

Santander Totta, SGPS, SA

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PRESS RELEASE

Santander Totta achieves net income amounting to 250.2 million euros, strengthening the soundness of the institution

Lisbon, 7 February 2013

- Net income amounted to 250.2 million euros, allowing the increase of the *Core Capital* ratio to 12,3%, materially in excess of the minimum required level and was reached by only recurring to internal income generation, thus reflecting the continuing positive profitability of domestic banking business, in spite of the economic environment and the trends in the financial system
- Loans to deposits ratio standing at 127.1%, an improvement of 12.4pp, far beyond the objectives set for end 2012
- Sustainable growth of customers' deposits throughout the year, together with an 8.5% homologous variation in banking business. In its turn, a continuing shrinkage in the credit portfolio in line with market trends
- Within the scope of the “Plano Ativação” (Activation Plan) campaign, through which Santander Totta makes available a 1.5 billion euro financing line for the Portuguese corporate sector, 3,630 credit operations for SME's have already been approved amounting to 803 million euros¹
- The support programme for non performing customers has continued progressing with good results, as shown by the decrease in the number of loans with delayed instalment payments
- Credit at risk ratio at 4.33%, slightly above the value reached in September (4.23%)
- Excellent liquidity and capital positions, obtained without recourse to any type of public aid

At the end of 2012, the **net income of Santander Totta, SGPS** (referred to in this press release as “Santander Totta” or “Bank”) **amounted to 250.2 million euros**, thus maintaining a sound operational and capital structure, with excellent equity and liquidity positions.

¹ Values refer to the last quarter of the year

Core Capital ratio stood at 12.3%, largely in excess of the level required by the Bank of Portugal (10%), and with no need to recur to any type of private or public increase in share capital. The *Tier I* ratio stood at 13.3%.

Net financing with the Eurosystem amounted to 4.9 billion euros, a 1.65 billion decrease relative to the amount reached at the end of the 3rd quarter, and the portfolio of assets eligible as guarantees for financing operations with the Eurosystem amounted to 11.7 billion euros at year end.

The loans to deposits ratio kept to its diminishing trajectory, falling to 127.1% at the end of 2012, equivalent to a 12.4pp improvement relative to the end of 2011.

Deposits recorded an annual growth of 8.5% in banking activity and evidenced sustained growth throughout the year. In its turn, the credit portfolio amounted to 27.9 billion euros at the end of 2012. The Bank maintains an outstanding position in the **SME Invest Lines**, in support of SME's investment projects and treasury, attaining a 17% market share. It placed more than sixteen thousand financing operations, totalling 1.7 billion euros.

The “**Activation Plan**” campaign was launched in the last quarter of the year, by making available a 1.5 billion euro financing line aiming towards the support of Portuguese companies and economy, with 3,630 financing operations approved in the last quarter of 2012, amounting to 803 million euros.

The recessive cycle, together with the growing austerity measures have reflected very negatively in income available to households and in employment. In order to face this situation, the bank has been implementing a management model addressed to customers at risk, based upon the anticipation and identification of existing problems, on the competent diagnosis of the seriousness of each situation, on the identification of the best solution for each case and on proximity and continuous follow up. Throughout the year the Bank launched a series of solutions to ensure flexibility in the payments initially assumed by the customers, these having been taken up by 9,665 mortgage loan customers and by 2,544 consumer credit customers. Such solutions have allowed a substantial decrease in the number of private customers with delayed credit instalments, currently numbering 14% less than the numbers recorded at the end of 2011.

According to António Vieira Monteiro, Santander Totta Executive Chairman, “In spite of the economic recession that conditioned the Country in 2012, Santander Totta was able to strengthen the solidity of its accounts, attaining a 12.3% *core capital ratio* – largely in excess of that required by the authorities – and significantly increased its net income that amounted to 250 million euros.

I want to underline the excellent work carried out by the Bank's teams in an adverse economic environment, proven by the fact that the recurring income, based upon domestic commercial banking, reached 115 million euros which, on its own, almost doubles the net income obtained in the previous year. This excellent result derives, above all, from a growth in deposits, from a 9.5% reduction in operating expenses, from a strict and judicious management, capable of anticipating the risks and imparity inherent to the difficult situations that

characterize the banking business, and also to the fact that we are not supporting any costs relative to State derived capital increases or guarantees.

In 2013, we will stand more than ever closer to our customers, placing our soundness, efficiency and innovation at their service, and will continue working to deserve the preference of those to whom we are not the main supplier of banking services."

MAIN HIGHLIGHTS

- Net income amounted to 250.2 million euros, compared to 63.9 million euros recorded at the end of 2011.
- Net interest income amounted to 550.0 million euros, a homologous 2.3% reduction.
- Net commissions and other banking income amounted to 311.6 million euros, a 4.7% decrease attributable to the performance of commissions on investment funds and insurance.
- Income from insurance activity includes revenue of 198² million euros related to the monetization of Santander Totta Insurance life risk portfolio, carried out in the third quarter of the year.
- Operating expenses developed favourably, decreasing by 9.5%.
- Total impairment and net provisions amounted to 468.1 million euros, an increase framed within the Bank's conservative and judicious risk management policy, within a context of worsening of risks brought about by the economic recession.
- The loans to deposits ratio, established in line with the definitions included in the "Memorandum of Understanding", continued its sustained decrease, and now stands at 127.1%, an improvement of 12.4pp as compared with the value recorded in 2011.
- Deposits amounted to 19.7 billion euros (+3.1%) and credit (gross) decreased by 3.8%, mainly as a consequence of a lower credit demand related to the difficult economic environment.
- The Core Tier I ratio was set at 12.3%, largely in excess of the 10% required by the Bank of Portugal. Net financing with ECB amounted to 4.9 billion euros.
- Credit at risk ratio grew to 4.33% (4.23% in September 2012) and the respective cover set at 79.9%.
- Throughout 2012, the Bank was distinguished with a series of prizes of which the following stand out: (i) "Best Bank in Portugal", attributed by Euromoney magazine, within the scope of the *Euromoney Awards for Excellence*, which equally consecrated Santander as the "Best Bank in the World"; (ii) "Bank of the Year in Portugal" attributed by The Banker magazine; (iii) "Best Bank in Portugal" attributed by Global Finance magazine and (iv) "Soundest Large Bank" attributed by Exame magazine.
- The current rating notations of Bank Santander Totta long term debt as compared with the levels of the Portuguese Republic are as follows: Fitch – BBB- (Portugal: BB+), Moody's – Ba1 (Portugal: Ba3), S&P – BB (Portugal: BB) and DBRS – BBBH (Portugal: BBBL).

² Net of sold *cash flows*

BUSINESS ENVIRONMENT

The recessive environment worsened in 2012, with GDP shrinking by approximately 3% during the year. This development was in line with the consensus estimates at the beginning of the year, although the several components of the aggregate demand ended up by differing substantially: shrinkage of domestic demand was more pronounced especially at the level of private consumption; net exports had a larger contribution to GDP growth, resulting from a faster growth in exports to extra community markets.

The more pronounced shrinkage in private consumption results from the grouping of three large factors. First of all, the increase in unemployment, which at year end will have been in excess of 16%, an historical absolute maximum. Secondly, from the change in consumption habits, deriving from the increase in VAT, with households focusing their consumer expenditure in cheaper goods (such as, for instance, private labels) and reducing expenditure on services considered as non essential (eating out, for example). Equally the demand for durable goods, especially automobiles, recorded a very pronounced shrinkage. Lastly, families increased savings as a precautionary measure, even in the context of a reduction in available income. Increase in unemployment and fears that the more difficult fiscal budget balancing could demand a new surtax on one of the subsidies explain consumer moderation.

In its turn, investment will have further decreased, even if distinctly amongst sectors. Capital expenditure in construction continued shrinking pronouncedly, either through the cancelling of large public works projects (for instance, within the renegotiation of several PPP contracts by the company Estradas de Portugal), or through the reduction in house building activity.

Net exports continued being the driver of the economy, although in progressive deceleration throughout the year. The worsening of the crisis in the euro zone is resulting in a deterioration of the economic environment, with the consequent moderation in external demand. Portuguese exports are decelerating, especially those bound for Europe. For instance, exports to Spain decreased by approximately 5% in the 10 months to October, but total exports grew by 7.1%. This reflects the capability of national companies in the procurement of alternative export markets, with exceptional results obtained in extra community markets (Angola, China, Brazil and Russia, for instance).

In line with recent trends, the trade deficit has been experiencing a sustained decrease. The Bank of Portugal, in its Winter Economic Bulletin, forecasts that the balance of goods and services will have recorded a surplus of 0.3% of GDP already in 2012. This balance was already positive in the 3rd quarter of 2012, occurring for the first time since 1996, and shows that the adjustment in the external imbalance is occurring much faster than assumed by the IMF in the basic scenario of the adjustment programme. And this adjustment is yet more

substantial when taking place without exchange rate devaluation, either direct or fiscally ruled.

Fiscal budget figures obtained throughout the year showed decreased fiscal revenue, especially in the case of VAT, thus reflecting lower consumer expenditure by households, as well as changes in their consumer habits. Greater increase in unemployment is also reflected in the increase of public expenditure in family social allowances. Primary current expenditure, however, is falling in line with or even in excess of estimates. As a result, the fiscal budget deficit at year end was within the targets agreed with the international institutions, taking into consideration the concession of airport services to ANA, amounting to 1pp of GDP.

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

Throughout the year the Portuguese Treasury maintained its presence in the short term debt markets, through the issue of Treasury Bills, with maximum maturity dates increased up to 18 months. Demand, even if primarily from national investors, continued strong, and placing interest rates decreased, to 2.2% at 6 months and 2.99% at 18 months.

The Treasury carried out, in October, a public debt swap transaction, exchanging 3.8 billion euros from OT September 2013 series for an equal amount of OT October 2015 series. This transaction showed that there are investors ready to keep their portfolio of Portuguese public debt and, additionally, in extending the respective maturity dates.

Already in January 2013, the Republic returned to the financial markets with an issue of 2.5 billion euros 5 year bonds at an interest rate of 4.891%. This was a successful operation, which occurred earlier than what had been estimated by consensus and that, contrary to the views of several investors shows that, as a result of the adjustments already carried out, including the level of external imbalance, that the Republic's risk perception is now smaller.

Economic growth in the USA remained moderate. In the fourth quarter the Federal Reserve decided that monetary policy should depend even more from the evolution of the labour market, in spite of the unemployment rate having decreased to 7.8%. This level is still considered as high, with the "natural" estimated level bordering on 6.5%. As such, it stated that reference interest rates should be kept at historical minimums until 2015, and announced a reinforcement of its public debt purchasing programme (*quantitative easing*), through which it will purchase an additional 45 billion dollars per month, in addition to which it will purchase, also on a monthly basis, 40 billion dollars of securitized mortgage credits.

Economic confidence in the euro zone worsened, as a result of successive shock waves associated to the sovereign debt crisis. Although, in an initial stage, confined to the countries now known as “peripheral”, such shock waves have been passed on to the “core” countries, as well as to other geographic and economic regions. This increase in uncertainty was generally materialized in a decrease in expenditure, with a fall in private consumption and investment.

At year end, the new programme of aid to Greece was finally approved, and the following new aid measures adopted: (i) reduction of 100bp in the interest rates applicable to the bilateral loans of the first programme; (ii) reduction of 10bp in commissions on guarantees; (iii) increase in the maturities of EFSF loans by 15 years and 10 years interest grace period; and (iv) delivery to Greece of gains with the Greek public debt portfolio set up by the Eurosystem central banks.

In the second half year, the European Commission also presented its proposed “road map” for the deepening of the Economic and Monetary Union, through the setting up of a real Banking Union. The objective is, within time, to eradicate the currently existing risks deriving from the connection between the banking sector and the respective sovereign, which contributed to the breakdown of the European financial markets.

The European Central Bank made public the details of its public debt purchasing programme, the “*Outright Monetary Transactions*”. This programme aims to replace normalcy in the process of communicating monetary policy, thus eliminating the risk of convertibility that resulted in a pronounced increase in the spreads of Spanish and Italian public debt. In general terms, ECB’s intervention will be preceded by a formal request from the more exposed countries and subject to certain conditions. Once this formality is complied with, the ECB will intervene without any limitations on the shortest terms of the yield curve (up to 2 years).

RESULTS

At the end of 2012, net income of Santander Totta, SGPS amounted to 250.2 million euros, as compared with 63.9 million euros achieved in the homologous period.

	Million Euros		
	Dec-12	Dec-11	Var.
Commercial revenue	1,105.9	915.0	+20.9%
Operating income and insurance activity	1,234.0	843.2	+46.4%
Total operating expenses	(464.7)	(513.5)	-9.5%
Net operating income	769.4	329.7	+133.4%
Impairment and net provisions	(468.1)	(298.0)	+57.1%
Equity	11.9	11.3	+4.7%
Income before taxes and MI	313.2	43.1	>200%
Consolidated net income	250.2	63.9	>200%

Net interest income amounted to 550.0 million euros, an annual decrease of 2.3%. This development reflects the process of deleveraging the balance sheet and also the decrease in the Euribor rates, notwithstanding the judicious management of spreads in assets and liabilities, with an adequate segmentation of the commercial supply and of the proactive management of the sensibility in net interest income.

Net commissions and other income from banking business amounted to 311.6 million euros, a homologous 4.7% decrease resulting from lower commissions on investment funds and insurance.

Income from insurance activity amounting to 242.6 million euros includes a revenue of approximately 198 million euros related to a monetization of the life risk portfolio of Santander Totta Seguros, Companhia de Seguros de Vida, S.A. carried out in the third quarter of the year.

	Million Euros		
	Dec-12	Dec-11	Var.
Net interest income (without dividends)	550.0	562.8	-2.3%
Net commissions and other banking income	311.6	326.8	-4.7%
Insurance activity	242.6	24.1	>200%
Commercial revenue	1,105.9	915.0	+20.9%

Operating expenses amounted to 464.7 million euros, decreasing by 9.5%, mainly derived from a 13.2% decrease in personnel expenses, which reflected the average decrease in personnel numbers, the reduction of variable remuneration and the legislative change in the estimation of the death subsidy. In turn, general expenses also maintained a reducing trend, which reached 6.7%, related to the reorganization of the operational structure, and depreciation increased by 1.1%, reflecting investments carried out in information technology as well as advance depreciation deriving from branch closures.

The efficiency ratio, representing operating expenses as a percentage of operating income, improved from 60.9%, in 2011, to 37.7%, in 2012, resulting from a 46.4% increase in revenue and a simultaneous 9.5% decrease in operating expenses.

Million Euros

	Dec-12	Dec-11	Var.
Personnel expenses	(260.3)	(299.8)	-13.2%
General expenses	(140.0)	(150.1)	-6.7%
Operating expenses	(400.3)	(449.9)	-11.0%
Depreciation	(64.3)	(63.6)	+1.1%
Total operating expenses	(464.7)	(513.5)	-9.5%
Efficiency ratio (excl. depreciation)	32.4%	53.4%	-20.9 p.p.
Efficiency ratio (incl. depreciation)	37.7%	60.9%	-23.2 p.p.

Total impairment and provisions amounted to 468.1 million euros as compared with 298.0 million euros recorded in the homologous period. The reinforcement of provisions shows the judicious policy that presided to risk management, considering the recessive economic environment being faced by the Country.

Income before taxes and minority interests amounted to 313.2 million euros and net income amounted to 250.2 million euros.

BALANCE SHEET AND ACTIVITY

At the end of 2012, deposits amounted to 19.7 billion euros, evidencing a sustained growth throughout the years and recording a 3.1% homologous variation (+8.5% in respect of banking activity). In turn, investment funds and capitalization insurance products recorded decreases of respectively 5.9% and 10.0%.

The reduction in the stock of credit, both in private and in company terms, evidences the lower credit demand brought about by the ongoing deleveraging process in the Portuguese economy, amounting to 27.9 billion euros at the end of 2012, equivalent to a 3.8% homologous decrease.

Development of deposits and credit has led to a gradual rebalancing of the Bank's balance sheet, with the loans to deposits ratio, estimated in line with the agreement with the international bodies, reaching 127.1%, a 12.4pp improvement relative to December 2011.

Although a pronounced reduction is being felt in credit demand, Santander Totta's liquidity position allowed it to continue providing a policy of support to economically viable companies through the PME Invest lines, where the Bank's share has been outstanding, and to have launched, in the 4th quarter, the "Santander Totta Activation Plan" campaign, for a 1.5 billion euro financing plan directed towards the Portuguese entrepreneurial sector. The Bank has already approved 3,630 operations within this campaign, amounting to 803 million euros.

Santander Totta, SGPS

Indicators

Million Euros

	Dec-12	Dec-11	Var.
Total Gross Loans	27,908	29,012	-3.8%
<i>from which</i>			
Credit to Individuals	17,782	18,473	-3.7%
<i>from which</i>			
Mortgage	15,783	16,262	-2.9%
Consumer credit	1,414	1,573	-10.1%
Credit to Corporates	9,730	10,165	-4.3%
Small business	3,046	3,667	-16.9%
Corporates	4,587	4,826	-5.0%
Large Corporates and Institutionals	2,097	1,672	+25.4%
Resources	26,267	26,395	-0.5%
Deposits	19,660	19,074	+3.1%
Securities issued (clients)	356	471	-24.4%
Balance sheet resources	20,016	19,545	+2.4%
Investment funds	1,930	2,050	-5.9%
Insurance and other	4,321	4,800	-10.0%
Off-balance sheet resources	6,251	6,850	-8.7%

In order to face the growing financial difficulties in some household groups, Santander Totta implemented a series of solutions directed towards customers where the first signs of lack of repayment capacity have been detected, in order to avoid a worsening of the level of non compliance and to ensure, through a close follow up of each case, negotiation of new payment conditions.

2012 witnessed the restructuring of 9,665 home loan operations and of 2,544 consumer credit operations. Credit at risk ratio was set at 4.33% as compared with 4.23% at the end of September and with 2.85% in 2011. In its turn, non performing and doubtful loans ratio stood at 3.55% and the respective coverage ratio at 97.6%.

	Dec-12	Dec-11	Var.
NPL ratio (+ 90 days)	3.51%	2.19%	+1.32 p.p.
NPL coverage ratio (+90 days)	98.6%	107.1%	-8.5 p.p.
NPL and doubtful loans ratio	3.55%	2.24%	+1.31 p.p.
Net NPL and doubtful loans ratio	1.45%	1.02%	+0.43 p.p.
NPL and doubtful loans coverage ratio	97.6%	104.5%	-6.9 p.p.
"Credit at risk" ratio (according to Instruction n° 23/2011)	4.33%	2.85%	+1.48 p.p.
Risk premium*	1.50%	0.89%	+0.61 p.p.

* New entries in NPL (> 90 days), adjusted by write-offs and credit recoveries as % of loans

The ratio of new overdue credits (in excess of 90 days), net of recoveries, as a percentage of the average credit portfolio stood at 1.5%, equivalent to a 0.61pp deterioration as compared to the value recorded in the homologous period in 2011.

LIQUIDITY, SOLVENCY AND PROFITABILITY

The Bank has a portfolio of eligible assets available to guarantee financing operations with the Eurosystem, which amounted to 11.7 billion euros at the end of 2012. In turn, net resources obtained from the European Central Bank amounted to 4.9 billion euros, a decrease of 1.65 billion euros as compared to the amount recorded at the end of the 3rd quarter.

The transformation ratio stood at 127.1%, corresponding to a 12.4pp improvement as compared with the value recorded at end 2011.

At the end of 2012, Santander Totta recorded a 12.3% Core Tier I ratio, above the minimum limits demanded by the economic and financial adjustment programme, with the Tier I standing at 13.3%. Such ratios were obtained without the need to recur to the public recapitalization line and their favourable evolution shows the capacity to generate income and the decrease in risk weighted assets.

	Million Euros	
	Dec-12	Dec-11
Tier I capital	2,444	2,413
Tier II capital	-7	-6
Total capital	2,437	2,407
Risk weighted assets	18,370	20,927
Core capital *	12.3%	11.0%
Tier I *	13.3%	11.5%

(*) Excluding results generated net of payout, Core Capital is 11.7% and Tier I is 12.8%

COMMERCIAL BANKING

In 2012 the enhanced recessive environment was aggravated by the international economic and financial crisis. The commercial management model was decisive in order to minimize the impact of the current difficult circumstances.

The strategy was essentially based upon the capturing and retention of resources in value added products, in the capture of new domiciled salary accounts, in the sale of protection products (insurance) and in the control of non performing loans.

Considering the market conditions, with the lowering of the Euribor rates and the limitations set by the Bank of Portugal, a fall occurred in the rates to capture deposits, but the focus was anyway maintained in traditional savings products, programmed savings and products with controlled margins.

In this heavily competitive framework as regards capturing of deposits, Santander Totta launched a set of diversified products and solutions, materialized by structured deposits and guaranteed minimum yields. Nine issues were placed

amounting to 856 million euros and, in foreign exchange, six issues totalling 91 million US Dollars were placed throughout the year. Seven issues of capitalization insurance were also placed in the year totalling 371 million euros.

With respect to campaigns and actions to capture and bind customers, a campaign was launched in February, to last until year end, intended towards the capture of salaries and pensions, based upon the exemption of commissions on the main day-to-day services and in gift offers. A growth was recorded of approximately 50,000 global accounts (accounts that include numerous benefits for the customer, such as third party cover through the payment of a minimal monthly commission), resulting in a 39% annual growth.

The Bank launched a programme with the objective to support and settle structurally non performing situations, providing new solutions to regularize and renegotiate overdue debts adapted to the non compliance level of each customer.

Also launched were several campaigns and actions intended to capture and bind customers from the Youth and University segments, specifically the matriculation campaign that recorded a growth of 16,000 new customers. The University segment recorded an increase of 7,822 active customers and a growth in business volume amounting to 63 million euros.

In the **Premium** segment, 2012 stood out due to the success obtained with the campaigns to capture high income level customers, supported by the Bank's values in soundness, innovation, trust and service quality that are associated with the Santander Totta *Premium* label, and which allowed an important gain in market share in this very competitive segment, especially in a recessive environment such as we are currently living through.

Similarly, the investment in a greater proximity to customers with the presentation of offers adequate to each one's requirements, supported by the above referred values, ensured a relevant growth in 2012 of this segment of resources under management.

In the **Business** segment, an ongoing strategy was developed by placing a heavy focus on the sustained capture of new customers, in the binding of current customers, in the increase of transaction facilities and in the placing of POS and Business cards.

In the **Private Banking** segment, the European sovereign debt crisis was the dominant topic in 2012, which was reflected, with diversified degrees, all over the world. ECB's actions, in particular, and those of other Central Banks, as well as decisions taken by the European Union to deepen the processes of economic, banking and budgetary integration, resulted in a lessening, throughout the year, of the risk perception attributed to sovereign debt.

Consequent upon this framework, *Private* customers have kept an enhanced wish for low risk and high liquidity assets, but with a trend towards a gradual increase of

exposure to assets that may provide higher yields. Santander Totta *Private* reacted to such challenges by making available an enlarged range of products, which endeavoured to preserve the value of the asset and provided a service of proximity, trust and confidentiality.

The image of the Bank's soundness, the Euromoney Prize for "Best Private Banking in Portugal", the *Private* events and the commercial activity developed allowed the growth of the equity resources, the maintenance of the assets under management by discounting the effect of the liquidation of recoverable transactions, the increase in customer numbers and the ongoing business profitability.

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

The launching of the "**Santander Totta Activation Plan**" programme in the fourth quarter of 2012 materialized the intention of supporting gainful projects, company businesses and the Portuguese economy.

It should also be referred that the Bank continues investing in the growth of new customers that more than ever value a partnership with a Bank that enjoys the soundness, the geographical dispersal, the quality of services and products and the commercial capabilities of Santander Totta.

In the "**SME Invest Lines**", which, in recent years have assumed increased relevance, Santander Totta has kept up a policy of support for the Portuguese entrepreneurial sector, as shown by the market share in the concession of such lines that, on 31 December 2012, had reached 17%, and in the placing of more than 16,000 operations with a global value of 1.7 billion euros. Bank Santander Totta is the 1st Bank in the SME Growth line, launched in January 2012, with a 20% market share of total operations.

Santander Totta equally occupies the leadership of the SME Extension line, with a 27% adhesion rate, providing the extension of the maturity of all the operations contracted under the cover of the Invest Lines and the introduction a 1 year interest grace period which, considering the credit restrictions that companies are facing at this time, allows improvement to their liquidity positions.

The Bank is also maintaining its leadership in factoring and confirming, with a 20.3% market share (information dated November 2012), which proves the Bank's commitment and availability in supporting SME's treasuries, a vital entrepreneurial fabric for the growth of the Portuguese economy.

A substantial commercial focus is also being kept in the support for exporting and internationalized companies, where a large increase has been recorded, this year, in activity related with international business. The 2012 Top Export Conference was held in the second half year, covering the topic "Export – Experience and Opportunities", during which the TOP Export distinction was

awarded to exporting customers, with Santander Totta becoming, more than ever, a reference in this market.

GLOBAL BANKING AND MARKETS

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

In the **Credit Markets** area, the continuing restrictive economic environment maintained pressure on the economy, with significant impact on private and public investment decisions. In spite of this unfavourable context, the Bank continued as one of the few institutions with a constant presence in the analysis of existing opportunities and in the support to small promoters in the materialization of their projects, having aided several customers in restructuring financing arrangements that due to the current environment require renegotiation, with the objective of becoming adjusted to the performance and the capacity to free companies' *cash flow*.

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

The area of structured projects maintained an excellent performance in the marketing of liability products in 2012. Throughout this year 16 structured products were launched, of which 10 are euro-denominated and 6 US Dollar-denominated issues. Issues placed in this period were indexed in different classes of assets transacted in shareholder, exchange and bond markets.

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

In the area of **Institutional Custody**, business volumes remained stable and the Bank kept the 2nd place in the national ranking of Custodians, with approximately 21.2% share in the volume of assets under custody, with a 5.7% increase as compared with the previous quarter, in line with data made available by CMVM (Security Market Ruling Commission).

ASSET MANAGEMENT

Within a very difficult context, Santander Asset Management (SAM) endeavoured to manage its products with a controlled credit risk, placing its focus on maintaining high and adequate liquidity levels, and equally benefiting from opportunities provided by the market. Highlighted in the course of the year was the fund merger operation, carried out with the objective of simplifying and bringing transparency to the range offered by SAM, as well as the improved management level of efficiency.

At year end, all the security investment funds managed by Santander Asset Management showed positive profitability, namely **Santander Multitresury** (3.5% net profitability), **Santander Global** (7.1% net profitability) and share funds: **Portugal Shares** (9% net profitability), **Europe Shares** (13.6% net profitability) and **America Shares** (9.6% net profitability). Standing out as well is the launching of two new EIF's: Iberian Premium EIF, in the first half year, with a total of 48.8 million euros and Premium July 2012 EIF, in the 2nd half year, with a total of 47 million euros.

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

Fixed asset investment funds managed by SAM amounted to 581.5 million euros at end 2012, corresponding to a 5.1% market share.

INSURANCE

Standing out within the activities of Santander Totta Insurance is the launching of new products, continuing the expansion of the commercial offer of free selling products to the Bank's customers, fulfilling their needs, increasing their binding and contributing to the strengthening of its situation as the customer's premier Bank. Following these principles, "**SafeCare**" was launched, an innovative solution that combines life insurance with medical assistance cover as a complement, and "**Protecção Lar**" (Home Protection), a multirisk insurance policy.

"SafeCare" was created considering the protection of customers and their families, aiding them to preserve and care for their health and welfare, especially important in the current scenario of reform of the National Health Service and the assessment of the effort this may represent for household budgets. "SafeCare" allows the Insured Party and their households access to health care, medical consultations, tests and hospitalization in a private medicinal network – Future Healthcare Network – at more advantageous agreed prices for customers. Sales totalled approximately 11,700 since its launching on 9 July 2012, representing 16,000 insured persons.

Equally maintained was the focus on the marketing of the "**Family Protection Plan**" – a solution for the protection of family income upon death, with sales amounting to 28,600 policies, of the "**Salary Protection Plan**" – life insurance covering unemployment that sold 16,600 policies, of the "**Live Further Insurance**" – a policy guided towards the treatment of serious diseases with the best international

medical specialist consultants, which resulted in placing 7,900 policies, and also **“Protecção Lar” (Home Protection)** – multirisk insurance that sold 15,000 policies.

It should be highlighted that 81,000 policies were sold independently (not related with the Bank’s products), a 38% increase relative to the previous year, which is particularly relevant in the current environment.

With respect to financial life insurance, the launching stands out of the **“Yield Plan”** products, an *Icae unit linked* insurance, which provides a monthly and quarterly return paid as a partial redemption, which sold a total volume amounting to approximately 584 million euros in 2012.

The sale of these products was carried out through an incentive plan for the commercial network, based upon the “Smart Energy” campaign, in the 1st quarter and the Insurance 4S and Master Key competitions.

Concerning life insurance, the value of issued premiums and contributions towards investment contracts reached an amount of 695.7 million euros. In risk and mixed insurance the volume of premiums amounted to 111.3 million euros; highlight should be given to an increase of 10.5% in “open market” premiums, and to a fall in life insurance premiums connected to home loans and consumer credit.

INSTITUTIONAL INFORMATION

Banco Santander (SAN.MC, STD.N, BNC.LN) is a retail and commercial bank, based in Spain, with a presence in 10 main markets. Santander is the largest bank in the euro zone by market capitalization. Founded in 1857, Santander had EUR 1.388 trillion in managed funds, 102 million customers, 14,392 branches – more than any other international bank – and 187,000 employees at the close of 2012. It is the largest financial group in Spain and Latin America. It also has significant positions in the United Kingdom, Portugal, Germany, Poland and the northeast United States. Santander had a pre-provision profit of EUR 23.559 billion in 2012, an increase of 2% from the previous year.

Santander Totta, SGPS

Indicators

Million Euros

	Dec-12	Dec-11	Var.
Total Gross Loans	27,908	29,012	-3.8%
<i>from which</i>			
Credit to Individuals	17,782	18,473	-3.7%
<i>from which</i>			
Mortgage	15,783	16,262	-2.9%
Consumer credit	1,414	1,573	-10.1%
Credit to Corporates	9,730	10,165	-4.3%
Small business	3,046	3,667	-16.9%
Corporates	4,587	4,826	-5.0%
Large Corporates and Institutionals	2,097	1,672	+25.4%
Resources	26,267	26,395	-0.5%
Deposits	19,660	19,074	+3.1%
Securities issued (clients)	356	471	-24.4%
Balance sheet resources	20,016	19,545	+2.4%
Investment funds	1,930	2,050	-5.9%
Insurance and other	4,321	4,800	-10.0%
Off-balance sheet resources	6,251	6,850	-8.7%
By segment			
Commercial Banking Resources	23,430	24,140	-2.9%
Individuals and Small Businesses	22,095	22,240	-0.7%
Deposits	16,284	15,644	+4.1%
Securities issued (clients), Investment Funds and insurance	5,811	6,596	-11.9%
Corporates	1,335	1,900	-29.7%
Large Corporates, Institutionals and other	2,837	2,254	+25.9%

Santander Totta, SGPS

Ratios calculated in accordance with instructions n° 16/2004 and n° 23/2011 from the Bank of Portugal

	Dec-12	Dec-11	Var.
Solvency			
Core Tier I	12.3%	11.0%	+1.3 p.p.
Tier I	13.3%	11.5%	+1.8 p.p.
Solvency ratio	13.3%	11.5%	+1.8 p.p.
Credit Quality			
NPL and doubtful loans ratio	3.55%	2.24%	+1.31 p.p.
NPL and doubtful loans coverage ratio	97.6%	104.5%	-6.9 p.p.
Net NPL and doubtful loans ratio	1.45%	1.02%	+0.43 p.p.
"Credit at risk" ratio	4.33%	2.85%	+1.48 p.p.
"Credit at risk" ratio (net)	0.91%	0.57%	+0.34 p.p.
Profitability			
Income before taxes and MI/Average net assets	0.7%	0.1%	+0.6 p.p.
Operating income/Average net assets	2.9%	1.9%	+1.0 p.p.
Income before taxes and MI/Average equity	12.5%	1.6%	+10.9 p.p.
Efficiency			
Total operating expenses/Operating income	37.3%	60.1%	-22.8 p.p.
Personnel expenses/Operating income	20.9%	35.1%	-14.2 p.p.
Transformation			
Credit (net)/Deposits	138.8%	149.8%	-11.0 p.p.
Credit (net)/Deposits*	127.1%	139.5%	-12.4 p.p.

* According the definitions in the "Memorandum of Understanding"

Santander Totta, SGPS

Income Statement (*)

Million Euros

	Dec-12	Dec-11	Var.
Net interest income (without dividends)	550.0	562.8	-2.3%
Dividends	1.7	1.3	+32.9%
Net interest income	551.7	564.1	-2.2%
Net commissions	325.0	341.0	-4.7%
Other banking income	-13.4	-14.2	-5.4%
Insurance activity	242.6	24.1	>200%
Commercial revenue	1,105.9	915.0	+20.9%
Gain/loss on financial transactions	128.1	-71.9	-
Operating income and insurance activity	1,234.0	843.2	+46.4%
Total operating expenses	(464.7)	(513.5)	-9.5%
Net operating income	769.4	329.7	+133.4%
Impairment and net provisions	(468.1)	(298.0)	+57.1%
Equity	11.9	11.3	+4.7%
Income before taxes and MI	313.2	43.1	>200%
Taxes	(62.9)	20.9	<-200%
Income after taxes	250.3	64.0	>200%
Minority interests	(0.1)	(0.1)	+47.1%
Consolidated net income	250.2	63.9	>200%

(*) Not audited

Santander Totta, SGPS

Balance Sheet

Million Euros

Assets	Dec-12	Dec-11	Var.
Deposits at Central Banks	900	1,150	-21.7%
Cash, loans and advances to banks	2,935	1,919	+52.9%
Financial assets	8,608	8,941	-3.7%
Net loans	26,942	28,340	-4.9%
Hedging derivatives	285	167	+70.3%
Non current assets held to sell	207	141	+46.5%
Other tangible assets	404	441	-8.3%
Other assets	1,109	1,124	-1.3%
Total Assets	41,390	42,224	-2.0%

Liabilities and Equity	Dec-12	Dec-11	Var.
Resources from Central Banks	5,837	4,913	+18.8%
Resources from other institutions	1,947	3,240	-39.9%
Financial liabilities held for trading	1,980	1,598	+23.9%
Financial liabilities designated at fair value through profit and loss	4,065	4,038	+0.7%
Resources of customers and others	19,660	19,074	+3.1%
Debt securities issued	3,661	5,890	-37.8%
Hedging derivatives	456	283	+61.2%
Provisions	465	497	-6.4%
Subordinated liabilities	0	0	-
Other liabilities	562	417	+34.7%
Shareholder's equity	2,757	2,274	+21.2%
Total Liabilities and Equity	41,390	42,224	-2.0%