

BANCO SANTANDER TOTTA, SA  
FIRST HALF REPORT



January – June

2013

## CONTENTS

3	Main Indicators
4	Governing Bodies
6	Business and Economic Environment
9	Economic and Financial Information
16	Business Areas
21	Risk Management
27	Supplementary Information & Attachments
29	Consolidated Financial Reports
35	Notes to the Consolidated Accounts

## MAIN INDICATORS

<b>BALANCE SHEET AND RESULTS</b> (million euro)	Jun-13	Jun-12	%
Net Assets	<b>39,033</b>	40,223	-3.0%
Net Loans	<b>26,743</b>	28,318	-5.6%
Customers' Resources	<b>27,687</b>	27,218	+1.7%
Own Funds + Minority Interests + Subordinated Liabilities	<b>2,378</b>	2,112	+12.6%
Net Interest Income (excluding dividends)	<b>246.6</b>	282.2	-12.6%
Fees and Other Income	<b>165.7</b>	176.8	-6.3%
Operating Income	<b>422.9</b>	539.3	-21.6%
Net Operating Income	<b>186.5</b>	304.8	-38.8%
Income Before Taxes & Minority Interests	<b>45.5</b>	64.0	-28.8%
Net Income	<b>24.2</b>	52.1	-53.6%

<b>RATIOS</b>	Jun-13	Jun-12	%
ROE	<b>2.8%</b>	7.5%	-4.8 p.p.
ROA	<b>0.1%</b>	0.3%	-0.1 p.p.
Efficiency Ratio (including depreciation)	<b>55.9%</b>	43.5%	+12.4 p.p.
Tier I* ratio	<b>12.7%</b>	10.9%	+1.8 p.p.
Core Capital* ratio	<b>10.9%</b>	9.5%	+1.4 p.p.
Non Performing Loans (+ 90 days) Ratio	<b>3.6%</b>	2.9%	+0.7 p.p.
NPL and Doubtful Loans Ratio	<b>3.6%</b>	2.9%	+0.7 p.p.
Credit at Risk Ratio	<b>5.4%</b>	4.0%	+1.3 p.p.
NPL Coverage (+ 90 days)	<b>105.0%</b>	100.7%	+4.3 p.p.
NPL and Doubtful Loans Coverage Ratio	<b>103.4%</b>	99.6%	+3.8 p.p.
Credit at Risk Coverage Ratio	<b>69.9%</b>	71.4%	-1.4 p.p.
Loan-to-Deposit Ratio**	<b>126.7%</b>	136.3%	-9.6 p.p.

<b>RATING</b>	Jun-13	Jun-12	%
FitchRatings			
short term	<b>F3</b>	F3	
long term	<b>BBB-</b>	BBB-	
Moody's			
short term	<b>NP</b>	NP	
long term	<b>Ba1</b>	Ba1	
Standard & Poor's			
short term	<b>B</b>	B	
long term	<b>BB</b>	BB	
DBRS			
short term	<b>R-1L</b>	R-1L	
long term	<b>BBBH</b>	AL	

<b>Other Data</b>	Jun-13	Jun-12	%
Employees	<b>5,576</b>	5,670	-94
Employees in Portugal	<b>5,527</b>	5,620	-93
Branches	<b>651</b>	684	-33
Total Branches and Corporate Centers in Portugal	<b>635</b>	659	-24

\* With results net of payout

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

## BANCO SANTANDER TOTTA, S.A.

**General Meeting**

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

**Board of Directors**

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Directors	Carlos Manuel Amaral de Pinho
	Eduardo José Stock da Cunha
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	José Manuel Alves Elias da Costa
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

**Audit Board**

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

**Auditors**

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

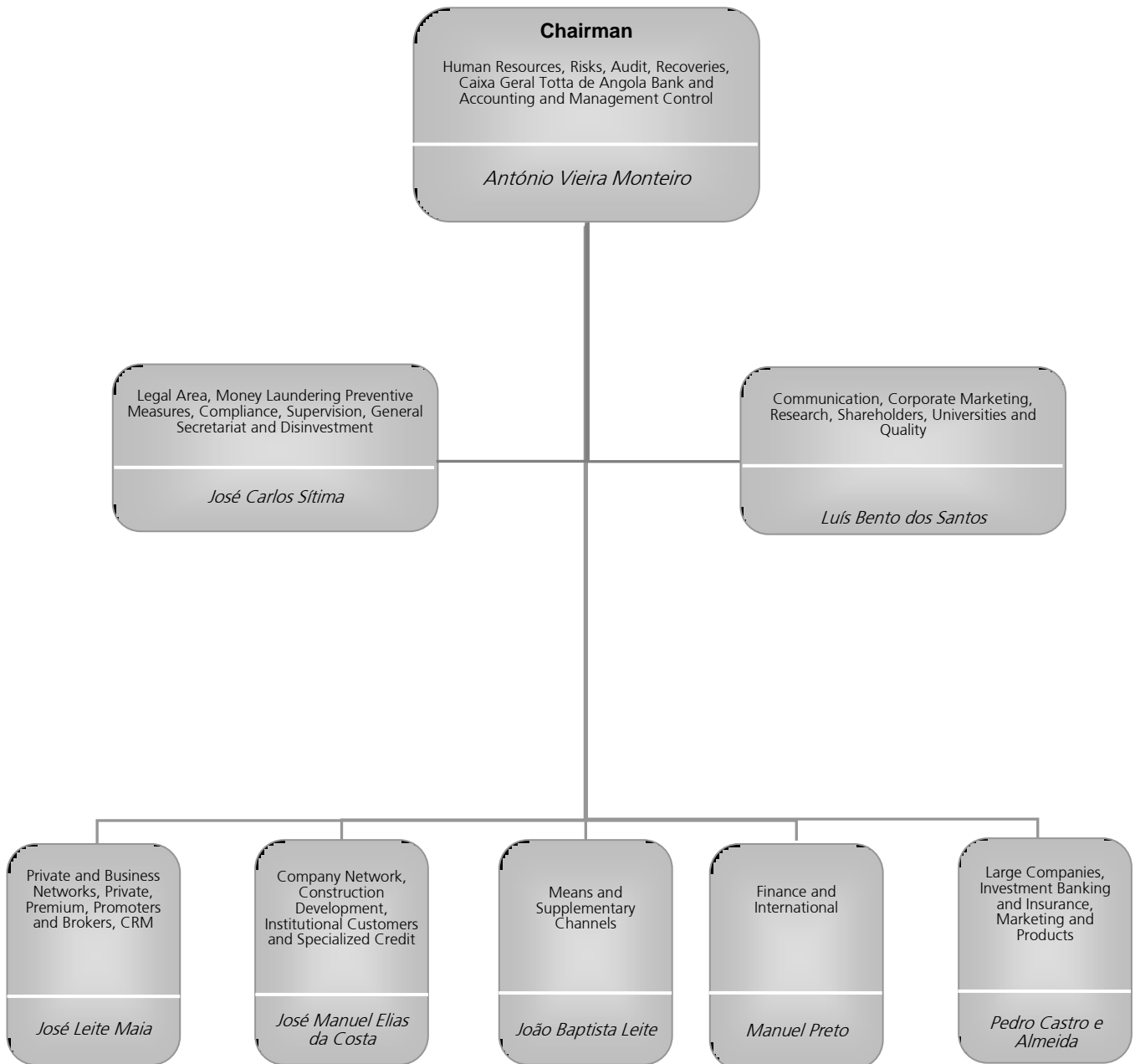
**Executive Committee**

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

**Company Secretary**

Acting	Luís Manuel Batista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

## Functional Organizational Chart of the Executive Committee



## International Economy

Global economic activity continued, in the first half year, to show relative weaknesses, in line with the trends arisen at the end of 2012, following on the successive shock waves of the euro zone sovereign debt crisis.

Due to this weakness, the IMF, in July, revised the growth estimates in lower terms, both for the current year and for 2014. This revision was carried out generally, thus not limited to the euro zone, but comprising the emerging markets. The weakness in demand in the developed markets is affecting their main suppliers, such as China, where the authorities commenced debating a new growth objective, below the approximately 8% basic reference.

In the euro zone, during almost the whole of this year's first half year, economic indicators reflected a worsening of the conditions of the economy, with a deteriorating recession over the whole of the single currency area.

The deterioration in economic confidence was worsened by two other very relevant factors. In Italy, the general elections held in February resulted in a deadlock, without a clear majority, which inhibited the nomination of a new government (it required more than one month). The balance of parliamentary support is still very delicate, and seems to constitute a considerable risk factor.

In Cyprus, the banking sector required a recovery plan, following the negative effects, in terms of results and of capital, of exposure to Greece. The largest of the country's banks were not only heavily involved in Greece, but also held large volumes of Greek public debt, thus suffering massive losses with the restructuring of the Greek debt, occurred in the previous year. The amount of aid required (approximately 17 billion euros) is equivalent to 100% of the GDP, which led to an unsustainable situation in the public accounts. In order to minimize the external support plan, it was decided that the Cypriot depositors incurred in losses, thus discarding a practice that had remained inviolate since the beginning of the crisis: the defence of the depositors.

In a first version, all depositors, in all the banks, would be taxed up to an amount of 7 billion euros, this being used for the recapitalization of the sector. As a counterpart, depositors would receive shares in the respective banks. The shock waves and the risks of contagion to other countries led to a revision of the plan. The Laiki Bank, the second largest in the country, was closed down, with deposits of up to 100,000 euros transferred to the Bank

of Cyprus (the country's largest), whilst the larger deposits were transferred to a "bad-bank", and will be restored after the recovery of the riskier assets, which were also transferred to this institution.

The Bank of Cyprus was intervened: shareholders and bond holders viewed their position virtually cancelled regarding losses, whilst depositors of amounts in excess of 100,000 euros suffered a forced conversion of their deposits into shares in their bank, at a value equivalent to 47.5% of the deposit. As such, the bank complies with the requisite of a 9% core capital Tier I minimum ratio.

As a result of this economic development, the European Central Bank lowered its reference interest rates to the historical minimum of 0.5% and, already in July, carried out deep changes in its communication strategy: it abandoned its traditional non pre-committal speech, adopting instead a clear indication that interest rates will remain at historical minimums (those currently in force or at even lower levels) during a fairly long period of time, until economic recovery gains sustainability. The assessment of such sustainability will be carried out with recourse to indicators concerning prices, activity and financial conditions in the monetary and credit markets.

Already at the end of the half year, and more visibly in the beginning of the third quarter, European economic data signalled a stronger recovery than had been estimated, singling out the improvement of the PMI (Purchase Managers Index) industrial activity indicator to the highest level in the past two years. ECB, however, considers that this data only validates its central scenario, indicating that a stronger economic growth will be required for it to alter its positioning.

The USA stands out, however, in terms of economic growth. In spite of some volatility, the economy has grown, with the recovery in internal demand compensating the negative effects of the automatic cutbacks in public expenditure. Private consumption clearly benefits from the declining of the unemployment rate to the lowest levels since 2008, and of the increase in value of equity markets to historic maximums.

Within this framework, the Federal Reserve announced it was examining the possibility of terminating its non conventional expansionist monetary policy. Investors viewed in these declarations the almost immediate removal of the excess liquidity injected in the economy, thus reacting conformably (10 year yields increased pronouncedly), and obliging the officers responsible for the definition of monetary policy to issue several

declarations aiming to ease fears and indicating that liquidity would be kept up, and that the Federal Reserve, would only, in an initial stage, not continue purchasing new public debt bonds and securitizations (currently at the monthly rate of 85 billion dollars).

In Japan, the Central Bank launched an aggressive programme of quantitative easing, in which it proposes doubling the monetary base in the next two years, in order to increase inflation up to 2%.

## Portuguese Economy

After a moderate decrease in the rate of shrinkage in the first quarter, economic activity could have recorded a slight growth in the second quarter of 2013, thus bringing about the first positive consecutive rate of variation since the third quarter of 2010. As a result, the cumulative rate of shrinkage in the year will probably be slightly less pronounced than previously estimated: the Bank of Portugal revised its rate of growth to -2.0% (compared to -2.3%).

All the components of the aggregate demand will have positively contributed to the growth chain. At the level of private consumption, available information shows an increase of family expenditure, in line with the reduction in unemployment which decreased to 16.4% in the second quarter, as a result of the creation of 72,000 jobs in the period. Although this mainly results from a seasonal situation, it is the first reduction in unemployment for two years running. The volume of electronic payments reported by SIBS, and which is correlated with retail sales, is already in line with the volume recorded in the same period in 2012.

Investment will have evolved positively as compared with the previous quarter, although still below the levels recorded in the same period in 2012. Construction activity will have shown some growth, although just correcting the fall recorded in 1Q2013, and investment in plant and equipment, on the one hand, and in means of transport, on the other, will also have increased. The Investment Inquiry, carried out by the National Institute of Statistics (INE), shows an almost stagnant entrepreneurial investment in 2013 (a 2.1% nominal negative variation in 2013 compared to -28.1% in 2012), this moderation also being felt in the sector of manufacturing industry.

External net demand continues an important contributor to growth in GDP. In the first five months of the year, exports of goods and services grew by 4.9% in nominal terms, whilst imports fell by 2.9%. As a result the positive balance of payments increased to 900 million euros (as compared to a global balance of 100 million in 2012). Recovery in exports is generalized, including sales to the euro zone (exports to Spain, the main trading partner, increased by 7.4% in this period).

In cash terms, the budgetary execution continues showing a recovery in fiscal revenues, especially in the cases of IRS (personal income tax) and VAT, (this latter tax in line with private consumption). Until May, the deficit of the Public Administrations, within the scope of PAEF, was approximately 1.5 billion euros, below the estimated target.

However, in terms of national accounts, the first quarter deficit stood at 10.6% of GDP, affected by spot factors, such as expenditure with the recapitalization of Banco Internacional do Funchal – BANIF – (750 million euros). Not considering these factors, the deficit stood at 8.8% of GDP. The target agreed for the current year is 5.5% of GDP.

In July the replacement of the Minister of Finance by Maria Luís Albuquerque, generated a political crisis, with dissension within the PSD-CDS/PP coalition, which would be resolved at the end of the month with a remodelled Government, in which CDS obtained greater responsibilities in the coordination of economic policies and in relations with the Troika (IMF/ECB/EU). Due to the three week deadlock, the eighth assessment of the Programme for Economic and Financial Adjustment was postponed to the end of August, to be carried out jointly with the ninth assessment.

S&P risk notation agency reacted to this perception of worsening of the political risk, by returning to the negative outlook for Portuguese public debt, which had been set as neutral a few months previously. In the first half of the year, the Portuguese Republic took important steps in the recovery of access to the global markets. In January, it carried out a 5 year syndicated debt issue, amounting to 2.5 billion euros in 2017 Treasury Bonds. Demand for this, however, was still concentrated in investors with shorter term investment profiles.

In May, it carried out a new issue, at 10 years (February 2024 Treasury Bonds), with a 5.65% coupon. The Treasury took advantage of a decrease in yields to levels lower than 6%, in a context of heavy demand by non resident structural investors (including pension funds and insurance companies).

Throughout the whole of the half year, the Republic kept up its presence in the short term debt market, with the issue of Treasury Bills. Demand has remained high and interest rates have systematically decreased. In the June auction, carried out still during the period of political uncertainty, interest rates rose, but only marginally.

In the first half of 2013 the banking sector largely completed the adjustment process imposed on it within the scope of the programme of economic and financial

aid. The reduction in the credit/deposits ratio occurred until the end of 2012 (when it already stood at 127.5%) led to it not continuing obligatory, although the banks should keep their ratios at such levels. This allowed greater flexibility in the policy of capturing resources which, in a context of pressure on the net interest income, was reflected by a slight decrease in the interest rates practised.

The most recent inquiry on market credit conditions shows a moderation in the credit granting conditions by the banking sector, whilst companies are beginning to show some faint signs in demand for credit.

The recapitalization of BANIF with recourse to public funds also completed the process started in 2012. At the end of the first half year, all the banks had core Tier I capital ratios in excess of the demanded 10%, whilst BCP, BPI and CGD completed negotiations with EU's DGCom to define the corrective measures required as counterpart to access the public fund for recapitalization.

### Main risks and uncertainties in the second half year of 2013

The risks and uncertainties that may affect business in the second half year are related with both domestic and external factors.

At international level, the risk factors are related with the weaker perspectives of economic growth, as shown in the revised IMF estimates. The slower rate of growth in the emergent markets is added, in the developed economies, to the effects of the process of budgetary consolidation. In the euro zone, in September, general elections are being held in Germany, which could be revealed as a factor of uncertainty, although the central scenario is the continuity of the coalition. The ending, at year end, of the Irish adjustment programme could also become a factor of uncertainty, when allowing the assessment of the capability of a country under adjustment to access global financial markets, and thus launching the bases of what may become of Portugal's transition, when this country terminates its programme in June 2014.

Nationally, the main uncertainties arise at two levels. On the one hand, the sustainability of the recovery of economic activity: the improved evolution in the second quarter must still be perceived as stabilization, with recovery dependent upon the improvement in the economy and in the confidence of the economic agents. On the other hand, the increase in political risks after the "dissension" that opposed, in July, the two parties in the coalition: although resolved, it is necessary to restore the lost confidence in political sustainability with the timely presentation, for instance, of the proposal for the 2014 State Budget.

In this context, the presentation is fundamental of a deep and sustained programme for the reform of the Public Administrations, whether to comply with the budgetary targets agreed with the international institutions, or to successfully complete the eighth and ninth assessments of the programme of economic and financial adjustment. This programme should allow a reduction in public expenditure without the need of additional measures in income tax increases.

Financially, the risks are associated to the economic cycle and to the impact that the worsening of credit risk causes on provisions due to impairment and, consequently, on the profitability of the sector, which continues negative in some of the larger institutions. This situation could affect the perception of the soundness of the sector, and require, in the ultimate instance, a new wave of recapitalization, should the minimum 10% ratios be at risk.

The new ECB rules covering collateral in regular refinancing operations are a risk factor for the national banking sector. The *haircuts* applied to the national public debt have worsened and the conditions for the use of homogeneous credit pools are under revision. This possibility for the use of the credit portfolio, which was implemented at the beginning of 2012, had significantly reduced the liquidity risk of the national financial sector.



## Consolidated Activity

### Introduction

The recessive economic context has penalized the volume of business, the quality of the assets and the results of the financial sector. In this adverse environment, Banco Santander Totta carried on with its strategy based on customer binding, on control of overdue credit and on the soundness of the operational structure and of the accounts.

The transformation ratio, which relates net credit with deposits, attained 126.7% at the end of June 2013, an improvement of 9.6 p.p. compared with the homologous period.

The Tier I ratio reached 12.7% (with a + 1.8 p.p. homologous variation) and the Core Capital ratio stood at 10.9%, in June 2013, thus showing a +1.4 p.p. improvement relative to June 2012, and underlining the soundness of the institution's accounts and its capacity to internally generate capital, without the need to access the public support lines for the banking sector.

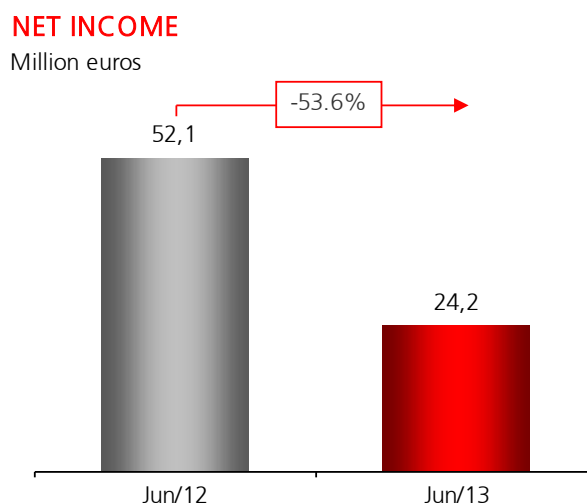
The credit at risk ratio stood at 5.4% (+1.3 p.p. to that recorded in the homologous period), affected by the worsening in the quality of credit in a recessive economic environment.

Banco Santander Totta has available a portfolio of assets eligible as guarantees with the Eurosystem financing operations, which at the end of June 2013 amounted to 12.5 billion euros. In turn, net financing obtained with the European Central Bank amounted to 5.5 billion euros, a decrease of 0.4 billion euros relative to the amount

recorded in June 2012. As compared with the previous quarter a 1.6 billion euro increase was recorded, resulting mainly from the maturity of an issue of mortgage bonds amounting to one billion euros.

The consolidated net income recorded at the end of the first half of 2013 amounted to 24.2 million euros, which compares with 52.1 million euros in the homologous period, resulting from a decrease in revenue within an account deleveraging environment. Standing out, however, is the fact that the result reached in the second quarter of 2013 shows an improvement relative to the previous quarter due to an increase in revenues, to a decrease in operational expenditure and to the stabilization of impairment provisions.

Operating income decreased by 21.6% in homologous terms, amounting to 422.9 million euros, a variance that was influenced by the gains recorded in the first quarter of 2012, in the re-purchase of securities issued within the scope of credit securitization operations. Operating expenses, at 236.4 million euros, were almost stabilized (+0.8%) relative to the value recorded in June 2012, and the impairment and net provisions amounting to 147.5 million euros, decreased by 39.9%, due to the smaller provisioning requirement, in line with the requirements of the impairment model, and of the recording, in 2012, of voluntary provisions, to cancel the above referred income as a matter of prudence in a recessive economic environment.



## Income Statement

### PROFIT AND LOSS ACCOUNT (million euro)

	Jun-13	Jun-12	%
Net Interest Income (without Dividends)	246.6	282.2	-12.6%
Dividends	1.0	1.6	-37.3%
<b>Net Interest Income</b>	<b>247.7</b>	<b>283.8</b>	<b>-12.7%</b>
Fees and Other Income	165.7	176.8	-6.3%
<b>Commercial Revenue</b>	<b>413.4</b>	<b>460.6</b>	<b>-10.3%</b>
Gain/Losses on Financial Transactions	9.6	78.7	-87.9%
<b>Operating Income</b>	<b>422.9</b>	<b>539.3</b>	<b>-21.6%</b>
Operating Costs	(236.4)	(234.5)	+0.8%
<b>Net Operating Income</b>	<b>186.5</b>	<b>304.8</b>	<b>-38.8%</b>
Impairment and Other Provisions	(147.5)	(245.5)	-39.9%
Equity	6.5	4.6	+40.9%
<b>Income Before Taxes and MI</b>	<b>45.5</b>	<b>64.0</b>	<b>-28.8%</b>
Taxes	(21.3)	(11.8)	+80.7%
Minority Interests	(0.0)	0.0	-174.9%
<b>Net Income</b>	<b>24.2</b>	<b>52.1</b>	<b>-53.6%</b>

At the end of June 2013, Banco Santander Totta recorded a net consolidated income amounting to 24.2 million euros, compared with 52.1 million euros attained in June 2012. Revenues decreased by 21.6%, operating expenditure almost stabilized (0.8%) and the impairment and net provisions recorded a homologous 39.9% decrease.

Strict net interest income amounted to 246.6 million euros, a homologous 12.6% decrease. This variance was due to the decrease in Euribor, to the prevailing competition in capturing deposits and to the decrease in credit granted. In the second quarter, comparatively to the year's first quarter, an outstanding 13.1% improvement was recorded in net interest income, owing to the lower cost of financing obtained with the European Central Bank and to customers' deposits.

Net commissions and other results of banking business amounted to 165.7 million euros, an homologous variation of -6.3%, as compared with the amount recorded at end June 2012, to which contributed lower commissions from means of payment, credit and

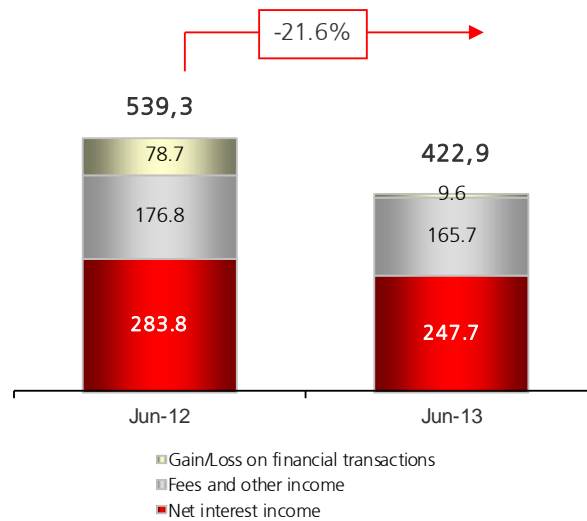
insurance, partially compensated by higher commissions from Global Banking and Markets and investment funds. Commercial revenue amounted to 413.4 million euros, a decrease of 10.3% in homologous terms, although showing an 8.4% improvement in the value recorded in the second quarter versus that of the first quarter of the current year.

Gains on financial transactions amounted to 9.6 million euros (-87.9% than in the same period in the previous year). The increase in the results of operations in customers' derivatives should be underlined, adversely affected however by the gains obtained in the re-purchase operation of securities issued within the scope of credit securitization operations in the first quarter of 2012.

Variance in revenue resulted in net interest income amounting to 422.9 million euros, recording a 21.6% decrease relative to June 2012, resulting mainly from the non recurrent gain recorded in the first quarter of 2012, as referred to above. The comparison between the amounts recorded in each of the quarters of the current year, results in an 8.7% growth.

## OPERATING INCOME

Million euros



Operating expenditure amounted to 236.4 million euros, +0.8% relative to the amount recorded in the first half year of 2012. Analysed by aggregates, personnel expenses amounting to 139.1 million euros increased by 4.5%, a variance affected by a change in legislation, occurred in 2012, in the calculation of death benefits. Excluding this effect, personnel expenses would have decreased by 2.0% and operating expenses by 2,8%,

reflecting the closing down of branches and personnel reduction, in order to adapt the installed capacity to the current demand for banking services. General expenses amounted to 66.7 million euros, decreasing by 2.9%, and depreciation amounted to 30.6 million euros, -6.4% relative to the amount recorded one year previously.

## OPERATING COSTS AND EFFICIENCY

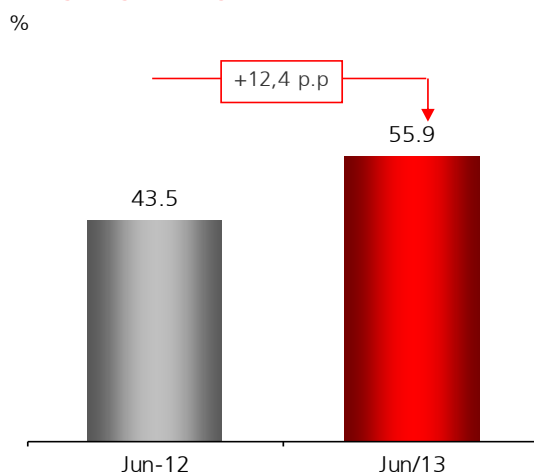
	Jun-13	Jun-12	%
Personnel Expenses	(139.1)	(133.1)	+4.5%
Other Administrative Expenses	(66.7)	(68.7)	-2.9%
<b>Operating Costs</b>	<b>(205.8)</b>	<b>(201.8)</b>	<b>+2.0%</b>
Depreciation	(30.6)	(32.7)	-6.4%
<b>Total Operating Costs</b>	<b>(236.4)</b>	<b>(234.5)</b>	<b>+0.8%</b>
<b>Efficiency Ratio</b> (excludes depreciation)	<b>48.7%</b>	<b>37.4%</b>	<b>+11.2 p.p.</b>
<b>Efficiency Ratio</b> (includes depreciation)	<b>55.9%</b>	<b>43.5%</b>	<b>+12.4 p.p.</b>

The efficiency ratio, which shows operating expenses as a percentage of net interest income, stood at 55.9%, +12.4 p.p. than that recorded in June 2012, since revenues declined by 21.6% and operating expenses increased by 0.8%.

304.8 million euros recorded in June 2012 (-38.8%). In this aggregate the better performance of the second quarter 2013 stands out compared with the first quarter, showing a 23.3% improvement.

At the end of the first half of 2013, net operating income amounted to 186.5 million euros, which compares with

## EFFICIENCY RATIO



As to productivity indicators the favourable evolution of resources per employee and per branch deserves being

stressed, due to its relevance within a recessive macroeconomic context.

## PRODUCTIVITY

	Jun-13	Jun-12	%
Loans <sup>(1)</sup> per Employee	5.2	5.4	-3.5%
Resources per Employee	5.0	4.8	+3.4%
Loans <sup>(1)</sup> per Branch <sup>(2)</sup>	44.5	44.6	-0.3%
Resources per Branch <sup>(2)</sup>	42.5	39.8	+6.9%

(1) Includes guarantees

(2) Includes branches, corporate centers and representative offices

Appropriation for impairment and net provisions amounted to 147.5 million euros compared with 245.5 million euros recorded in the homologous period, with a variation of -39.9%. This evolution derives not just from the setting up of voluntary provisions in the first quarter of 2012, as a prudential measure, thus cancelling the gains obtained in the repurchase operation of securities issued within the scope of credit securitization operations and also by the lower need of provisions required by the impairment model. It stands out that the level of impairment provisions set up stabilized in the first two quarters of 2013.

Results of subsidiaries recognized by the equity method, amounting to 6.5 million euros and 40.9% in excess of the amount recorded one year ago, comprised the appropriation of the results of the shareholding in Banco Caixa Geral Totta de Angola, in Unicre-Instituição Financeira de Crédito and in Benim-Sociedade Imobiliária (a company held indirectly by the Bank through TottaUrbe-Empresa de Administração e Construções).

At the end of June 2013, the 45.5 million euro in income before taxes decreased by 28.8% relative to the 64.0

million euros in June 2012. Consolidated net income amounted to 24.2 million euros, a decrease compared to the 52.1 million euros recorded in June 2012. The comparison between net incomes recorded in the first and second quarter of 2013 shows a significant improvement of +134.6%.

## Balance Sheet and Activity

At the end of the first half of 2013, the volume of business stood at 56.6 billion euros, showing a variation of -1.9% relative to June 2013.

Credit, (including guarantees and sureties) decreased by 5.1%, reaching 29.0 billion euros, however the 1.6% increase, relative to the end of the previous year, in credit granted to companies, deserves being stressed. Customer's resources reached 27.7 billion euros, growing by 1.7%, and thus showing the increase of 4.6% in balance sheet resources and a 7.2% decrease in off balance sheet resources.

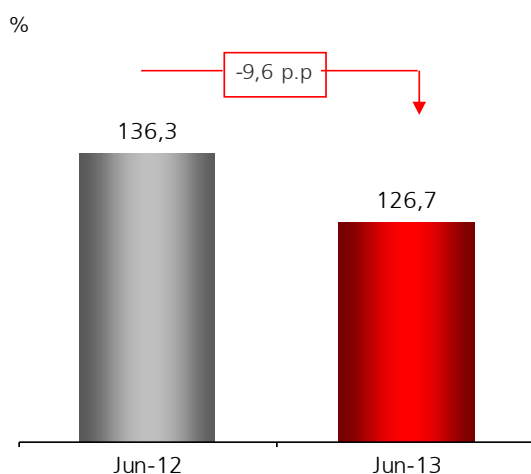
## Business Volume (million euros)

	Jun-13	Jun-12	%
<b>Business Volume</b>	<b>56,640</b>	<b>57,741</b>	<b>-1.9%</b>
Total Gross Loans (includes guarantees)	28,953	30,523	-5.1%
Customers' Resources	27,687	27,218	+1.7%

In the previous year, the commercial gap declined by 1.9 billion euros and the credit/deposits ratio continued its descending path, decreasing by 9.6 p.p., and standing at

126.7% in June 2013 (ratio established in line with the definition contained in the Memorandum of Understanding).

### CREDIT/DEPOSITS



Credit, (including guarantees and sureties) amounting to 29.0 billion euros decreased by 5.1% compared with the homologous period, with annual variation of -6.3% in

credit granted to companies and -3.5% in credit granted to individuals.

## LOANS (million euros)

	Jun-13	Jun-12	%
<b>Total Gross Loans</b> (includes guarantees)	<b>28,953</b>	<b>30,523</b>	<b>-5.1%</b>
<b>Gross Loans</b>	<b>27,788</b>	<b>29,156</b>	<b>-4.7%</b>
<i>of which</i>			
Loans to Individuals	17,481	18,118	-3.5%
<i>of which</i>			
Mortgage	15,536	16,014	-3.0%
Consumer	1,404	1,487	-5.6%
Loans to Corporates	9,886	10,556	-6.3%

Banco Santander Totta has developed its business within a recessive economic environment, marked by the lower demand for customer credit as well as by the worsening of their risk profiles. In spite of this, the soundness of the

accounts and the Bank's comfortable liquidity position allowed it to continue making credit available to the economically viable entrepreneurial sector. At the end of June 2013, the portfolio of credit granted to companies

amounted to 9.9 billion euros, interrupting the negative trend and increasing by 1.6% relative to the end of 2012. The Bank has an outstanding position in the SME Invest/Growth Lines, as shown by the placing of more than 15 thousand operations, amounting to approximately 1.7 billion euros. In its turn, within the scope of the Credit Activation campaign, more than 5 thousand operations were approved amounting to approximately 2 billion euros.

Credit granted to private customers amounted to 17.5 billion euros, a homologous 3.5% decrease, with a variation of -3.0% in home loans and a decrease of -5,6% in consumer credit.

The recession in the economy has been negatively reproduced in families' available income and in

employment, giving rise to a worsening in the quality of the Bank's credit portfolio. In order to face this situation, Banco Santander Totta has implemented a management model directed towards customers at risk, based on the anticipation of the first signs of repayment difficulties, in order to avoid worsening in non performance. At the end of June 2013, the ratio of non performing and doubtful loans stood at 3.6%, exceeding the 2.9% recorded a year before, with a 103.4% provision coverage ratio (+3.8 p.p. than in the homologous period). Credit at risk (which comprises overdue, to become due and restructured credit) represented 5.4% of total credit (4.0% in the homologous period), with a 69.9% provision coverage ratio (71.4% in June 2012).

## CREDIT RISK RATIOS

	Jun-13	Jun-12	%
Non Performing Loans Ratio	3.7%	3.0%	+0.7 p.p.
Non Performing Loans Ratio (+90 days)	3.6%	2.9%	+0.7 p.p.
Non Performing Loans and Doubtful Loans Ratio	3.6%	2.9%	+0.7 p.p.
Credit at Risk Ratio	5.4%	4.0%	+1.3 p.p.
Non Performing Loans Coverage Ratio	100.4%	94.8%	+5.6 p.p.
Non Performing Loans Coverage Ratio (+90 days)	105.0%	100.7%	+4.3 p.p.
NPL and Doubtful Loans Coverage Ratio	103.4%	99.6%	+3.8 p.p.
Credit at Risk Coverage Ratio	69.9%	71.4%	-1.4 p.p.

Total customers' resources at the end of the first half year of 2013 amounted to 27.7 billion euros, a 1.7% growth

relative to the value recorded in June 2012.

## RESOURCES

	Jun-13	Jun-12	%
<b>Customers' Resources</b>	<b>27,687</b>	<b>27,218</b>	<b>+1.7%</b>
On-Balance Sheet Resources	21,576	20,632	+4.6%
Deposits	21,264	20,203	+5.3%
Securities issued	312	429	-27.3%
Off-Balance Sheet Resources	6,111	6,585	-7.2%
Investment Funds	2,029	1,897	+6.9%
Insurance and Other Resources	4,082	4,688	-12.9%

Balance sheet resources amounted to 21.6 billion euros, or 77.9% of total resources captured from customers and showing a 4.6% growth in homologous terms. The bank kept up an offer of savings solutions, differentiated and

adjusted to customers' profiles, in the several market segments, which resulted in a 5.3% annual increase in deposits. Off balance sheet resources amounted to 6.1 billion euros, a decrease of 7.2% relative to that recorded

in June 2012. Investment funds attained 2.0 billion euros, a 6.9% improvement over the year. Capitalization insurance and other resources amounted to 4.1 billion euros, a variation of -12.9% relative to the amount recorded one year previously.

## Solvency

At the end of June 2013, Banco Santander Totta continued showing a sound balance sheet, with capitalization ratios reached with sole recourse to internal generation of results, jointly with a decrease in risk weighted assets. The Tier I ratio stood at 12.7% and the Core Capital ratio at 10.9% (10.9% and 9.5% respectively, in June 2012).

<b>CAPITAL</b>			
	<b>Jun-13</b>	Jun-12	%
<b>Total capital</b>	<b>2,255</b>	2,141	+5.3%
<b>Tier I Capital</b>	<b>2,262</b>	2,147	+5.4%
Tier II capital	-8	-6	+13.5%
<b>Risk weighted assets</b>	<b>17,841</b>	19,688	-9.4%
<b>Core Capital Ratio</b>	<b>10.9%</b>	9.5%	+1.4 p.p.
<b>Tier I Ratio</b>	<b>12.7%</b>	10.9%	+1.8 p.p.
<b>Solvency Ratio</b>	<b>12.6%</b>	10.9%	+1.7 p.p.

### Individuals and Small Businesses

The soundness of the Bank's accounts allowed the re-launching, still in the last quarter of 2012, of the pledge on socially responsible credit to individuals and companies. This pledge was kept up during the first half year, with particular emphasis on personal credit, credit cards and credit for the business segment.

Capturing of resources occurred mainly in added value products, equally focusing the capture of new salary domiciling and in the control of non performing loans.

The "Autumn Credit" internal campaign, towards creating support for families through the granting of personal credit, resulted in a sustained growth in production, leading to a slight increase in consumer credit as compared to the end of this year's first quarter.

Concerning credit cards, and keeping to the seasonal logic, "Summer Credit" was launched in the 2nd quarter with the objective of attracting new card bearing customers. A specific offer was set up for customers, comprising advantageous conditions, such as a promotional 9% rate until year end and the refunding of 10% of the value of each month's first purchase, with a 25€ ceiling, during the 4 months following the card's activation. This campaign resulted in an expressive increase in the number of new credit card customers between the 1st and the 2nd quarters.

Regarding campaigns and actions to capture and bind customers a campaign was kept up to capture salaries/pensions, based upon the exemption of commissions on the main day-to-day services and in gift offers.

In the **Cards and POS** area, the total number of credit cards of any description increased by 3.4%, in annual terms, with market shares showing a positive variance. Santander Totta's invoicing share stood above 10.7%, at the end of June.

The "Meal Card" was launched during the half year, consisting of a prepaid debit card equivalent to the traditional meal vouchers, and resulted in a capture in excess of 1,000 company customers.

The campaign launched in the 1st quarter of the year will continue open until year end with a promotional offer specifically designed for new credit card customers and with a new approach on the sale and use of cards. Such as was the case in the last few years, the Summer campaign for the Light card has already commenced, this

year for a longer length of time, bringing even better benefits for customers and rewarding the regular use of Santander Totta cards.

Regarding its acceptance, the Bank continues being a reference with the main business traders, which is reflected in a market share in excess of 17%, a much greater figure than the Bank's natural share. This position results from the work carried out with larger sized customers, of the latter's' greater fidelity and of retention and repricing policies and of new campaigns and developed products, within which stand out the POS Business and the POS Regis offers, which allow small businesses to comply with the new legislation on the issue of invoices.

In the **Business** segment, the strategy of procuring new customers was pursued, as that of binding current customers and of increasing transaction possibilities. The internal campaign known as "Spring Credit", started in the 1st quarter, also resulted in the growth of credit production in this segment.

### Private Banking & Premium

In the **Premium** segment, the 1st quarter was characterized by a very positive variance in customer capturing as a result of the commercial campaigns created for the purpose. Agreements established with professional groups have been fundamental in bringing dynamics into the segment.

The results of the studies relative to segment customer satisfaction have revealed a generalized improvement in the several indicators used, in line with the growing investment in the improvement of the global service rendered.

In the **Private** segment, the European sovereign debt crisis, the increase in market volatility and the politically instability arisen in Portugal again worsened the risk perception attributed to the sovereign debts of the intervened countries and to the assets that would potentially render greater profitability, leading customers to seek havens in products with lesser risks involved.

In this context, the Bank's image of soundness, the prize for the "Best PrivateBanking in Portugal" attributed by Euromoney Magazine and also the strengths of the new business model, allowed the Bank not to be greatly affected by the worsening of the business environment, thus preserving the business profitability.



## Corporate

The commercial strategy of the **Corporate Network** continues based on the growth of new customers who more than ever value the partnership with a Bank that has the soundness, the geographical spread, the quality of service, the products and the commercial capacity of Santander Totta.

The Bank's liquidity situation allows maintaining a dynamic process in the increase of credit granted and in the development of international business with full support provided to exporters, to corporations already internationalized or undergoing internationalization.

In the Credit Activation campaign, the Bank had already approved more than 5 thousand operations amounting to approximately 2 billion euros until the end of the 1st half year of 2013, thus materializing the intent to support outstanding projects, corporate business and the Portuguese economy.

In the SME Invest/Growth lines, Santander Totta maintains an outstanding position with a 17% market share, having placed until the end of the 1st half year more than 15 thousand operations, amounting to approximately 1.7 billion Euros. In the 2013 SME Growth line, trading in which started in February, Santander Totta has already achieved an outstanding position with an 18% market share in the amount financed for operations included in the SME-Investment programme.

In factoring and confirming, the Bank has kept its leading position with a 21% market share, thus confirming the Bank's commitment and availability in the support of SME treasuries.

## Promoters and Brokers

In the area of Real Estate Promoters and Brokers, the Bank elected as strategic priorities for 2013 the capturing of new customers through the network of external promoters, providing greater focus on the binding of such customers and a redoubled attention relative to the increase in the number of 1st Bank customers associated to the promoter channel.

Campaigns and incentive plans were made available, directed towards external promoters which, combining several business angles would provide best potential to the Bank's offer: capturing of salary accounts, business credit, credit cards, meal cards, personal credit and resources.

Within the scope of a merit recognition strategy that has been under implementation for already some time, the merit trip carried out during the last week of February, relative to 2012 deserves being stressed, this constituting

the reward of the 30 external promoters that best performed in the past year and that strengthened even more the already existing bonds of commitment between the promoters and the Bank.

In the project of promoter shops, the main priority was once again determined as the energizing of the current network of 266 Shops, ensuring as a minimum the maintenance of the dimension currently held by this network. With this continuing policy it is expected that new shops will only be opened to replace others which will be closed down, thus guaranteeing a network of shops as a complement to the branch network.

Regarding the channel of real estate brokerage, with the current environment always in mind as well as the prospects for the near future of this business sector, a following up action has been ensured that allows the maintenance of strong institutional relationships that the Bank holds with the main operators in this market. As such, similarly to prior years, the Bank continues keeping an active presence in the annual conferences of the larger real estate brokerage franchising networks.

## Transaction Banking

The first half year of 2013 witnessed the carrying out of the plans to energize products for companies and businesses, which were designed jointly with the commercial area. The preparation of such plans was assisted by specialist teams that, jointly with customer and product managers developed specific programmes directed towards customer capturing and business energizing.

Recognizing the relevance of a correct liquidity management, Santander Totta continued offering exclusive products and consolidated the launching of the "Home Deposit" that continues as a product that causes the Bank to stand out amongst the competition and that allows companies to manage their resources with greater efficiency as well as a complete operating procedure of cash collection and treatment.

The launching of products, such as those described above, allows Banco Santander Totta to be recognized as one of the main providers of cash management services in Portugal, more than ever consolidating its presence in companies.

## Supplementary Channels

The **Self Banking** activity was based upon a strategy of transaction optimization in the current ATM stocks of the Automatic Bank Dispensing network, thus providing continuity to the moving of such equipments to locations with greater transaction potential and to the decommissioning of equipment with negative

profitability. As a consequence market shares stood at 12.1% in ATM numbers and at 12.7% in number of operations.

Always with a view towards customer proximity, continuity was equally provided to the adjustment and increase in the level of automatic deposit solutions, with installed equipment already numbering 575, covering approximately 70% of the branch network.

Outstanding in the **Internet Channel** is the availability of the "Meal Card" both in the NetBank Private and in the NetBank Companies. In the Private Customer area, the launching of new functions stands out as well as the availability of new savings products, specifically savings plans, the request of Light Cards and of a new PIN card number.

Improvements were recorded in the availability and performance of the websites and a growth in traffic, with the number of single visitors increasing by 3%. The number of frequent users of NetBank Private recorded a 4% growth in the first 5 months of 2013. Also recorded was the growth in the number of transacting customers.

The "App Mobile Private" was launched within the Mobile practices, a new application for customers to carry out multiple banking operations through their mobile equipment. This application is available for Iphone/Ipad and Android through the AppStore and Google Play, respectively.

In May 2013, the Santander Totta **Contact Centre** was considered, for the 5th consecutive year, to be the "Best Contact Centre" in Portugal in the Banking sector, a prize attributed by the Portuguese Contact Centre Association. The total number of customer contacts, in the 1st half of 2013, with Contact Centre operators is 4% greater than the value recorded in the first half of 2012.

Customer attendance via chat was strengthened, with the Bank's site now carrying many more contact links and thus attracting greater use by customers. Several measures were implemented that aim to upgrade customer satisfaction in their contacts with the Telephone Bank in order to close the requesting cycle.

During the first half of 2013 many new initiatives were launched in the Facebook pages with several pastimes and promotional videos.

## International Business

The international activity of Banco Santander Totta for customers residing abroad was earmarked by the strengthening of customer relationship, aiming towards the binding and capturing of accounts, always in connection with the commercial network in Portugal.

Solutions directed towards the segment of customers resident abroad aimed to create greater captive customer base with the offer of savings products in the more significant currencies, resulting in an increase in the capturing of new customers.

Concerning relations with the communities several events were carried out, in Paris, London and Zurich, targeting Portuguese descendant customers and entrepreneurs, where links with Portugal were strengthened and endeavours made to bring forward the Bank's offer and availability in a systematic support for the communities.

Also promoted among non-residents was an offer of real estate held by the Bank. Thus a first real estate auction was organized simultaneously in Lisbon and Paris which raised much interest and witnessed the sale of approximately 60% of the offered real estate.

The Bank was also present at the 9th Annual Conference of the Anglo-Portuguese Chamber of Commerce that organized for the first time, in London, a Real Estate Exhibition for the promotion of real estate offers.

The Summer campaign is also an important strategic vector, which began at the end of this half year and intends to structurally welcome the Portuguese that reside abroad. In addition to reinforced communication, welcoming was developed in the main branches with renewed images. The campaign will be sited in the national airports accompanied by means of communication, placing forward the availability of savings solutions that, in addition to profitability, share the safety and confidence in Banco Santander Totta.

Within the scope of the offer of services for the external communities a competition was promoted that targeted the improvement in the dynamics of transfers to Portugal and which gained much attention, recording an increase in the number of operations compared to the previous year, with greater significance in the transfers carried out through external units.

In order to guarantee alternative channels for the external promotion of the Bank's products and services, the specific site intended for the segment's customers was updated, with a link to the Bank's initial page and to the London branch. Also outstanding is that the London branch has been witnessing significant growth in the

volume of deposits and relevantly supports the branches in Portugal.

## Global Banking & Markets

Outstanding in the **Corporate Finance** area is the completion of financial consulting operations to the Beijing Enterprises Water Group in the acquisition of the water concession business held by Veolia in Portugal, of the consultancy to British Columbia Investment Management Corporation in the acquisition from Galp Energia of the 5% shareholding in Compañía Logística de Hidrocarburos (CLH) and of the consultancy to Riverside on the issue of a *Fairness Opinion* for the purpose of the disposal of ONI to Altice. Outstanding as well is the current financial consultancy to Optimus in the merger with ZON, an operation that awaits the approval of the Competition Regulator.

In the **Credit Markets** area, the ongoing restrictive economic environment is maintaining pressure on new private and public investment decisions. In spite of this context, Santander Totta continues to be one of the institutions constantly present in the analysis of the existing opportunities and in the support to small promoters in the materialization of their projects.

In the field of acquisition finance, the business is featured in the support and structuring of finance for several acquisition operations of Portuguese companies, assets for Portuguese and International corporate customers, and in the support for privatization plans.

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

In the first half of 2013 the area of **Structured Products** achieved a fair performance in the marketing of liability products. The first half year witnessed the issue of 14 structured products, of which 10 are euro denominated in a total amount of 586 million euros and 4 are US Dollar denominated issues in a total amount of 46 million US Dollars.

In the **Institutional Custody** area of Santander Totta, the volumes remained stable, with a slight 1% increase compared to the previous quarter, the area continuing to occupy 2nd place in the national ranking of Custodians, with an approximate 20.5% share in the volume of assets under custody, according to information made available by CMVM (Securities Market Regulator).

## Asset Management

The 1st half year stands out due to two distinct behaviours in market terms: in a first stage, an optimist and consistent behaviour was witnessed which peaked at a moment of high volatility with the financial crisis in Cyprus; in a later stage, mainly from the end of May onwards, with the notice of the ending of financial incentives to the North American economy by the Federal Reserve (FED) already in 2013, volatility increased substantially, reflected in heavy corrections in the performance of the majority of asset types.

In this context, Santander Asset Management (SAM) endeavoured to manage its products with a controlled risk level, focusing on the maintenance of high and adequate liquidity levels.

Outstanding at the end of the half year are the net positive issue subscriptions amounting to 147.6 million euros, specifically the Multitresury Fund (128 million euros in net subscriptions since the beginning of the year) with a 110% volume growth within the year. Outstanding as well is the 20 million euro increase in equity funds since the beginning of the year.

In profitability terms, at the end of the half year and for a 12 month period, all the funds showed generally positive yields, namely the **Santander Multitresury** (1.6% in net effective profitability), the **Santander Multicredit** (3.3% in net effective profitability) and the equity funds: **Santander Shares Portugal** (33.6% in net effective profitability) and **Santander Shares Europe** (22.6% in net effective profitability).

At the end of the half year, the securities investment funds managed by Santander Asset Management represented an 11.2% market share, an improvement compared to the 11.0% recorded at the end of 2012.

Real estate investment funds managed by SAM amounted to 563.3 million euros at the end of June 2013, a 4.9% market share.

## Outlook for the 2nd half 2013

Within the procedure for the correction of the structural imbalances of the Portuguese economy, the measures instituted for budgetary consolidation, such as the reduction in public expenditure and the increase in taxation, were reflected in the sharp fall in the levels of consuming and investment. However, and according with recent indicators of economic activity, it is expected that the recessive environment in Portugal will ease, mainly attributed to the positive contribution of net exports.

This adverse and very demanding framework will be reflected in the decline of the banking sector's business volume, in the decrease of revenues and in the increase in credit risks which will require greater demand in the management of its business. Banco Santander Totta demonstrated, in the particularly difficult latter years, its capability to generate revenues, maintaining a sound balance sheet and a comfortable liquidity situation.

The risk management of the credit portfolio, through a very strict and selective risk controlling policy will continue as a fundamental objective for Banco Santander Totta. Simultaneously, the soundness of the Bank's accounts allows keeping up a strategy to support the economy and the entrepreneurial sector with acceptable risk factors, continuing the capture of new customers and to present adequate solutions to each business segment.

The Bank will continue providing special attention to the prevention of non performing loans through a programme of selective customer accompaniment, anticipating risk situations through the availability of conditions that will allow conforming payments profiles to families' economic and financial situations. The bank will equally keep an important focus on the recoveries area, through a strengthening of a negotiation policy that may avoid the resolution of processes in the courts of law.

Simultaneously, the Bank will maintain a large focus on the capture of deposits, within a context of a reduced capacity to generate savings by Portuguese families.

## Credit Risk

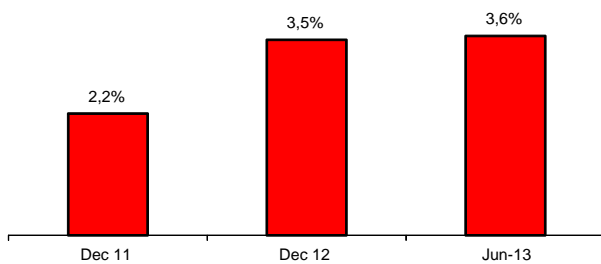
### Main lines of activity

In the 1st half of 2013, the activity in the area of Credit Risk will comprise the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, differentiating the approach to risks as a function of the customers' and products' characteristics;
- Strengthening the strictness of the admission criteria and consequently the quality of the admissible risks in each of the segments, aiming to preserve the good quality of the credit portfolios;
- Regarding risks already comprised in portfolios, intensify proximity with the customers in order to anticipate their credit requirements. Revise their lines of credit and possible problems that may arise in line with payment capabilities. On another hand, intensify the support levels in the business of capturing new operations and new customers with good risk profiles and implement improvements in the processes with the objective to provide them with swift and effective answers;
- Concerning the portfolio and customer follow up function, keep a permanent focus on the supervision of the segments with lower ratings and on sectors which are being more affected by the macroeconomic environment, with the objective to mitigate the ratios of non performing loans. A revision of a significant part of the customer portfolio was carried out and the conclusion arrived at is that the portfolio is being analysed with adequate criteria and that the level of estimated impairment is equally adequate;
- In standardized risks, and considering the difficult current environment, the main focus was maintained on the level of the quality of the portfolio, acting upon management delays and non performing loans, and continuing to make available a set of products and debt restructuring solutions that allow adapting customers' expenses to their repayment capabilities and current and future available income. In this sense, adequate admission strategies have been determined in the Bank's decision systems, and behavioural systems used to identify the prevention and renewal measures to be proposed to customers;
- Keeping to the theme of standardized risks, the Bank continued being selective in the acceptance of new operations, in terms of risk and profitability, using its automatic decision models in force, specifically scorings and behavioural systems;
- Lastly, aiming to strengthen customers' commercial involvement and crossselling, and simultaneously to reinforce the potential to capture new customers, several campaigns were launched in Business (Credit Activation and Credit Renewal), targeting the production of new credit and the retaining of customers, as well as operations in progress in order to compensate the natural erosion of this portfolio;
- In an adverse scenario, with the consequent increase in non performing loans, a heavy focus was placed on the activity level of recoveries by reinforcing the swiftness of intervention. Outstanding is the activity covering massive management of recoveries and simultaneously keeping a permanent follow up of special cases and of the judicial and extra-judicial processes. The policy to strengthen the negotiation processes was also kept up, aiming to obtain payments in kind as an alternative to judicial actions;
- Focus will also be maintained on the modernization of the Recoveries area based, on the one hand, on computer based developments surgically pointed out by users as required and that aim to control the process from its entry into recovery, relations with attorneys and executive action and, on the other, on a change in working methodology with the optimization of several processes. The objective is to stress the model, increasing the efficiency of the resources and the effectiveness of the actions to allow anticipating the recovery of the credit;
- Concerning solvency and credit control, permanent attention was kept on the knowledge of the portfolio, aiming towards a strict control of its risk, endeavouring to provide adequate and timely management information, in order to allow measures to be taken to avoid operations going into default and the resolution of non performing operations;
- Focus was equally maintained on the Bank's internal models, most of them already recognized (by the regulatory authorities) as advanced models (IRB) for the purposes of establishing the requirement of own resources, as well as their ever greater integration in management.

## Indicators

**Non-Performing Loans ratio (> 90 days)**



## Risk Model

### Introduction

The origin of credit risk is the possibility of the occurrence of losses deriving from the total or partial non performance of the financial obligations contracted with the Bank by its customers.

The organization of the credit risk function in Banco Santander Totta is specialized in line with customer types which are differentiated, throughout the whole process of risk management, between portfolio customers and standardized customers (non portfolio).

- Portfolio customers are those that, fundamentally due to the assumed risk, have been assigned a risk analyst. Included in this group are companies comprised in wholesale banking groups, financial institutions and some companies comprised in retail banking groups. The assessment of these customers' risks is carried out by the analyst, complemented with decision support tools based upon internal risk valuation models;
- Standardized customers are those that have not been assigned a risk analyst specifically appointed to follow up their performance. Included in this group are risks incurred with private customers, self employed entrepreneurs and non portfolio companies comprised in retail banking groups. The assessment of these risks is based upon internal valuation models and automatic decision, collaterally complemented, when the model is not sufficiently precise, with teams of specialist risk analysts.

### *Credit risk parameters*

The valuation of a customer and/or operation, through rating or scoring, is an assessment of its credit capacity, which is quantified through the probability of default (PD). In addition to the customer's valuation, the quantitative risk analysis takes into account other features, such as the period of the operation, the type of product and the existing guarantees. As such what is taken into account is not just the customer's probability

of default but the exposure at default (EAD) is also estimated, as well the EAD proportion that may not be recovered (loss given default or LGD).

These factors (PD, LGD and EAD) are the main credit risk parameters, allowing with their being combined the estimation of the expected and the non expected loss. The expected loss (or probable loss), is considered as a further activity cost (reflecting the risk premium), with this cost duly included in the price of the operations.

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

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

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

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

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

### Credit risk cycle

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



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

### *Planning and establishing limits*

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

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

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

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

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

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

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

In order to keep adequate control of the portfolio's credit quality, in addition to the actions developed by Internal Audit, the specific follow up function, made up by teams and responsible officers, is established within the Risks

area. This function is also specialized in line with customer segmentation and is fundamentally based upon a continuous observation process that allows the prior detection of incidents that may occur in the evolution of the risk, of the operations and of the customer, with the objective to previously carry out the actions intended to mitigate such incidents.

### *Recoveries*

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

- Ensure the collection or regularize values in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated solution not be possible, recovery of credits will then be processed through the courts of law;
- Maintain and strengthen relations with the customer, safeguarding his department within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private, Business and Companies, with specific management models. Recoveries management, thus segmented, equally respects the distinct management stages: preventive management, management of irregular situations and management of delays and bankruptcies, which comprise specific models, strategies and circuits. The whole of this activity is shared with the business areas.

## Counterparty Risk

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

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

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

Risks in derivative positions, known as Credit Risk Equivalent, (REC), is the sum total of the Present Value of each contract (or Current Replacement Cost) and the

respective Risk Potential, a component that reflects an estimate of the maximum expected value to maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

During the first half of 2013, the present value of the operations contracted with the same indexing factors (Euribor) recorded a generally moderate reduction, in line

with the variations in the medium and long term market rates. The volume of new operations was kept in line with that of the previous year. With respect to the exposure with Financial Groups, a reduction trend was maintained, as well as risk coverage through collateral providing agreements (ISDA Master Agreements/Credit Support Annex).

### DERIVATIVES - Credit Risk Equivalent (thousand euros)

	<1 year	1-5 years	5-10 years	>10 years	Total
Interest Rate Derivatives	11,873	56,855	1,460,013	587,981	2,116,722
Foreign Exchange Derivatives	4,955	0	59,739	0	64,694
Equity Derivatives	820	0	0	0	820
<b>Total</b>	<b>17,648</b>	<b>56,855</b>	<b>1,519,752</b>	<b>587,981</b>	<b>2,182,235</b>

## Balance Sheet Risk

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

### Interest rate risk

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

Considering the uncertainty in the variation of interest rate levels for the first half of 2013, the policy followed was to keep a sensitivity policy at the adequate levels.

### Exchange rate risk

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

### Liquidity risk

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

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

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

Liquidity management is carried out at the consolidated level. The Group's financing policy takes into consideration the variations in the balance sheet components, the structural situation of the maturities of assets and liabilities, the level of Interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenses relating to the funding activity.

The structural liquidity situation is fully balanced. In June 2013 the Bank presented an asset situation in the short term monetary market of approximately 500 million euros.



The capital market operated very irregularly throughout. In this context, the ECB assumed itself as the counterpart to the system through lending operations and absorbing liquidity. To participate in these operations it is necessary to hold assets considered eligible by the ECB to be given as collateral. In June 2013, the Bank held 12.5 billion euros in eligible assets that constitute a very comfortable liquidity reserve.

## Market Risk

### Activities subject to market risk

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

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

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

### Methodologies

#### Negotiation Activities

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

Stress testing is used as a complement, consisting in the definition of behavioural scenarios of differing financial variables and obtaining the respective impact on results

the half year although now showing some opening signs when applying them on the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

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

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

#### Backtesting

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

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

#### Limits

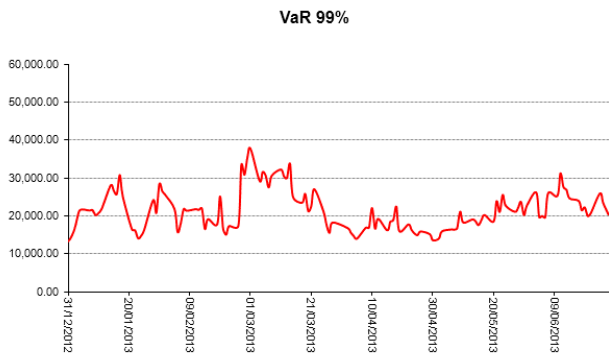
Quantitative limits for the negotiation portfolios, which are classified in two groups, are established in line with the following objectives:

- Limits intended to protect the volume of potential future losses, such as VaR limits, and limits on sensibility measures (BPV and Greeks) or on equivalent positions;
- Limits intended to protect/accommodate the volume of effective losses or to protect levels of results already achieved during the period. These types of limits aim to raise alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the limit of maximum risk is reached (stop loss), from

which point it will be considered that losses will have reached unacceptable levels and the positions immediately closed.

## Quantitative analysis of VaR throughout the half year

The evolution of the risk relative to negotiation activity during the first half of 2013, quantified through VaR, is described in the following chart:



VaR kept to reduced levels, varying between 13 thousand and 38 thousand euros.

## Operational Risk

Banco Santander Totta defines operational risk as “the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances”. This is generally a risk that is not associated to products or business and thus different from other types of risks, and which exists in procedures and/or assets and is internally generated (people, systems, etc.) or as a consequence of external risks such as acts of God.

The Bank’s objective, in the issue of control and management of operational risk, is directed towards the identification, measurement/assessment, control/mitigation and information concerning this risk.

The priority is thus to identify and remove sources of risk, independently from losses having arisen or not. Measurement also contributes towards the establishment of priorities in the management of operational risk.

The Bank has been exercising supervision and control of technological and operational risks through its corporate officers. As such, the Board of Directors and the Executive Committee have periodically included in their agendas the analysis of the relevant features in the management and mitigation of Operational Risk.

Several Committees have been set up for the management and control of technological and operational risk (TOR), both at corporate and at local levels, where such topics are discussed and the necessary decisions taken.

The limits of operational risks are formally established on an annual basis. A risk appetite is equally established, which must always be set in the low/medium-low profile.

In order to establish the regulatory capital for operational risk it was considered convenient to opt, on an initial stage, for the standard method, such as foreseen in the BIS II rulings.

The operational risk control model implemented embodies the following advantages:

- An integrated and effective management of the operational risk (identification, measurement/assessment, prevention, control/mitigation and information);
- Improvement of the knowledge of operational risks, both effective and potential and their attribution to business and support lines;
- Information on operational risk contributes towards the improvement of procedures and controls, reduction of losses and revenue volatility;
- Allows establishing limits to operational risk appetite.

## Governance and Internal Control Model

The structure of the Company's Corporate Governance as well as all issues concerning policies, procedures and internal control bodies have not suffered any changes to what was declared and detailed in the annual report for the year ended 31 December 2012.

## Shareholder Structure

Shareholder	Nº shares	%
Santander Totta, S.G.P.S., S.A.	641,269,620	97.65
TaxaGest - Sociedade Gestora de Participações Sociais, S.A.	14,593,315	2.22

## Movement in Own Shares

In line with the decision taken at the Annual General Meeting, held on 15 March 2013, Banco Santander Totta, S.A., may, either directly on its own account or through a dependent company, acquire own shares as well as to dispose of acquired own shares within the limits and other conditions ruled by the appropriate legislation.

As at 31 December 2012, the Bank held 125,169 own shares representative of 0.019% of its share capital. In the first half of 2013, the Bank carried out an acquisition of 48,066 own shares, representative of 0.007% of its share capital, and thus closing the half year ended on 30 June 2013 holding a total of 173,235 own shares. The acquisition is comprised in the Bank's general policy, to purchase shares held by shareholders outside the Santander Group that wish to sell them.

### TRANSACTION WITH OWN SHARES - 1ST. HALF 2013

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
<b>31/12/2012</b>	<b>125,169</b>	<b>5.41</b>	<b>676,705</b>	<b>0.019%</b>
Purchases	48,066	6.06	291,347	0.007%
Disposals	-	-	-	-
<b>30/06/2013</b>	<b>173,235</b>	<b>5.59</b>	<b>968,052</b>	<b>0.026%</b>

## Movements in Shares and Bonds of Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of Company Law and Regulation No. 5/2008 of CMVM (Securities Market Regulator), following were the movements in securities carried out by Corporate Officers during the half year ended on 30 June 2013:

Name	Securities	Opening 31/12/12	Movements in 2013				Closing 30/06/13
			Date	Purchases	Disposals	Unit Price (€)	
João Baptista Leite	Obrigações BST – Caixa EUA - Cx	820					820
	Obrig. BST – Caixa Rendimento América Latina TOP 3	400					400

## Declaration referred to under item c) of § 1 of article no. 246 of the Securities Legislation

Item c) of §.1 of article no. 246 of the Securities Legislation determines that each of the responsible officers in a company issues a declaration as defined therein.

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

"I hereby declare in the terms and for the purposes foreseen under item c) of §1 of article no. 246 of the Securities Legislation that, to the best of my knowledge, the condensed financial statements relative to the 1st half year of 2013, were prepared in line with the applicable accounting standards, and give a true and fair image of the assets and liabilities, of the financial situation and of the results of Banco Santander Totta, S.A and of the companies included in its perimeter of consolidation, and that the intermediate management report faithfully and clearly discloses the information demanded in the terms of §2 of article no. 246 of the Securities Legislation"

### Board of Directors

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António Basagoiti Garcia-Tuñon  
Chairman

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António José Sacadura Vieira Monteiro  
Deputy Chairman

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Eduardo José Stock da Cunha  
Director

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José Carlos Brito Sítima  
Director

---

José Manuel Alves Elias da Costa  
Director

---

Manuel António Amaral Franco Preto  
Director

---

Carlos Manuel Amaral de Pinho  
Director

---

João Batista Leite  
Director

---

José Urgel Moura Leite Maia  
Director

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Luís Filipe Ferreira Bento dos Santos  
Director

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Pedro Aires Coruche Castro e Almeida  
Director

The accounts for the half year ended on 30 June 2013 were not the subject of a limited review or of an opinion by the Bank's auditors.

