012 and 2011, respectively.

The main demographic changes in 2011 and 2012 were the following:

	Assets			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number on December 31, 2010	175	5,431	5,381	912
Exits:				
. Serving employees	(63)	(48)	-	-
. By death	-	-	(86)	(19)
. Other	-	-	-	(25)
Transfers	-	(36)	36	-
Entry of Totta IFIC employees	-	99	-	-
Entries	45	5	7	58
Total number as at December 31, 2011	157	5,451	5,338	926
Exits:				
. Serving employees	(18)	(55)	-	-
. Retirement	-	-	(77)	(32)
Transfers	-	(56)	56	-
Entries	38	1	15	60
Total number as at December 31, 2012	177	5,341	5,332	954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Changes in BST's Pension Fund during the years 2011 and 2012 were the following:

Net assets as at December 31, 2010	1,312,888

Contributions made by the Bank (cash)	245,000
Contributions made by the employees	2,313
Net return of the Fund	(269,509)
Pensions paid	(76,337)
Transfer to the Social Security	(456,111)

Net assets as at December 31, 2011	758,244

Contributions made by the Bank (cash)	8,959
Contributions made by the employees	2,297
Net return of the Fund	56,544
Pensions paid	(41,005)
Transfer to the Social Security	(102)

Net assets as at December 31, 2012	784,937
	=====

The rates of return of the Pension Fund in 2012 and 2011 were 7.65% and -20.53%, respectively.

Due to the negative trend in equity markets and credit in 2011 and taking into account the Fund's existing exposure, the return of the Pension Fund has been adversely affected.

On December 31, 2012 and 2011, BST's Pension Fund portfolio included the following assets:

	<u>2012</u>	<u>2011</u>
Debt instruments	309,217	385,693
Real estate investment funds	221,462	222,339
Securities investment funds	150,809	139,059
Real Estate	68,826	87,215
Deposits	33,936	125,255
Pending settlement	535	(201,469)
Equity instruments	152	152
	-----	-----
	784,937	758,244
	=====	=====

On December 31, 2011, the "Pending settlement" caption included amounts payable to the State of tEuros 201,575, referring to the transfer of part of the Bank's Pension Fund to the Social Security, as established in Decree Law no. 127/2011, of December 31.

On December 31, 2012 and 2011, the portfolio of the Pension Fund included the following assets with Santander Group companies:

	<u>2012</u>	<u>2011</u>
Leased property	22,791	22,966
Securities (including participating units in funds managed by the Group)	168,989	154,464
	-----	-----
	191,780	177,430
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In 2010 a life insurance policy was taken out with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from the new supplementary retirement plan for the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2012 and 2011, the premium paid by the Bank amounted to tEuros 583 (Note 39).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disablement.

For all the situations, the payments receivable by the beneficiaries are the accumulated balance in the supplementary plan on the date that these occur. In the event of the death of the beneficiary this amount will be further increased by 6,000 Euros.

On December 31, 2012 and 2011, 107 and 106 employees were covered by this plan, respectively.

Defined benefit pension plan – London branch

As at December 31, 2012 and 2011, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that covers the employees of the London branch were the following:

	<u>2012</u>	<u>2011</u>
Mortality table	AMC00/AFC00	AMC00/AFC00
Rate of return on the assets of the Pension Fund	5.02%	5.02%
Actuarial technical rate (discount rate)	4.25%	4.90%
Salary growth rate	2.80%	2.70%
Pension growth rate	1.90%	1.90%
Inflation rate	2.20%	2.70%

On December 31, 2012 and 2011, the liabilities with the defined benefit pension plan of the London branch and its coverage were as follows:

	<u>2012</u>	<u>2011</u>
Estimated liabilities for past services	35,303	29,260
Net assets of the fund	31,342	25,440
	-----	-----
Non-financed amount – London branch	(3,961)	(3,820)
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In relation to the specific pension plan of the London branch, the changes in the liabilities for past services in the years ending on December 31, 2011 and 2012 may be presented as follows:

Liabilities as at December 31, 2010	25,003

Current service cost	174
Interest cost	1,450
Actuarial losses	2,551
Amounts paid	(680)
Foreign exchange fluctuations	762

Liabilities a December 31, 2011	29,260

Current service cost	207
Interest cost	1,447
Actuarial losses	4,533
Amounts paid	(831)
Foreign exchange fluctuations	687

Liabilities as at December 31, 2012	35,303
	=====

Changes in the Pension Fund of the London branch during the years ending on December 31, 2011 and 2012 was the following:

Net assets on December 31, 2010	23,112

Net return of the fund	2,125
Contribution by the Bank	179
Pensions paid	(680)
Foreign exchange fluctuations	704

Net assets on December 31, 2011	25,440

Net return of the fund	2,916
Contribution by the Bank	3,219
Pensions paid	(831)
Foreign exchange fluctuations	598

Net assets on December 31, 2012	31,342
	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The costs of the defined benefit plan of the London branch in the years 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current service cost	207	174
Interest cost	1,447	1,450
Estimated return	(1,051)	(1,195)
	-----	-----
	603	429
	====	====

The actuarial gains and losses of the London branch are as follows:

Actuarial losses on pensions in 2009	3,630
Financial gains on pensions in 2009	(1,315)
Actuarial gains on pensions in 2010	(817)
Financial gains on pensions in 2010	(45)
Actuarial losses on pensions in 2011	2,551
Financial gains on pensions in 2011	(930)
Foreign exchange fluctuations	138

Balance on December 31, 2011	3,212

Actuarial losses on pensions in 2012	4,533
Financial gains on pensions in 2012	(1,865)
Foreign exchange fluctuations	86

Balance on December 31, 2012 (Note 25)	5,966
	=====

On December 31, 2012 and 2011, the London branch's Pension Fund portfolio included the following assets:

	<u>2012</u>	<u>2011</u>
Debt instruments	26,649	21,763
Equity instruments	4,497	3,608
Deposits	196	69
	-----	-----
Fund's net asset value	31,342	25,440
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

44. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolios, through twelve operations, with a total initial amount of tEuros 23,250,000. The loans were sold at their nominal value (book value) to Hipototta FTC Funds, with the exception of the following securitization operations (Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1), in which the credits were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus).

In April 2009, the former Totta IFIC securitized part of its leasing portfolio and long-term rental through an operation with a total initial amount of tEuros 1,300,000. The loans were sold at their nominal value (book value) to a securitization fund called LeaseTotta No. 1 FTC.

In October 2009 BST liquidated Hipototta No. 9 Ltd. which was established under the securitization operation of November 2008, the initial amount of the loans sold being tEuros 1,550,000. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 1,462,000.

In April 2010, BST liquidated Hipototta No. 6 Ltd, which was established under the securitization operation of October 2007, the initial amount of the loans sold being tEuros 2,200,000. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 1,752,357.

In July 2010, the BST securitized part of its mortgage loan portfolio, called Hipototta no. 11, for the total initial amount of tEuros 2,000,000. The loans were sold at their nominal value (book value) to Tagus.

In January and February 2011, BST entered into a Mortgage Retransfer Agreements with Hipototta No. 2 PLC, Hipototta No. 3 PLC and Hipototta no. 10 Ltd. under which repurchased the loans previously securitised, by the amounts of tEuros 880,636, tEuros 1,548,396 and tEuros 803,494, respectively and the Notes held in its portfolio related to these securitizations have redeemed at their nominal value.

In May and June of 2012, the BST entered into Mortgage Retransfer Agreements with Hipototta no. 11 and Hipototta no. 12. Under these agreements BST repurchased the previously securitised loans for tEuros 1,719,660 and tEuros 1,197,009, respectively, and was reimbursed relating to the Notes it held in the portfolio associated to these securitizations at the respective nominal value.

In March 2011, BST securitised part of its portfolio of commercial paper and loans to the companies through an operation called BST SME No. 1, with a total initial amount of tEuros 2,000,000. Additionally in June 2011 the Bank proceeded to the securitization of part of its consumer credit portfolio through an operation called Totta Consumer No. 1, with a total initial amount of tEuros 1,000,000. The credits from these operations were sold at their nominal value to Tagus. In March 2012, BST liquidated the BST SME no. 1. This liquidation took place through the “SME Receivables Retransfer Agreement”, under which the Bank purchased again the credits initially securitised for tEuros 1,792,480.

In August 2012, BST liquidated the Totta Consumer no. 1. This liquidation was carried out through the “Consumer Receivables Retransfer Agreement”, by means of which the Bank reacquired the loans initially securitized for tEuros 626,373.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Part of the funds Hipototta and Leasetotta are managed by Navegador – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegador). BST continues to manage the loan contracts, transferring all the amounts received under the loan contracts to the Hipototta and Leasetotta Funds and to Tagus. The Group holds no direct or indirect participation in Navegador or in Tagus.

To finance the operation, Hipototta and LeaseTotta FTC Funds issued participating units for the same amount of the loan portfolio purchased, which were fully subscribed by the Hipototta and LeaseTotta PLC/Ltd Funds, both based in Ireland.

The Hipototta and LeaseTotta FTC Funds pay all the amounts received from BST and from the Portuguese Treasury (“Direcção Geral do Tesouro”) to the Hipototta PLC/Ltd and Leasetotta No. 1 Limited, segregating the instalments between principal and interest.

To finance these operations, the Hipototta and the LeaseTotta PLC/Ltd. and Tagus issued bonds with different levels of subordination and rating and, consequently, of return. On December 31, 2012, the bonds issued and still active are as follows:

Hipototta nº 1 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Moody's			Up to early redemption date	After early redemption date
Class A	1,053,200	185,579	A-	Baa3	November of 2034	August of 2012	Euribor 3 m + 0,27%	Euribor 3 m + 0,54%
Class B	32,500	11,966	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 0,65%	Euribor 3 m + 0,95%
Class C	14,300	5,273	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 1,45%	Euribor 3 m + 1,65%
	<u>1,100,000</u>	<u>202,818</u>						
Class D	17,600	11,000			November of 2034	August of 2012	Residual income of the securitized portfolio	
	<u>1,117,600</u>	<u>213,818</u>						

Hipototta nº 4 PLC								
Issued debt	Amount		Rating Fitch	Redemption date	Early redemption date	Remuneration		
	Initial	Actual				Up to early redemption date	After early redemption date	
Class A	2,616,040	1,034,987	A	December of 2048	December of 2014	Euribor 3 m + 0,12%	Euribor 3 m + 0,24%	
Class B	44,240	37,654	A	December of 2048	December of 2014	Euribor 3 m + 0,19%	Euribor 3 m + 0,40%	
Class C	139,720	118,918	B	December of 2048	December of 2014	Euribor 3 m + 0,29%	Euribor 3 m + 0,58%	
	<u>2,800,000</u>	<u>1,191,559</u>						
Class D	14,000	14,000		December of 2048	December of 2014	Residual income of the securitized portfolio		
	<u>2,814,000</u>	<u>1,205,559</u>						

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February of 2060	February of 2014	Euribor 3 m + 0,05%	Euribor 3 m + 0,10%
Class A2	1,693,000	900,658	A-	Baa3	February of 2060	February of 2014	Euribor 3 m + 0,13%	Euribor 3 m + 0,26%
Class B	26,000	26,000	A-	Ba1	February of 2060	February of 2014	Euribor 3 m + 0,17%	Euribor 3 m + 0,34%
Class C	24,000	24,000	A	Ba2	February of 2060	February of 2014	Euribor 3 m + 0,24%	Euribor 3 m + 0,48%
Class D	26,000	26,000	BBB	B3	February of 2060	February of 2014	Euribor 3 m + 0,50%	Euribor 3 m + 1,00%
Class E	31,000	31,000	BB	Caa2	February of 2060	February of 2014	Euribor 3 m + 1,75%	Euribor 3 m + 3,50%
	<u>2,000,000</u>	<u>1,007,658</u>						
Class F	10,000	10,000	CCC-	Ca	February of 2060	February of 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>1,017,658</u>						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Hipototta nº 7 Ltd						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Moody's		
Class A1	200,000	-			February of 2061	Euribor 3 m + 0,20%
Class A2	1,596,000	1,029,927	A-	Baa3	February of 2061	Euribor 3 m + 0,30%
Class B	60,000	60,000	A-	Ba1	February of 2061	Euribor 3 m + 0,60%
Class C	50,000	50,000	BBB-	Ba1	February of 2061	Euribor 3 m + 1,2%
Class D	44,000	44,000	BB-	Ba2	February of 2061	Euribor 3 m + 2,75%
Class E	50,000	50,000	B	Caa1	February of 2061	Euribor 3 m + 4,75%
	<u>2,000,000</u>	<u>1,233,927</u>				
Class F	20,000	20,000	CCC-	Ca	February of 2061	Residual income of the securitized portfolio
	<u>2,020,000</u>	<u>1,253,927</u>				

Leasetotta nº 1 Ltd					
Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	1,040,000	254,589	AA	April of 2042	Euribor 3 m + 0,30%
Class B	260,000	260,000		April of 2042	Euribor 3 m + 4,75%
	<u>1,300,000</u>	<u>514,589</u>			
Class C	65,000	65,000		April of 2042	Residual income of the securitized portfolio
	<u>1,365,000</u>	<u>579,589</u>			

The bonds issued by Hipototta no. 1 PLC and Hipototta no. 4 PLC bear interest payable quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta PLC No. 5 and Hipototta No. 7 Ltd bear interest payable quarterly on February 28, May 30, August 31 and November 30 of each year. The bonds issued by LeaseTotta no. 1 Ltd bear interest payable quarterly on January 30, April 30, July 31 and October 31 of each year.

BST has the option to early redeem the bonds on the above-mentioned dates. For all Hipotottas, for BST SME No. 1 and for Totta Consumer No. 1, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or less than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, Hipototta and Leasetotta PLC/Ltd have the option to make partial repayments of the Class A, B and C notes, as well as the Class D and E notes in the case of Hipototta PLC No. 5 and Hipototta No. 7 Ltd, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

Remuneration of the Class D bonds of Hipototta No. 1 and Hipototta No. 4, the Class F bonds for Hipottota No.5, Hipottota No.7 and the Class C bonds for LeaseTotta no. 1 Ltd are the last liabilities to be paid.

Remuneration of these classes of bonds corresponds to the difference between the income generated by the securitised loan portfolio and the sum of all the costs of the operation, namely:

- Taxation;
- Expenses and commission calculated on the value of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

When the securitization operations were launched, the estimated income of the securitised loan portfolios included in the calculation of the remuneration of the Class D bonds of Hipototta PLC No. 1 and 4 corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F notes of Hipototta PLC No. 5 it corresponded to an annual average of 0.9% of the total credit portfolio. For the Class F bonds of Hipotottas No. 7 and the Class C bonds of LeaseTotta no. 1, it corresponded to an annual average rate of 0.7% of each of the loan portfolios.

In 2010 the Bank repurchased class A bonds from Hipototta no. 4 PLC, class A2 bonds from Hipototta no. 5 PLC and class A bonds from Hipototta no. 2 PLC. In 2012 the Bank repurchased class A bonds from Hipototta no. 4 PLC and class A2 bonds from Hipototta no. 5 PLC. As mentioned above, Hipototta no. 2 PLC, Hipototta no. 3 PLC and Hipototta no. 10 Ltd were liquidated in January and February 2011. Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1 were liquidated in March, May, June and August 2012, respectively.

When the securitizations were issued, subordinated loans were granted by BST to 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 the purposes of the consolidated financial statements, the Hipototta FTC Funds and Hipototta PLC/Ltd were included in the consolidation perimeter (Note 4), given that the Bank has the majority of the risks and benefits relating to the operations of these entities. Consequently, the securitised mortgage loans were reflected in the balance sheet and part of the bonds issued by Hipototta PLC/Ltd, Leasetotta No.1 Limited and Tagus which are held by the Group, were eliminated in the consolidation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

45. RELATED PARTIES DISCLOSURES

Related parties disclosures of the Bank with which it had balances or transactions in 2012 and 2011 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd	Cayman Island
Serfin International Bank & Trust	Cayman Island
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander, Asset Management, SGFIM, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 2 PLC	Ireland
HIPOTOTTA NO. 3 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
HIPOTOTTA NO. 8 Ltd	Ireland
HIPOTOTTA NO. 10 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 2 FTC	Portugal
HIPOTOTTA NO. 3 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
HIPOTOTTA NO. 8 FTC	Portugal
HIPOTOTTA NO. 10 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (HIPOTOTTA NO. 11)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (HIPOTOTTA NO. 12)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (BST SME NO. 1)	Portugal
TAGUS - Sociedade de Titularização de Créditos, S.A. (TOTTA CONSUMER NO.1)	Portugal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Name of the related entity	Head office
Entities under direct or indirect common control by the Group	
Open Bank Santander Consumer S.A.	Spain
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
ISBANP - Engenharia e Software Bancário, S.A.	Portugal
Banco Santander de Puerto Rico	Puerto Rico
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Internacional Miami	USA
Santander Bank & Trust Ltd.	Spain
Banco Santander Brasil, S.A.	Brazil
Banco Santander Chile, S.A.	Chile
Produban Servicios Informaticos Generales, S.L.	Spain
Portal Universia Portugal - Prestação de Serviços de Informática, S.A.	Portugal
Ingeniería de Software Bancário, S.L.	Spain
HBF Aluguer e Comércio de Viaturas, S.A.	Portugal
Ibérica de Compras Corporativas	Spain
Grupo Banesto	Spain
Transolver Finance EFC, S.A.	Spain
Union de Créditos Inmobiliários, S.A.	Spain
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Abbey National Treasury Services, PLC	United Kingdom
Santander Consumer Spain Auto 07-1	Spain
Santander Global Facilities	Spain
Fondo de Titulización de Activos Santander Empresas 1	Spain
Fondo de Titulización de Activos Santander Empresas 2	Spain
Fondo de Titulización de Activos Santander Empresas 3	Spain
Fondo de Titulización Santander Financiación 1	Spain
FTPYME Santander 2 Fondo de Titulización de Activos	Spain
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Alliance & Leicester	United Kingdom
Catter Allen International LTD	United Kingdom
Banco Banif, S.A.	Spain
All Funds Bank, S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Consumer Finance S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander de Titulizacion SGFT	Spain
Santander Investment, S.A.	Spain
Santander Investment Securities, Inc	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Konecta Portugal, Lda.	Portugal
Santander UK PLC	United Kingdom
Sovereign Bank	USA
Optimal Strategic Us Equity Irl Euro Fnd	Ireland
Banco Santander (Suisse), S.A.	Switzerland
UCI - Mediação de Seguros Unipessoal, Lda	Portugal
Santander Asset Management, SA, SGIC	Spain
Retama Real Estate, SL	Spain

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

On December 31, 2012 and 2011, the balances with related parties were as follows:

	2012		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	8,372	-	8,539
Financial assets held for trading	262,786	-	5,825
Available-for-sale financial assets	-	-	5,973
Loans and advances to credit institutions	1,825,070	-	1,405
Loans and advances to customers	-	-	38,179
Hedging derivatives	247,437	-	-
Investments in associated companies	-	142,994	-
Other assets	14,553	4,018	16,186
Liabilities:			
Financial liabilities held for trading	1,835,739	-	69,014
Resources of other credit institutions	599,332	158,341	24,286
Resources of customers and other debts	85,938	9,545	1,818,110
Debt securities	165,547	-	298,674
Hedging derivatives	453,444	-	-
Subordinated liabilities	-	-	4,311
Other liabilities	10,663	-	2,840
Costs:			
Interest and similar charges	348,656	958	90,756
Charges with services and commission	880	-	3,081
Result of assets and liabilities at fair value through profit or loss	2,204,438	-	102,309
General administrative costs	-	-	36,922
Impairment on Investments in associates and branches excluded from the consolidation	-	160	-
Income:			
Interest and similar income	386,852	5	8,037
Result of assets and liabilities at fair value through profit or loss	1,559,475	-	80,279
Result of foreign exchange revaluation	360	-	-
Income from services and commission	275	-	85,648
Results of participations in associates and joint-ventures	-	11,864	-
Other operating results	-	-	199
Off-balance sheet Items:			
Guarantees provided and other contingent liabilities	15,784	-	523,224
Guarantees received	710	-	1,400
Commitments to third parties	515	784	561,030
Commitments assumed by third parties	-	-	301,417
Currency operations and derivatives	21,073,204	881	1,073,094
Responsibilities for services rendered	2,812,706	34,592	8,079,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

	2011		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	9,444	-	18,537
Financial assets held for trading	297,417	-	5,948
Available-for-sale financial assets	-	-	13,668
Loans and advances credit institutions	1,011,381	-	371,170
Loans and advances to customers	-	-	32,502
Hedging derivatives	136,090	-	-
Investments in associated companies	-	133,052	-
Other assets	21,016	5,395	23,014
Liabilities:			
Financial liabilities held for trading	1,440,410	-	68,602
Resources of credit institutions	668,304	103,227	391,231
Resources of customers and other debts	108,163	11,004	711,466
Debt securities	699,812	-	1,658,447
Hedging derivatives	277,632	-	-
Subordinated liabilities	-	-	4,328
Other liabilities	18,430	-	1,547
Costs:			
Interest and similar charges	326,109	234	83,914
Charges with services and commission	1,118	-	269
Result of assets and liabilities at fair value through profit or loss	2,901,332	-	200,887
Results of financial assets available for sale	75,247	-	-
Result of foreign exchange revaluation	2,418	-	-
General administrative costs	-	16	35,203
Results from the sale of other assets	2,817	-	-
Other operating results	-	-	1
Income:			
Interest and similar income	321,961	26	8,494
Result of assets and liabilities at fair value through profit or loss	2,281,194	-	162,403
Result of foreign exchange revaluation	-	-	715
Income from services and commission	588	721	96,663
Results of participations in associates and joint-ventures	-	12,893	-
Other operating results	-	-	176
Off-balance sheet items:			
Guarantees provided and other contingent liabilities	475,879	-	32,935
Guarantees received	715	-	1,400
Commitments to third parties	1,946	389	116,684
Currency operations and derivatives	24,154,065	-	1,200,737
Responsibilities for services rendered	3,532,924	35,717	8,511,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

MANAGEMENT AND SUPERVISORY BOARDSBoard of Directors

As at December 31, 2012 and 2011 the loans and advances to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 1,135 and tEuros 1,289, respectively. Fixed and variable remuneration at these dates amounted to tEuros 5,675 and tEuros 4,522, respectively (Note 39).

The Santander Group, which includes BST, also has a worldwide long term incentive plan, which is described in Note 46 and is divided into cycles. For the members of the Board of Directors, the amount recorded in the caption of staff costs in the reporting years ending on December 31, 2012 and 2011 is presented below:

	<u>2012</u>	<u>2011</u>
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	-	168
Fourth cycle – PI12 - assigned in 2009 exercisable in July 2012	87	286
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	225	366
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	15	8
	-----	-----
	327	828
	===	===

The cycles of the share plans linked to objectives of the members of the Board of Directors ended on the dates indicated below and shares were attributed at the following amounts per share:

<u>Cycle</u>	<u>Maturity date</u>	<u>Number of shares attributed</u>	<u>Value per share</u>
First	July 6, 2009	97,676	8.49 Euros
Second	July 8, 2010	136,719	8.77 Euros
Third	July 11, 2011	133,727	7.51 Euros
Fourth	July 9, 2012	35,850	4.88 Euros

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement (“Acordo Colectivo de Trabalho” - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. k).

In the Shareholders’ General Meeting held on May 30, 2007, the BST’s shareholders approved the “Regulation for supplementary attribution of retirement pensions for age or disability” for the executive members of the Board of Directors of the former BTA that are executive members of the BST’s Board of Directors (Executive Committee) and were in office for more than fifteen years, consecutive or interpolated. Under this Regulation they will be entitled to a pension supplement equivalent to 80% of gross annual salary. The amount of the supplementary retirement pension shall be determined by the Compensation Committee when the time in office is less than fifteen years. For these situations, it is defined that the supplement of the pension will be 65% of gross annual salary, whenever the time in office is equal to or is more than ten years, and 75% of gross annual salary, whenever the time in office is equal to or is more than twelve years. This defined benefit plan is a supplementary plan dependent from the general Social Security system.

On December 31, 2012 and 2011, the liabilities with this plan amounted to tEuros 13,735 and tEuros 9,686, respectively, and were covered by a provision of the same amount recorded in the caption “Provision for pensions and other charges” (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

With regard to employment termination benefits, in accordance with Commercial Company Law (“Código das Sociedades Comerciais”), whenever the term of a member of the management or supervisory boards is terminated early by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

Statutory Auditors

The remuneration of the statutory auditors of the Bank and its subsidiaries in 2012, excluding VAT, was as follows:

Statutory audit and external auditor services rendered	892
Other assurance services	732
Tax consulting	133
Other	50

	1,807
	=====

46. LONG-TERM INCENTIVE PLANS

The “Share Plan Linked to the Santander Group’s Objectives” was approved In a Shareholders’ General Meeting of Banco Santander. This plan is divided into cycles, and so far six cycles have been approved. BST is also included in this plan.

Each beneficiary of the plan has the right to receive a maximum number of Banco Santander, S.A.’s shares. The final number allocated is determined by multiplying the maximum number of shares initially allocated, by the sum of the coefficients indexed to the evolution of Banco Santander, S.A. in relation to other entities included in a predefined group. The comparison is measured in relation to two parameters: total shareholders’ return and increase in earnings per share for the first three cycles, for the remaining cycles the comparison is measured by the total shareholders’ return only.

The maturity dates of the cycles for the stock plans linked to objectives, the total number of shares granted and the value per share are as follows:

Cycle	Maturity date	Total number of shares granted	Value per share
First	July 6, 2009	326,681	8.49
Second	July 8, 2010	540,822	8.77
Third	July 11 2011	571,640	7.51
Fourth	July 9, 2012	200,897	4.88

As described in Note 1.3. n), recognition of the share incentive plans consists in recognizing the right of the Bank’s employees to such instruments in the income statement for the year under the caption “Staff costs”, as it corresponds to remuneration for services rendered. Management, hedging and implementation of the plans are provided by Banco Santander for all employees covered by the Plan worldwide.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In 2012 and 2011, the total cost of the Santander Group's Share Plans linked to objectives of all the Group's employees covered by it was as follows:

	<u>2012</u>	<u>2011</u>
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	-	633
Fourth cycle – PI12 - assigned in 2009 and exercisable in July 2012	575	1,150
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	1,473	1,473
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	1,056	532
	-----	-----
	3,104	3,788
	=====	=====

The employees are entitled to stocks upon their permanence in the Santander Group. The cost per share, as well as the dates to deliver the shares are summarised in the following table:

Stocks' plans	Number of shares	Cost per share (Euros)	Estimated date of delivery of the shares	Number of employees	Entitlement date
Plans in place as at December 31, 2010:					
PI11	662,021	5.4419	Jul/2011	311	2008
PI12	754,339	4.5112	Jul/2012	311	2009
PI13	778,723	5.5707	Jul/2013	310	2010
Change in 2011:					
PI11 - Reversals ^(a)	(1,750)	-	-	(1)	-
PI11 - Shares available	(571,640)	-	Jul/2011	(321)	-
PI11 - Shares not available ^(b)	(95,001)	-	-	-	-
PI12 - Reversals ^(a)	(15,250)	-	-	(5)	-
PI13 - Reversals ^(a)	(13,870)	-	-	(4)	-
PI11 - Inclusion of employees due to entry of companies ^(c)	6,370	-	-	11	-
PI12 - Inclusion of employees due to entry of companies ^(c)	7,970	-	-	12	-
PI13 - Inclusion of employees due to entry of companies ^(c)	10,590	-	-	13	-
PI13 - Corrections ^(d)	3,769	-	-	1	-
PI14 - Entitlement	609,358	4.5254	Jul/2014	309	2011
Plans in place as at December 31, 2011:					
PI12	747,059	4.5112	Jul/2012	318	2009
PI13	779,212	5.5707	Jul/2013	320	2010
PI14	609,358	4.5254	Jul/2014	309	2011
Change in 2012:					
PI12 - Shares available	(200,897)	-	Jul/2012	(320)	-
PI12 - Shares not available ^(b)	(471,823)	-	-	-	-
PI12 - Reversals ^(a)	(74,339)	-	-	(2)	-
PI13 - Reversals ^(a)	(76,339)	-	-	(2)	-
Plans in place as at December 31, 2012:					
PI13	702,873	5.5707	Jul/2013	318	2010
PI14	609,358	4.5254	Jul/2014	309	2011

Notes:

(a) Reversal of the rights granted to beneficiaries who have not completed the permanence requirements in the Santander Group established in the Regulation Plan.

(b) Difference between the maximum number of allocated shares and the number of shares actually delivered. The number of allocated shares results by applying a coefficient calculated according to the Santander Group's performance applied to the maximum number of shares allocated.

(c) Corresponds to employees from Totta IFIC integrated into the BST following the merger occurred in the first half of 2011

(d) Difference between the values indicated by Santander in Spain December 2010 (estimate) and March 2011 (actual).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

For the share plans linked to objectives in force on December 31, 2012 (5th and 6th cycles), the fair value was determined in accordance with the following methodology:

- It was considered that the beneficiaries will remain in the Santander Group during the period of each plan;
- The value relating to the relative position of the Total Return to Shareholders (TRS) was determined at the vested date based on the report of an independent expert who carried out a stochastic valuation using a “MonteCarlo” model with 10,000 simulations performed to determine the TRS for each entity included in the group of comparables. The results (each one representing the delivery of a number of shares) are sorted on descending basis, calculating a weighted average and discounting the amount at a risk free interest rate.

	PI13	PI14
Volatility (*)	49.65%	51.35%
Annual dividend yield in recent years	6.34%	6.06%
Risk-free interest rate	3.330%	4.073%

(*) Historical volatility of the corresponding period (2 or 3 years)

Application of the simulation model results in a percentage of 62.62% for PI13 and of 55.39% for PI14, to which 50% of the value allocated to determine the accounting cost of the TRS incentive is applied. Since the valuation refers to a market condition, it is not subject to adjustment as from the allocation date.

47. DISCLOSURES IN ACCORDANCE WITH IFRS 7**BALANCE SHEET***Categories of financial instruments*

On December 31, 2012 and 2011, financial instruments had the following book value:

	2012				Net Value
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	
<i>Assets</i>					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	321,628	63,695	-	385,323
Financial assets held for trading	2,265,495	-	-	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	-	93,735
Available-for-sale financial assets	3,527,449	-	21,398	(58,983)	3,489,864
Loans and advances to banks	-	3,097,422	-	-	3,097,422
Loans and advances to customers	49,565	27,895,746	-	(965,662)	26,979,649
Hedging derivatives	284,850	-	-	-	284,850
	<u>6,221,094</u>	<u>31,456,398</u>	<u>295,856</u>	<u>(1,024,645)</u>	<u>36,948,703</u>
<i>Liabilities</i>					
Resources of central banks	-	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,048,743	-	-	-	2,048,743
Resources of other credit institutions	-	1,949,574	-	-	1,949,574
Resources of customers and other debts	3,070,416	18,309,464	117,294	-	21,497,174
Debt securities	2,637,250	1,316,269	-	-	3,953,519
Hedging derivatives	455,911	-	-	-	455,911
Subordinated liabilities	-	4,311	-	-	4,311
	<u>8,212,320</u>	<u>27,416,860</u>	<u>117,294</u>	<u>-</u>	<u>35,746,474</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

	2011				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from other banks	-	274,320	82,642	-	356,962
Financial assets held for trading	1,995,784	-	-	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	-	80,121
Available-for-sale financial assets	4,481,477	-	22,798	(64,670)	4,439,605
Loans and advances to banks	-	2,692,911	-	-	2,692,911
Loans and advances to customers	53,136	28,990,805	-	(671,914)	28,372,027
Hedging derivatives	167,302	-	-	-	167,302
	<u>6,777,820</u>	<u>32,159,166</u>	<u>292,147</u>	<u>(736,584)</u>	<u>38,492,549</u>
Liabilities					
Resources of central banks	-	4,913,234	-	-	4,913,234
Financial liabilities held for trading	1,663,299	-	-	-	1,663,299
Resources of other credit institutions	-	3,611,532	-	-	3,611,532
Resources of customers and other debts	1,832,183	17,912,285	99,636	-	19,844,104
Debt securities	4,574,638	2,819,227	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	282,889
Subordinated liabilities	-	4,328	-	-	4,328
	<u>8,353,009</u>	<u>29,260,606</u>	<u>99,636</u>	<u>-</u>	<u>37,713,251</u>

In 2012 there were no reclassifications of financial assets, except for the reclassification of the participating units of the “Lusimovest” and “Novimovest” Funds from the caption “Financial assets held for trading” to the caption “Available-for-sale financial assets” (Note 9).

There were no reclassifications of financial assets in 2011.

The financial assets and liabilities for which fair value hedge accounting was applied are valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

INCOME STATEMENT

In the years ending on December 31, 2012 and 2011, the net gains and losses on financial instruments were as follows:

	2012					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	3,217,416	(3,194,239)	23,177	-	-	-
Financial assets at fair value through profit or loss	18,497	-	18,497	-	-	-
Available-for-sale financial assets	318,338	(26,234)	292,104	427,590	-	427,590
Balances in central banks and other credit institutions	60,028	-	60,028	-	-	-
Loans and advances to customers	1,188,647	(532,224)	656,423	-	-	-
Hedging derivatives	452,599	(568,855)	(116,256)	40,944	-	40,944
Resources in central banks and other credit institutions	-	(90,889)	(90,889)	-	-	-
Resources of customers and other debts	43,685	(531,025)	(487,340)	-	-	-
Debt securities	187,022	(180,835)	6,187	-	-	-
Subordinated liabilities	-	(202)	(202)	-	-	-
	<u>5,486,232</u>	<u>(5,124,503)</u>	<u>361,729</u>	<u>468,534</u>	<u>-</u>	<u>468,534</u>
Guarantees given	23,082	(10,595)	12,487	-	-	-
	<u>12,945</u>	<u>(4,975)</u>	<u>7,970</u>			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

	2011					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	4,104,748	(4,088,794)	15,954	-	-	-
Financial assets at fair value through profit or loss	4,206	(12,466)	(8,260)	-	-	-
Available-for-sale financial assets	312,449	(94,913)	217,536	-	(426,027)	(426,027)
Balances in central banks and other credit institutions	89,410	-	89,410	-	-	-
Loans and advances to customers	1,318,659	(432,638)	886,021	-	-	-
Hedging derivatives	700,882	(838,865)	(137,983)	52,083	-	52,083
Resources in central banks and other credit institutions	-	(183,645)	(183,645)	-	-	-
Resources of customers and other debts	40,281	(415,074)	(374,793)	-	-	-
Debt securities	103,676	(286,933)	(183,257)	-	-	-
Subordinated liabilities	-	(316)	(316)	-	-	-
	<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	22,864	(2,683)	20,181	-	-	-

The above amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the years ended on December 31, 2012 and 2011 corresponded to net gains of tEuros 5,652 and tEuros 5,295, respectively (Note 36).

In the years ending on December 31, 2012 and 2011, interest income and costs, determined in accordance with the effective interest rate method of financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2012			2011		
	Income	Expense	Net	Income	Expense	Net
<u>Assets</u>						
Cash and deposits at central banks	1,719	-	1,719	4,522	-	4,522
Balances due from other banks	221	-	221	821	-	821
Available-for-sale financial assets	198,167	-	198,167	162,624	-	162,624
Loans and advances to credit institutions	58,089	-	58,089	86,767	-	86,767
Loans and advances to customers	982,961	(246)	982,715	1,066,794	(1,862)	1,064,932
	<u>1,241,157</u>	<u>(246)</u>	<u>1,240,911</u>	<u>1,321,528</u>	<u>(1,862)</u>	<u>1,319,666</u>
<u>Liabilities</u>						
Resources of central banks	-	(52,015)	(52,015)	-	(46,680)	(46,680)
Resources of other credit institutions	-	(38,873)	(38,873)	-	(136,965)	(136,965)
Resources of customers and other debts	8,417	(485,890)	(477,473)	8,373	(401,314)	(392,941)
Debt securities	-	(168,212)	(168,212)	-	(213,282)	(213,282)
Subordinated liabilities	-	(202)	(202)	-	(316)	(316)
	<u>8,417</u>	<u>(745,192)</u>	<u>(736,775)</u>	<u>8,373</u>	<u>(798,557)</u>	<u>(790,184)</u>
Guarantees given	19,906	-	19,906	18,767	-	18,767
Credit lines	7,191	-	7,191	5,468	-	5,468

In the years ending on December 31, 2012 and 2011, commissions income and costs, not included in the calculation of the effective interest rate, of financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2012			2011		
	Income	Expense	Net	Income	Expense	Net
<u>Assets</u>						
Loans and advances to customers	53,281	(12,050)	41,231	56,424	(14,345)	42,079
<u>Liabilities</u>						
Resources of customers and other debts	20,361	-	20,361	15,789	-	15,789

In 2012 and 2011 the Bank recognised financial income referring to “Interest and similar income” on overdue or impaired credit operations, amounting to tEuros 8,087 and tEuros 8,521, respectively (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

OTHER DISCLOSURES*Hedge accounting*

On December 31, 2012 and 2011, hedging derivatives and financial instruments designated as hedged items are as follows:

	2012					
	Hedged item			Hedging instrument		
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedge:						
Loans and advances to customers	43,084	43,446	6,100	49,546	43,085	(6,414)
Available-for-sale financial assets	2,075,000	2,118,833	321,577	2,440,410	2,075,000	(363,798)
Resources of customers and other debts	(3,154,198)	(3,181,058)	(45,294)	(3,226,352)	3,143,327	60,476
Debt securities	(2,612,943)	(2,646,979)	9,729	(2,637,250)	2,727,613	(2,590)
Cash flow hedge:						
Loans and advances to customers	3,974,694	3,974,694	-	3,974,694	2,950,000	141,265
	<u>325,637</u>	<u>308,936</u>	<u>292,112</u>	<u>601,048</u>	<u>10,939,025</u>	<u>(171,061)</u>
	2011					
	Hedged item			Hedging instrument		
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedge:						
Loans and advances to customers	47,809	48,242	5,327	53,569	47,811	(5,567)
Available-for-sale financial assets	2,075,000	2,118,714	210,141	2,328,855	2,075,000	(245,972)
Resources of customers and other debts	(1,822,365)	(1,831,722)	(461)	(1,832,183)	1,811,861	2,600
Debt securities	(4,696,585)	4,637,506	(62,868)	4,574,638	3,780,998	46,660
Cash flow hedge:						
Loans and advances to customers	3,496,486	3,496,486	-	3,496,486	2,600,000	86,692
	<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>

Cash flow hedges

The expected cash flows by period that might affect the profit or loss for the year are as follows:

	2012					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate sw aps	<u>33,743</u>	<u>12,489</u>	<u>3,821</u>	<u>61,976</u>	<u>29,236</u>	<u>141,265</u>
	2011					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate sw aps	<u>18,568</u>	<u>5,780</u>	<u>(8,270)</u>	<u>56,938</u>	<u>13,676</u>	<u>86,692</u>

The gains and losses recognised on fair value hedging operations in the income statement of the years ended December 31, 2012 and 2011, are as follows:

	2012			2011		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	774	(774)	-	1,020	(1,020)	-
Available-for-sale financial assets	111,437	(111,437)	-	137,104	(137,104)	-
Resources of customers and other debts	(44,748)	45,026	278	(12,575)	12,448	(127)
Debt securities	90,199	(90,703)	(504)	27,889	(29,353)	(1,464)
	<u>157,662</u>	<u>(157,888)</u>	<u>(226)</u>	<u>153,438</u>	<u>(155,029)</u>	<u>(1,591)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Fair value of financial instruments

On December 31, 2012 and 2011, financial instruments were made up as follows:

	2012		
	Valued at fair value	Not valued at fair value	Total
<u>Assets</u>			
Cash and deposits at central banks	-	352,365	352,365
Balances due from other banks	-	385,323	385,323
Financial assets held for trading	2,265,495	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	93,735
Available-for-sale financial assets	3,475,179	14,685	3,489,864
Loans and advances to credit institutions	-	3,097,422	3,097,422
Loans and advances to customers	49,546	26,930,103	26,979,649
Hedging derivatives	284,850	-	284,850
	<u>6,168,805</u>	<u>30,779,898</u>	<u>36,948,703</u>
<u>Liabilities</u>			
Resources of central banks	-	5,837,242	5,837,242
Financial liabilities held for trading	2,048,743	-	2,048,743
Resources of other credit institutions	-	1,949,574	1,949,574
Resources of customers and other debts	3,070,416	18,426,758	21,497,174
Debt securities	2,637,250	1,316,269	3,953,519
Hedging derivatives	455,911	-	455,911
Subordinated liabilities	-	4,311	4,311
	<u>8,212,320</u>	<u>27,534,154</u>	<u>35,746,474</u>
<u>2011</u>			
	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 other banks	-	356,962	356,962
Financial assets held for trading	1,995,784	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	80,121
Available-for-sale financial assets	4,423,500	16,105	4,439,605
Loans and advances to credit institutions	-	2,692,911	2,692,911
Loans and advances to customers	53,568	28,318,459	28,372,027
Hedging derivatives	167,302	-	167,302
	<u>6,720,275</u>	<u>31,772,274</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 credit institutions	-	3,611,532	3,611,532
Resources of customers and other debts	1,832,183	18,011,921	19,844,104
Debt securities	4,574,638	2,819,227	7,393,865
Hedging derivatives	282,889	-	282,889
Subordinated liabilities	-	4,328	4,328
	<u>8,353,009</u>	<u>29,360,242</u>	<u>37,713,251</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The financial assets and liabilities for which hedge accounting has been applied to are included as valued at fair value, being subject to fair value adjustments on the hedged risk only.

On December 31, 2012 and 2011, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	2012					Net book value
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	
<u>Assets</u>						
Financial assets held for trading	233,413	-	2,032,082	-	-	2,265,495
Financial assets at fair value through profit or loss	90,279	1,344	2,112	-	-	93,735
Available-for-sale financial assets	3,665,652	52,586	(512,366)	321,577	(52,270)	3,475,179
Loans and advances to customers	43,084	381	-	6,100	(19)	49,546
Hedging derivatives	-	-	284,850	-	-	284,850
	<u>4,032,428</u>	<u>54,311</u>	<u>1,806,678</u>	<u>327,677</u>	<u>(52,289)</u>	<u>6,168,805</u>
<u>Liabilities</u>						
Financial liabilities held for trading	-	-	2,048,743	-	-	2,048,743
Resources of customers and other debts	2,999,936	25,186	-	45,294	-	3,070,416
Debt securities	2,612,943	34,036	-	(9,729)	-	2,637,250
Hedging derivatives	-	-	455,911	-	-	455,911
	<u>5,612,879</u>	<u>59,222</u>	<u>2,504,654</u>	<u>35,565</u>	<u>-</u>	<u>8,212,320</u>
<u>2011</u>						
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	Net book value
<u>Assets</u>						
Financial assets held for trading	286,984	-	1,708,800	-	-	1,995,784
Financial assets at fair value through profit or loss	91,202	1,340	(12,421)	-	-	80,121
Available-for-sale financial assets	5,127,661	83,631	(939,956)	210,141	(57,977)	4,423,500
Loans and advances to customers	47,809	437	-	5,327	(5)	53,568
Hedging derivatives	-	-	167,302	-	-	167,302
	<u>5,553,656</u>	<u>85,408</u>	<u>923,725</u>	<u>215,468</u>	<u>(57,982)</u>	<u>6,720,275</u>
<u>Liabilities</u>						
Financial liabilities held for trading	-	-	1,663,299	-	-	1,663,299
Resources of customers and other debts	1,822,365	9,357	-	461	-	1,832,183
Debt securities	4,454,614	57,156	-	62,868	-	4,574,638
Hedging derivatives	-	-	282,889	-	-	282,889
	<u>6,276,979</u>	<u>66,513</u>	<u>1,946,188</u>	<u>63,329</u>	<u>-</u>	<u>8,353,009</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The methods used to determine fair value are based on market prices on active markets or other valuation techniques, such as discounted cash flows. On December 31, 2012 and 2011, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedging operations, by valuation methodology, is made up as follows:

	2012			
	Method of determining fair value			
	Quoted in active markets	Other valuation techniques		Total
	(Level 1)	(Level 2)	(Level 3)	
Assets				
Financial assets held for trading	233,612	2,031,883	-	2,265,495
Financial assets designated at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,207,474	227,682	40,023	3,475,179
Loans and advances to customers	-	49,546	-	49,546
Hedging derivatives	-	284,850	-	284,850
	<u>3,534,821</u>	<u>2,593,961</u>	<u>40,023</u>	<u>6,168,805</u>
Liabilities				
Financial liabilities held for trading	-	2,048,743	-	2,048,743
Resources of customers and other debits	-	3,070,416	-	3,070,416
Debt securities	-	2,637,250	-	2,637,250
Hedging derivatives	-	455,911	-	455,911
	<u>-</u>	<u>8,212,320</u>	<u>-</u>	<u>8,212,320</u>
2011				
Method of determining fair value				
Quoted in active markets	Other valuation techniques		Total	
(Level 1)	(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	3,615,430	804,088	3,982	4,423,500
Loans and advances to customers	-	53,568	-	53,568
Hedging derivatives	-	167,302	-	167,302
	<u>3,982,561</u>	<u>2,733,732</u>	<u>3,982</u>	<u>6,720,275</u>
Liabilities				
Financial liabilities held for trading	-	1,663,299	-	1,663,299
Resources of customers and other debits	-	1,832,183	-	1,832,183
Debt securities	-	4,574,638	-	4,574,638
Hedging derivatives	-	282,889	-	282,889
	<u>-</u>	<u>8,353,009</u>	<u>-</u>	<u>8,353,009</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In accordance with IFRS 7, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on quotes published in active markets, comprising mainly government debt, private debt, real estate investment funds and shares.
- Level 2 – Financial instruments recorded at fair value are based on internal valuation models using observable market data as significant inputs. This category includes some securities included in the portfolio of financial assets available for sale and derivative instruments used for hedging and trading. It should be pointed out that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flows models use the interest rate curves applicable to each currency observable in the market ("present value method").

For derivative financial instruments, the main valuation techniques were as follows:

Derivative instrument	Main Valuation Techniques
Forwards	Present Value Model
Interest Rate Swaps	Present Value Model
Currency Swaps	Present Value Model
Equity Swaps	Present Value Model
FRA's	Present Value Model
Currency Options	Black-Scholes Model, Monte Carlo Model
Equity Options	Black-Scholes Model, Heston Model
Interest Rates Options	Black-Scholes Model, Heath-Jarrow-Morton Model
Options - Other	Black-Scholes Model, Monte Carlo Model, Heath-Jarrow-Morton Model
Caps/Floors	Black-Scholes Model, Monte Carlo Model, Heath-Jarrow-Morton Model

- Level 3 – In this level the Bank classifies the valuation of financial instruments that use internal models with some inputs that do not correspond to observable market data. Some unquoted securities for which the Bank uses market data extrapolations were classified in this category.

The most representative interest rate curves by maturity and currency are the following:

	31/12/2012		31/12/2011	
	EUR	USD	EUR	USD
Overnight	0.50%	0.30%	1.00%	0.30%
1 month	0.12%	0.19%	1.10%	1.55%
3 months	0.19%	0.25%	1.40%	1.85%
6 months	0.32%	0.46%	1.65%	2.15%
9 months	0.43%	0.62%	1.83%	2.25%
1 year	0.55%	0.77%	1.98%	2.40%
3 years	0.47%	0.48%	1.39%	0.88%
5 years	0.76%	0.83%	1.74%	1.28%
7 years	1.11%	1.25%	2.07%	1.69%
10 years	1.55%	1.76%	2.38%	2.06%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

On December 31, 2012 and 2011, the book value and fair value of the financial instruments valued at amortised cost or historical cost was the following:

	2012		
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	352,365	352,365	-
Balances due from other banks	385,323	385,323	-
Available-for-sale financial assets	14,685	14,685	-
Loans and advances to banks	3,097,422	3,279,009	181,587
Loans and advances to customers	26,930,103	24,481,609	(2,448,494)
	<u>30,779,898</u>	<u>28,512,991</u>	<u>(2,266,907)</u>
<u>Liabilities</u>			
Resources of central banks	5,837,242	4,936,307	900,935
Resources of other credit institutions	1,949,574	1,986,334	(36,760)
Resources of customers and other debts	18,426,758	18,619,478	(192,720)
Debt securities	1,316,269	1,062,612	253,657
Subordinated liabilities	4,311	4,299	12
	<u>27,534,154</u>	<u>26,609,030</u>	<u>925,124</u>
	2011		
	Book value	Fair value	Difference
<u>Assets</u>			
Cash and deposits at central banks	387,837	387,837	-
Balances due from other banks	356,962	356,962	-
Available-for-sale financial assets	16,105	16,105	-
Loans and advances to banks	2,692,911	2,889,517	196,606
Loans and advances to customers	28,318,459	26,139,361	(2,179,098)
	<u>31,772,274</u>	<u>29,789,782</u>	<u>(1,982,492)</u>
<u>Liabilities</u>			
Resources of central banks	4,913,234	4,883,949	29,285
Resources of other credit institutions	3,611,532	3,534,077	77,455
Resources of customers and other debts	18,011,921	18,070,005	(58,084)
Debt securities	2,819,227	1,740,447	1,078,780
Subordinated liabilities	4,328	4,263	65
	<u>29,360,242</u>	<u>28,232,741</u>	<u>1,127,501</u>

If at December 31, 2012 the fair value of most of the debt issued subject to hedging operations included in the debt securities issued had been determined, namely the second and third mortgage bonds issues, the valuation would be less than the respective book value by, approximately, tEuros 28,227 (tEuros 596,042 on December 31, 2011).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The main assumptions used in the calculation of the fair value, by type of financial instrument, were the following:

- Future cash flows of applications and resources of credit institutions were discounted using the interest rate curves of the money market.
- The fair value of variable rate loans was determined by considering the average spread of the production in the last quarter of the year, for the purpose of discounting the future portfolio cash flows. In the case of fixed rate loans, future cash flows were discounted at the average rates used by the Bank in the last quarter of the year;
- The fair value of demand deposits from clients was considered to be equal to their book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the year for each type of deposit;
- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the year;
- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates for the residual term of each issue.

The Bank records in the balance sheet the initial gains on financial instruments valued at fair value through other valuation techniques, namely derivative operations agreed with customers classified internally as “Retail clients”.

This procedure was introduced following customer segmentation and, within the terms of IAS 39, considering that in the case of other valuation techniques used for the measurement of fair value of derivative operations with customers classified internally as “Retail clients”, not all the valuation data used can, unquestionably, be considered as observable in the market.

The Group classifies clients internally in accordance with the following criteria:

- Major clients – Corporate and institutional entities (financial sector entities, namely banks and insurance companies and public sector companies);
- Retail clients.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes identification, measurement, integration and evaluation of different credit risk exposures and analysis of return in relation to risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group Risk Area, which is responsible for managing the special client vigilance system, credit risk segmentation based on the characteristics of customers and products and for the scoring systems (applicable to mortgage loans, consumer credit and credit cards) and ratings used by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Counterparty risk consists of the potential credit risk on transactions in financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks with certain customer segments, perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating variables relating to the credit quality of each counterparty in the quantitative control.

On December 31, 2012 and 2011, the maximum exposure to credit risk and corresponding book value of the financial instruments is made up as follows:

	2012		2011	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	352,365	352,365	387,837	387,837
Balances due from other banks	385,323	385,323	356,962	356,962
Financial assets held for trading	2,265,495	2,265,495	1,995,784	1,995,784
Financial assets at fair value through profit or loss	93,735	93,735	80,121	80,121
Available-for-sale financial assets	3,489,864	3,489,864	4,439,605	4,439,605
Loans and advances to credit institutions	3,097,422	3,097,422	2,692,911	2,692,911
Loans and advances to customers	26,979,649	32,979,164	28,372,027	34,382,026
Hedging derivatives	284,850	284,850	167,302	167,302
Investments in associated companies	142,994	142,994	133,052	133,052
	<u>37,091,697</u>	<u>43,091,212</u>	<u>38,625,601</u>	<u>44,635,600</u>
Guarantees given (Note 28)	<u>1,345,643</u>	<u>1,345,643</u>	<u>2,058,818</u>	<u>2,058,818</u>

The maximum exposure in "Loans and advances to customers" as at December 31, 2012, includes tEuros 1,496,610 and tEuros 4,502,905 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 1,217,742 and tEuros 4,792,257 on December 31, 2011, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Loans granted

The Bank periodically reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, the Bank segments the credit portfolio in accordance with the type of product and type of customer involved in the operations (Note 11). In this respect, on December 31, 2012 and 2011, loans granted to customers without objective evidence of impairment are made up as follows:

	2012	2011
Consumer credit	1,048,143	1,111,840
Mortgage loans	14,823,138	15,384,875
Other loans and advances to individuals	412,023	435,914
Credit cards of individuals	235,682	250,675
Total credit without objective evidence of impairment granted to individuals	<u>16,518,986</u>	<u>17,183,304</u>
Loans and advances to large companies	1,540,037	1,361,928
Loans and advances to medium-sized companies	3,934,174	4,684,117
Loans and advances to small companies	582,817	652,240
Leasing	803,190	1,045,821
Factoring	942,936	1,271,079
Credit cards	12,529	12,144
Loans and advances to financial institutions	-	1
Commercial paper	1,451,056	655,200
Total credit without objective evidence of impairment granted to companies	<u>9,266,739</u>	<u>9,682,530</u>
Guarantees given	1,254,586	19,888,260
Total credit granted without evidence of impairment	<u><u>27,040,311</u></u>	<u><u>46,754,094</u></u>

The risk analysis for clients or economic groups where the Bank has an exposure of more than 500,000 Euros are made by risk analysts that follow customers and are supported by a mandatory internally developed rating model approved by regulators. The risk level inherent to the customer is implied in the allocation of internal rating levels, which can go from 1 to 9, a probability of default to a year that the bank monitors and calibrates in a constant and regular form. The rating is determined based on an analysis of the following parameters:

- . Demand/Market;
- . Partners/Management;
- . Access to credit;
- . Profitability;
- . Generation of funds;
- . Solvency.

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Partners/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation funds	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by each weighting parameter, is subsequently introduced into the Bank's IT system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In general terms, the Bank's internal rating classification may be described and classified in the following manner:

Rating 1 – 3: Customer with high credit risk;
 Rating 4 – 6: Customer with moderate credit risk;
 Rating 7 – 9: Customer with low credit risk.

On December 31, 2012 and 2011, the loans granted to companies without objective evidence of impairment, is made up as follows by internal rating:

	2012		2011	
	Credit granted	Guarantees given	Credit granted	Guarantees given
Rating 7 - 9	82,325	22,249	369,368	41,815
Rating 4 - 6	5,008,549	973,574	6,142,092	1,214,133
Rating 1 - 3	759,243	115,581	697,212	85,918
	5,850,117	1,111,404	7,208,672	1,341,866
Without Rating	1,953,037	107,950	1,806,513	160,073
	7,803,154	1,219,354	9,015,185	1,501,939
Credit cards of companies	12,529	-	12,144	-
Financial institutions	-	35,628	1	486,885
Commercial paper	1,451,056	-	655,200	-
	9,266,739	1,254,982	9,682,530	1,988,824

With regard to loans granted to individuals without objective evidence of impairment, provisions obtained from the impairment model in effect in the Bank as at December 31, 2012 and 2011 amounted to tEuros 56,185 and tEuros 37,437, respectively, corresponding to percentages on those dates of 0.34% and 0.22%, respectively.

On December 31, 2012 and 2011, loans granted to customers with objective evidence of impairment, were made up as follows:

	2012	2011
Performing loans	1,072,211	1,409,667
Overdue loans		
. Up to 90 days	46,934	54,267
. Between 90 and 180 days	97,166	97,880
. Over 180 days	882,487	529,589
	1,026,587	681,736
	2,098,798	2,091,403
Guarantees given	91,057	70,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

As at December 31, 2012 and 2011, overdue credit or impaired credit determined by specific analysis guaranteed by mortgage, pledged deposits at the Bank, debt securities issued by the Bank or with no guarantee is made up as follows:

	2012		2011	
	Outstanding principal	Value of guarantee/collateral	Outstanding principal	Value of guarantee/collateral
Guarantees in excess of the principal due	368,871	963,298	982,399	2,107,478
Guarantees lower than the principal due	350,710	82,764	584,012	204,475
Without guarantee	1,303,597	-	926,700	-
	<u>2,023,178</u>		<u>2,493,111</u>	

As at December 31, 2012 and 2011, the book value of executed guarantees and other collateral relating to credit granted amounted to tEuros 272,476 and tEuros 215,390, respectively, and are made up as follows:

	2012	2011
Non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	245,156	177,737
. Participation units	18,663	-
. Equipment	5,558	3,982
Other assets received as settlement of defaulting loans (Note 17)	104,672	89,888
Financial assets available for sale	<u>22,121</u>	<u>40,784</u>
	<u>396,170</u>	<u>312,391</u>
Impairment of non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	(71,078)	(53,639)
. Participation units	(4,000)	-
. Equipment	(3,574)	(2,785)
Impairment of other assets received as settlement of defaulting loans (Note 17)	(22,921)	(18,456)
Impairment of financial assets available for sale	<u>(22,121)</u>	<u>(22,121)</u>
	<u>(123,694)</u>	<u>(97,001)</u>
	<u>272,476</u>	<u>215,390</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

As at December 31, 2012 and 2011, the book value referring to debt instruments is made up as follows, by external rating, in accordance with Standard & Poor's rating:

	<u>2012</u>	<u>2011</u>
Other financial assets at fair value through profit or loss		
Rating S&P		
BBB+ / BBB / BBB-	-	80,121
BB+ / BB / BB-	<u>93,735</u>	<u>-</u>
	<u>93,735</u>	<u>80,121</u>
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	7,948	1,628,499
BBB+ / BBB / BBB-	981,608	1,578,621
BB+ / BB / BB-	1,658,576	209,729
B+ / B / B-	291,757	-
Without external rating	<u>339,241</u>	<u>954,434</u>
	<u>3,279,130</u>	<u>4,371,283</u>
	<u>3,372,865</u>	<u>4,451,404</u>

In cases in which Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch are presented.

LIQUIDITY RISK

The liquidity risk management policy is decided by the top level area in the organization structure responsible for Asset and Liability Management (ALM) and the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

The Group's financing policy considers the evolution of the balance sheet components, the structural position of terms to maturity of assets and liabilities, the net inter-bank indebtedness level given the credit lines available, dispersion of the maturities and minimization of funding activity related costs. In this respect, the medium term bonds issued to retail banking clients contribute to the structural adequacy.

Under its liquidity policy, as at December 31, 2012 the Bank has a Euro Medium Term Notes (EMTN) program, of which tEuros 160,530 has been issued.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

The contractual projected cash flows of financial instruments (not discounted) as at December 31, 2012 and 2011 were as follows:

	2012							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	210,893	265	811	2,152	2,155	189,963	-	406,239
Balances due from other banks	385,323	-	-	-	-	-	-	385,323
Financial assets held for trading	2,265,495	-	-	-	-	-	-	2,265,495
Financial assets at fair value through profit or loss	-	-	94,901	-	-	-	-	94,901
Available-for-sale financial assets	2	3,394	328,007	1,380,559	408,460	2,049,478	254,623	4,424,523
Loans and advances to credit institutions	1,121,616	62,420	41,207	1,621,882	367,855	88,395	-	3,303,375
Loans and advances to customers	502,799	2,746,191	4,504,003	4,864,323	3,258,002	15,457,201	-	31,332,519
Hedging derivatives	284,850	-	-	-	-	-	-	284,850
Investments in associates	-	-	-	-	-	-	142,994	142,994
	4,770,978	2,812,270	4,968,929	7,868,916	4,036,472	17,785,037	397,617	42,640,219
Liabilities								
Resources of central banks	800,116	-	-	5,115,850	-	-	-	5,915,966
Financial liabilities held for trading	2,048,743	-	-	-	-	-	-	2,048,743
Resources of other credit institutions	382,424	980,845	27,004	325,569	277,780	-	-	1,993,622
Resources of customers and other debts	6,157,636	3,934,261	4,749,942	4,967,092	1,954,508	467,408	-	22,230,847
Debt securities	(9,730)	37,907	1,158,565	1,757,213	252,846	866,583	-	4,063,384
Hedging derivatives	455,911	-	-	-	-	-	-	455,911
Subordinated liabilities	-	4,325	-	-	-	-	-	4,325
	9,835,100	4,957,338	5,935,511	12,165,724	2,485,134	1,333,991	-	36,712,798
2011								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	186,840	508	1,535	4,076	4,081	290,803	-	487,843
Balances due from other banks	356,962	-	-	-	-	-	-	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	-	1,995,784
Financial assets at fair value through profit or loss	-	-	4,909	94,901	-	-	-	99,810
Available-for-sale financial assets	34,652	1,095,018	239,605	1,439,120	881,861	2,317,414	132,061	6,139,731
Loans and advances to credit institutions	1,318,976	587,418	6,965	79,838	659,418	364,647	-	3,017,262
Loans and advances to customers	320,687	3,160,729	5,293,895	6,481,685	4,245,405	14,734,212	-	34,236,613
Hedging derivatives	167,302	-	-	-	-	-	-	167,302
Investments in associates	-	-	-	-	-	-	133,052	133,052
	4,381,203	4,843,673	5,546,909	8,099,620	5,790,765	17,707,076	265,113	46,634,359
Liabilities								
Resources of central banks	-	2,517,830	-	-	2,475,600	-	-	4,993,430
Financial liabilities held for trading	1,663,299	-	-	-	-	-	-	1,663,299
Resources of other credit institutions	898,441	1,767,346	52,556	196,904	700,795	95,203	-	3,711,245
Resources of customers and other debts	5,659,027	5,445,875	4,596,317	2,387,104	2,141,908	199,668	-	20,429,899
Debt securities	62,919	100,261	1,825,804	3,692,185	693,491	1,655,971	-	8,030,631
Hedging derivatives	282,889	-	-	-	-	-	-	282,889
Subordinated liabilities	-	4,350	-	-	-	-	-	4,350
	8,566,575	9,835,662	6,474,677	6,276,193	6,011,794	1,950,842	-	39,115,743

The projected cash flows of the financial instruments were determined based on principles and assumptions used by the Group to manage and control liquidity resulting from its operations, namely the following:

- The projected cash flows of assets and liabilities with variable remuneration related to the interest rate curve were calculated considering the forward interest rate curve;
- Financial instruments classified as “non-structural” were considered as maturing on demand, except for investments in associates and equity instruments recorded as available-for-sale assets, which were considered of undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rate (cash, balances due from banks, equity instruments classified as available-for-sale financial assets and investments in associates) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Group considers the fair value of assets and liabilities held for trading as being its market value on demand;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

- Credit line operations without defined maturity or periodically renewable dates, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;
- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial asset's value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity security prices, precious metals and commodities.

The standard methodology applied for the Santander Totta Group's trading activity is Value at Risk (VaR). Historical simulation with a 99% confidence level and a time horizon of one day is used as the basis, statistical adjustments having been applied, to enable the more recent occurrences that affect the level of risk assumed to be included rapidly and effectively. This measure is only used in the Group's treasury management, the Bank using specific sensitivity measures.

The VaR calculated represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

In addition, other measures are carried out that enable additional risk control to be maintained. In abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios with different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of scenarios tries to identify the potential risk in extreme market conditions and scenarios at the limits of probability, not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being made of changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measures and equivalent positions. In the case of interest rate it uses the BPV – estimated impact on results of parallel changes in interest rate curves. Because of the unusual nature of derivative operations, specific sensitivity measures are carried out daily, namely calculation of sensitivity to changes in the underlying prices (delta and gamma), volatility (vega) and time (theta).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and
- Limits aimed at protecting the volume of effective losses or protecting the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables all the factors relating to balance sheet market risks to be controlled, namely the risk resulting directly from change in the yield curve, given the existing indexing and re-pricing structure that determine the sensitivity of the financial margin and sensitivity of the asset value of balance sheet instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Interest rate risk

On December 31, 2012 and 2011, financial instruments by exposure to interest rate risk, are as follows:

	2012		Not subject to interest rate risk	Derivatives	Total
	Exposure to				
	Fixed rate	Variable rate			
<u>Assets</u>					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	-	385,323	-	385,323
Financial assets held for trading	-	-	233,639	2,031,856	2,265,495
Other financial assets at fair value through profit or loss	90,279	-	3,456	-	93,735
Available-for-sale financial assets	2,880,140	551,079	58,645	-	3,489,864
Loans and advances to credit institutions	1,717,489	1,347,731	32,202	-	3,097,422
Loans and advances to customers	1,639,586	25,224,780	115,283	-	26,979,649
Hedging derivatives	-	-	-	284,850	284,850
	<u>6,327,494</u>	<u>27,265,192</u>	<u>1,039,311</u>	<u>2,316,706</u>	<u>36,948,703</u>
<u>Liabilities</u>					
Resources of central banks	-	5,800,016	37,226	-	5,837,242
Financial liabilities held for trading	-	-	-	2,048,743	2,048,743
Resources of other credit institutions	1,512,634	272,851	164,089	-	1,949,574
Resources of customers and other debts	16,251,049	4,912,351	333,774	-	21,497,174
Debt securities	2,629,994	1,300,370	23,155	-	3,953,519
Hedging derivatives	-	-	-	455,911	455,911
Subordinated liabilities	-	4,275	36	-	4,311
	<u>20,393,677</u>	<u>12,289,863</u>	<u>558,280</u>	<u>2,504,654</u>	<u>35,746,474</u>
<u>Assets</u>					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from other banks	-	-	356,962	-	356,962
Financial assets held for trading	-	-	287,032	1,708,752	1,995,784
Other financial assets at fair value through profit or loss	91,202	-	(11,081)	-	80,121
Available-for-sale financial assets	4,190,407	828,000	(578,802)	-	4,439,605
Loans and advances to credit institutions	2,248,983	305,621	138,307	-	2,692,911
Loans and advances to customers	2,141,904	26,135,221	94,902	-	28,372,027
Hedging derivatives	-	-	-	167,302	167,302
	<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 credit institutions	2,850,564	617,229	143,739	-	3,611,532
Resources of customers and other debts	14,403,256	5,177,142	263,706	-	19,844,104
Debt securities	4,838,286	2,432,154	123,425	-	7,393,865
Hedging derivatives	-	-	-	282,889	282,889
Subordinated liabilities	-	4,274	54	-	4,328
	<u>22,092,106</u>	<u>13,130,806</u>	<u>544,151</u>	<u>1,946,188</u>	<u>37,713,251</u>

Financial instruments – structural balance (excluding assets and liabilities held for trading)

The methodology used for the calculation of the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities, based on changes of 100 basis points (bp's) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- all assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;
- the assets and liabilities are grouped in accordance with their exposure to interest rate risk;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

- future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each sensitive operation (contract);
- operations are sub-grouped by re-pricing/maturity date for each previously defined group;
- the intended time intervals for measurement of the interest rate gaps are defined;
- for each group, the flows are re-grouped based on the intervals created;
- for each product considered to be sensitive, but which does not have a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and
- the total inflows and outflows are calculated for each interval and the difference between them, corresponding to the interest rate risk gap, is determined for each interval.

The interest rate gap enables an approximation to be made of the sensitivity of the asset value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- the volumes remain constant in the balance sheet and are automatically renewed;
- the movement in interest rates are assumed to be parallel, while the possibility of actual changes for different terms of the interest rate curve is not considered; and
- different elasticity between the various products is not considered.

In terms of variation in net asset value, increases in interest rates assume a decrease in the amount of the intervals with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain constant during the period under analysis;
- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;
- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and
- New business features (term, spread, indexing factor and other) – the conditions applied in the budget for each product are used. When these features cease to be within market conditions for certain products, the average conditions in place in the last month or new commercial directives for each product under review is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

As at December 31, 2012 and 2011, the impact in the value of financial instruments sensitive to interest rate of changes of 100 basis points (bp's), over a time frame of one year, correspond to:

	2012		2011	
	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	1,379	(759)	1,954	(1,954)
Available-for-sale financial assets	3,855	(2,472)	2,503	(2,499)
Loans and advances to credit institutions	19,133	(11,033)	3,076	(3,077)
Loans and advances to customers	202,472	(110,796)	203,667	(203,378)
	<u>226,839</u>	<u>(125,060)</u>	<u>211,200</u>	<u>(210,908)</u>
Hedging derivatives	<u>(36,845)</u>	<u>21,261</u>	<u>(37,970)</u>	<u>37,966</u>
<u>Liabilities</u>				
Resources of central banks	57,222	(39,964)	47,278	(47,278)
Resources of other credit institutions	21,464	(13,221)	11,853	(11,844)
Resources of customers and other debts	80,401	(48,644)	88,286	(84,198)
Debt securities	10,131	(6,191)	18,692	(18,654)
	<u>169,218</u>	<u>(108,020)</u>	<u>166,109</u>	<u>(161,974)</u>

Financial instruments held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;
- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);
- Exponential deterioration factor: Enables the amount of change in market factors to be exponentially weighted over time, by giving less weight to more distant observations in time. The exponential deterioration factor applied is calculated periodically by Market Risk Methodology.

In any case, the values of VaR are those which are greater when the calculation is made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk currency. VaR results are reported in US Dollars in order to allow accumulation of different units; and
- The time window of market data: A 2 year time window is used or at least 520 items of data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile assumes that the set of 520 observations considered all have the same weight. The VaR Weighted Percentile assumes the granting of a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, the volatility and correlation between them, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires valuation for each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

On December 31, 2012 and 2011, the VaR associated to the interest rate risk corresponds to:

	<u>2012</u>	<u>2011</u>
VaR Percentil 99%	(9)	(34)
VaR Weighted Percentil 99%	(13)	(25)

Foreign exchange risk

The profile defined for foreign exchange risk is very conservative and is based on the hedging policy adopted. Implementation of the policy is a responsibility of the Treasury Area so that the risks involved are maintained at a low level, this being achieved mainly through currency swaps. Exchange risk limits are established and monitored by the Market Risk Area.

On December 31, 2012 and 2011, financial instruments by currency are as follows:

	<u>2012</u>			<u>Total</u>
	<u>Euros</u>	<u>US Dollars</u>	<u>Other currencies</u>	
<u>Assets</u>				
Cash and deposits at central banks	346,048	3,736	2,581	352,365
Balances due from other banks	357,445	12,559	15,319	385,323
Financial assets held for trading	2,263,593	1,871	31	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,481,916	7,948	-	3,489,864
Loans and advances to credit institutions	2,704,835	352,396	40,191	3,097,422
Loans and advances to customers	26,912,436	37,617	29,596	26,979,649
Hedging derivatives	284,180	670	-	284,850
	<u>36,444,188</u>	<u>416,797</u>	<u>87,718</u>	<u>36,948,703</u>
<u>Liabilities</u>				
Resources of central banks	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,046,582	2,085	76	2,048,743
Resources of other credit institutions	1,576,925	366,025	6,624	1,949,574
Resources of customers and other debts	20,491,407	826,056	179,711	21,497,174
Debt securities	3,953,519	-	-	3,953,519
Hedging derivatives	454,133	1,778	-	455,911
Subordinated liabilities	4,311	-	-	4,311
	<u>34,364,119</u>	<u>1,195,944</u>	<u>186,411</u>	<u>35,746,474</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

	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 other banks	320,314	23,126	13,522	356,962
Financial assets held for trading	1,988,164	7,472	148	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	80,121
Available-for-sale financial assets	4,429,999	9,606	-	4,439,605
Loans and advances to credit institutions	2,295,560	378,576	18,775	2,692,911
Loans and advances to customers	28,281,995	51,966	38,066	28,372,027
Hedging derivatives	166,846	456	-	167,302
	<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 credit institutions	3,126,454	475,918	9,160	3,611,532
Resources of customers and other debts	18,794,630	891,766	157,708	19,844,104
Debt securities	7,393,865	-	-	7,393,865
Hedging derivatives	282,079	810	-	282,889
Subordinated liabilities	4,328	-	-	4,328
	<u>36,170,268</u>	<u>1,375,967</u>	<u>167,016</u>	<u>37,713,251</u>

On December 31, 2012 and 2011, the VaR associated to foreign exchange risk corresponds to:

	2012	2011
VaR Percentil 99%	(11)	(16)
VaR Weighted Percentil 99%	(9)	(9)

Equity risk of assets**Financial instruments held for trading**

On December 31, 2012 and 2011, the Bank had no equity risk of its financial instruments held for trading, therefore the VaR related to this risk is zero.

48. CAPITAL MANAGEMENT

BST endeavours to have significant financial stability through maintenance of an adequate equity ratio – relationship between Eligible Equity Funds capital and assets weighted by risk - above 8%, which is the minimum legal ratio requirement established under Bank of Portugal Notice no 5/2007..

The dividend distribution policy is subject to the maintenance of a capital base that enables the Bank to sustain the development of its operations within its risk policies.

As from June 2009, BST has used the mixed method for credit risk, namely the advanced method (IRB) for some portfolios and the standard method for other portfolios (sovereign risk, cards and small businesses). The cards portfolio began to be treated in accordance with the IRB method as from March 2011 and the small business portfolio as from December 2012. Sovereign risk and manual operations are treated using the standard method.

As from December 2010, BST has used the mixed method for market risk, namely internal models for most of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

In June of 2012, BST started to use the standard method for determining the requirements of operating risk, before which it used the basic indicator method.

The following table summarizes the composition of regulatory capital and ratios of the Bank, at the end of 2012 and 2011 (amounts in millions of Euros):

	Dez12 (*)	Dez11
A - BASE OWN FUNDS (TIER I)	2,069	2,141
Share Capital	943	943
Reserves and Retained earnings (excluding Minority Interest)	967	976
Minority Interest	449	475
IAS adoption impacts (transitory regime)	28	57
Deductions to base own funds	-318	-310
B - COMPLEMENTARY OWN FUNDS (TIER II)	0	0
Perpetual subordinated liabilities	4	4
Terms subordinated liabilities	0	0
Revaluation Reserves	24	23
Other elements/deductions to complementary own funds	-28	-27
C - DEDUCTIONS FROM TO OWN FUNDS	-7	-6
D - TOTAL OWN FUNDS (A+B+C)	2,062	2,135
E - ASSETS WEIGHTED BY RISK	18,127	20,783

CAPITAL RATIOS	Dez12 (*)	Dez11
TIER I (A/E)	11.4%	10.3%
CORE CAPITAL	9.9%	9.1%
TIER II (B/E)	0.0%	0.0%
CAPITAL ADEQUACY RATIO (D/E)	11.4%	10.3%

(*) In accordance with Instruction 16/2004 of the Bank of Portugal, excluding the income generated in 2012, the capital adequacy ratio is 11.4%, TIER I is 11.4% and Core Tier I is 9.8%.

BST's solvency ratios increased during 2012. The Tier I and the core capital ratios increased from 9.1% and 10.3% in December 2011 to 9.9% and 11.4%, respectively, in December 2012. The equity adequacy ratio also reached 11.4% in December 2012. The contributing factors to this improvement were the incorporation of the results for 2012 and the deleveraging process carried out by the Bank.

49. NOTE ADDED FOR TRANSLATION

These financial statements are a translation of the financial statements originally issued in Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 49)

Securities issued	Currency	Amount of the issue			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											
Latin America	EUR	2,175	-	2,175	35	33	2,243	Floating	20-Mai-2011	20-Mai-2014	Basket of Funds
Latin America Top 3	EUR	99,997	-	99,997	2,120	1,481	103,598	Floating	1-Ago-2011	31-Out-2014	Index FTSE Latibex Top
AutoCallable 80-20	EUR	1,611	-	1,611	-	(217)	1,394	Floating	7-Jun-2011	7-Jun-2013	Basket of shares
AutoCallable 80-20 2nd series	EUR	2,950	-	2,950	-	(147)	2,803	Floating	30-Ago-2010	30-Ago-2013	Basket of shares
AutoCallable 85-15	EUR	570	-	570	-	(58)	512	Floating	1-Ago-2011	31-Out-2014	Index FTSE Latibex Top
USA	EUR	74,607	-	74,607	1,688	892	77,187	Floating	30-Jun-2011	30-Jun-2014	Index Standard & Poor's 500
Europe 155	EUR	1,920	-	1,920	-	(14)	1,906	Floating	28-Jun-2010	28-Jun-2014	Stock exchange index
Europe 5	EUR	7,424	-	7,424	-	(11)	7,413	Floating	8-Mar-2010	8-Mar-2013	Basket of shares
Europe 5 2nd series	EUR	3,094	-	3,094	-	(3)	3,091	Floating	25-Mai-2010	25-Mai-2013	Basket of shares
Performance Mais	EUR	63,096	6,367	56,729	60	3,131	59,920	Floating	24-Nov-2009	24-Nov-2014	Basket of indexes
Performance Mais II	EUR	13,731	-	13,731	4	699	14,434	Floating	22-Dez-2009	15-Jan-2015	Basket of indexes
Rendimento Europeu	EUR	99,795	12,434	87,361	411	5,004	92,776	Floating	6-Ago-2009	6-Ago-2014	Stock exchange index
Rendimento Global	EUR	3,767	-	3,767	-	(1)	3,766	Floating	18-Jan-2010	18-Jan-2013	Basket of shares
ST Diversificação Invest 2º amortização Clientes	EUR	28,008	8,977	19,031	1,593	2,434	23,058	Floating	17-Mar-2009	28-Mar-2013	EUR/USD
ST Diversificação Invest 3º amortização Clientes	EUR	19,817	786	19,031	-	-	19,031	Floating	17-Mar-2009	28-Mar-2015	Basket of indexes
ST Diversificação Invest 4º amortização Clientes	EUR	23,913	4,882	19,031	-	-	19,031	Floating	17-Mar-2009	28-Mar-2017	Basket of indexes
Top Germany	EUR	65,042	-	65,042	1,224	1,893	68,159	Floating	14-Fev-2011	13-Fev-2015	Basket of shares
Top Germany February 2011	EUR	57,892	-	57,892	1,316	1,469	60,677	Floating	9-Mar-2011	9-Mar-2015	Basket of shares
Appreciation China	EUR	56,379	-	56,379	980	1,262	58,621	Floating	11-Abr-2011	2-Abr-2015	Index FTSE China 25
Appreciation Dollar	EUR	3,645	-	3,645	-	(4)	3,641	Floating	12-Abr-2010	12-Abr-2013	EUR/USD
Appreciation Performance 5 years	EUR	21,533	-	21,533	243	319	22,095	Floating	30-Set-2010	30-Set-2015	Basket of indexes
Appreciation Performance 5 years OCTOBER 2010	EUR	9,994	-	9,994	108	105	10,207	Floating	2-Nov-2010	2-Nov-2015	Basket of indexes
		660,960	33,446	627,514	9,782	18,267	655,563				
Covered bonds											
Covered Mortgage Bonds 2nd Issue	EUR	1,000,000	125,750	874,250	4,956	36,591	915,797	3.25%	21-Out-2009	21-Out-2014	Fixed interest rate
Covered Mortgage Bonds 3rd Issue	EUR	1,000,000	-	1,000,000	18,583	3,826	1,022,409	2.625%	15-Abr-2010	15-Abr-2013	Fixed interest rate
Mortgage Bonds IV - 1st Tr	EUR	750,000	750,000	-	-	-	-	4.375%	12-Jan-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 2nd Tr	EUR	600,000	597,700	2,300	37	-	2,337	3.305%	21-Jan-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 4th Tr	EUR	225,000	225,000	-	-	-	-	2.610%	16-Fev-2011	12-Jan-2014	Fixed interest rate
Mortgage Bonds IV - 5th Tr	EUR	175,000	175,000	-	-	-	-	3.185%	30-Mar-2011	30-Mar-2014	Fixed interest rate
Mortgage Bonds V	EUR	1,250,000	1,250,000	-	-	-	-	2.690%	23-Mai-2011	23-Mai-2014	Fixed interest rate
Mortgage Bonds VI - 1st tranche	EUR	250,000	250,000	-	-	-	-	2.697%	4-Nov-2011	4-Nov-2014	Fixed interest rate
Mortgage Bonds VII - 1st tranche	EUR	380,000	380,000	-	-	-	-	2.697%	4-Nov-2011	4-Nov-2014	Fixed interest rate
Mortgage Bonds VIII - 1st tranche	EUR	250,000	250,000	-	-	-	-	2.705%	4-Nov-2011	4-Nov-2014	Fixed interest rate
		5,880,000	4,003,450	1,876,550	23,576	40,417	1,940,543				
Bonds issued on securitization operations											
Hipototta 1 - Class A - Notes	EUR	185,579	150,884	34,695	55	-	34,750	Floating	25-Jul-2003	25-Nov-2034	Euribor 3m+0.27% (until early reimbursement in August 2012); Euribor 3m+0.54% (after early reimbursement date)
Hipototta 1 - Class B - Notes	EUR	11,966	11,966	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Euribor 3m+0.65% (until early reimbursement in August 2012); Euribor 3m+0.95% (after early reimbursement date)
Hipototta 1 - Class C - Notes	EUR	5,273	5,273	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Euribor 3m+1.45% (until early reimbursement in August 2012); Euribor 3m+1.65% (after early reimbursement date)
Hipototta 1 - Class D - Notes	EUR	11,000	11,000	-	-	-	-	Floating	12-Mai-2004	12-Nov-2034	Residual return generated by securitized portfolio
Hipototta 4 - Class A - Notes	EUR	1,034,987	514,752	520,235	(1,252)	-	518,983	Floating	9-Dez-2005	30-Dez-2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Class B - Notes	EUR	37,654	37,654	-	-	-	-	Floating	9-Dez-2005	30-Dez-2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Class C - Notes	EUR	118,918	63,595	55,323	1	-	55,324	Floating	9-Dez-2005	30-Dez-2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Class D - Notes	EUR	14,000	14,000	-	-	-	-	Floating	9-Dez-2005	30-Dez-2048	Residual return generated by securitized portfolio

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 49)

Securities issued	Currency	Amount of the issue			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 5 - Class A2 - Notes	EUR	900,658	245,141	655,517	(401)	-	655,116	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-Mar-2007	28-Feb-2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Class F - Notes	EUR	10,000	10,000	-	-	-	-	Floating	22-Mar-2007	28-Feb-2060	Residual return generated by securitized portfolio
Hipototta 7 - Class A2 - Notes	EUR	1,029,927	1,029,927	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Euribor 3m+0.30%
Hipototta 7 - Class B - Notes	EUR	60,000	60,000	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Euribor 3m+0.60%
Hipototta 7 - Class C - Notes	EUR	50,000	50,000	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Euribor 3m+1.2%
Hipototta 7 - Class D - Notes	EUR	44,000	44,000	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Euribor 3m+2.75%
Hipototta 7 - Class E - Notes	EUR	50,000	50,000	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Euribor 3m+4.75%
Hipototta 7 - Class F - Notes	EUR	20,000	20,000	-	-	-	-	Floating	10-Mar-2008	28-Feb-2061	Residual return generated by securitized portfolio
Leasetotta - Class A - Notes	EUR	254,589	254,589	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Euribor 3m+0.30%
Leasetotta - Class B - Notes	EUR	260,000	260,000	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Euribor 3m+4.75%
Leasetotta - Class C - Notes	EUR	65,000	65,000	-	-	-	-	Floating	20-Abr-2009	15-Jan-2042	Residual return generated by securitized portfolio
		4,270,551	3,004,781	1,265,770	(1,597)	-	1,264,173				
Other											
EMTN's	EUR	160,530	-	160,530	1,123	(68,413)	93,240				
		160,530	-	160,530	1,123	(68,413)	93,240				
TOTAL DEBT SECURITIES ISSUED		10,972,041	7,041,677	3,930,364	32,884	(9,729)	3,953,519				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2012 (Note 23)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex II originally issued in Portuguese - Note 49)

Securities issued	Currency	Amount of the issue			Accrual			Total Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from
		Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet				
Subordinated Perpetual Bonds 2000	EUR	270,447	270,447	-	154	154	-	-	2.07%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	4,275	-	4,275	36	-	36	4,311	2.35%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds BSP 2001	EUR	13,818	13,818	-	116	116	-	-	2.35%	Perpetual	February 23, 2011
		<u>288,540</u>	<u>284,265</u>	<u>4,275</u>	<u>306</u>	<u>270</u>	<u>36</u>	<u>4,311</u>			

Consolidated Reports and Opinions

BANCO SANTANDER TOTTA, S.A.

**Consolidated Financial Statements as at
December 31, 2012 together with the Legal
Certification of Accounts and Audit
Report**

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Euros – tEuros)

(Translation of a report originally issued in Portuguese – Note 49)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Directors' Report and in the accompanying consolidated financial statements of Banco Santander Totta, S.A. and subsidiaries ("Bank" or "BST") for the year ended December 31, 2012, which comprise the consolidated balance sheet as at December 31, 2012 that presents a total of tEuros 38,527,243 and total shareholders' equity of tEuros 2,325,091, including consolidated net income attributable to the shareholders of BST of tEuros 88,068, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards as endorsed by the European Union and that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code ("Código dos Valores Mobiliários"); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position or their comprehensive income.
3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the auditing standards (“Normas Técnicas e Directrizes de Revisão/Auditoria”) issued by the Portuguese Institute of Chartered Accountants (“Ordem dos Revisores Oficiais de Contas”), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used, application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Directors’ Report is consistent with the other consolidated documents of account, as well as the verifications established in items 4 and 5 of article 451 of the Commercial Companies Code (“Código das Sociedades Comerciais”). We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco Santander Totta, S.A. and subsidiaries as at December 31, 2012, the consolidated income and comprehensive income from their operations, changes in their consolidated shareholders’ equity and their consolidated cash flows for the year then ended in conformity with the International Financial Reporting Standards as endorsed by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Report on other legal requirements

6. It is also our opinion that the financial information contained in the Director’s Report is consistent with the consolidated financial statements for 2012 and that the report on corporate governance practices includes the items required for the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Lisbon, February 26, 2013

Deloitte & Associados, SROC S.A.
Represented by Maria Augusta Cardador Francisco

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC, S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)