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PRESS RELEASE

Santander Totta reaches a recurring net income amounting to 62.5 million euros

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- **Recurring net income amounting to 62.5 million euros in the 1st half year, with no contribution from extraordinary items and with controlled costs**

- **The 31.9 million euro net income, in the 2nd quarter, is the highest attained since Portugal's request for financial aid**

- **The loans-to-deposits ratio is down to 136.8%, as a result of the 9.4% growth in customers' deposits**

- **The credit portfolio has inverted the downward trend with a high market share in financing to the corporate sector, within the scope of the SME Growth line (24%)**

- **Credit at risk evolving in line with estimates, below the average for the system**

- **Core Capital Ratio at 11.4%, above the minimum level demanded for end 2012 and obtained without requiring additional capital from its shareholder**

- **Comfortable positions of liquidity and capital without requiring any type of State aid, whether through the public recapitalization line, or through public guarantees to its debt issues**

- **The DBRS rating agency commenced its coverage of Banco Santander Totta in July, attributing it the best risk notation in the Portuguese banking sector at A (low)**

Santander Totta achieved a **net income of 62.5 million euros**, at the end of the 1st half of 2012, a 13.9% decrease relative to the homologous period but with a pronounced increase over the previous half year. In a very adverse and demanding environment, the results achieved emphasize, once more, the strength of the Banks' operating structure and accounts, with comfortable positioning in terms of equity and liquidity.

The result achieved in the half year has not been influenced by the gains obtained in the repurchase of securities issued within the scope of credit securitization operations, carried out in the 1st quarter, since the profit was totally cancelled by constituting non obligatory provisions, as a precautionary measure in a context of deteriorating economic conditions.

The 2nd quarter results kept the improving trend recorded since the end of the previous year, again being the best quarterly result since Portugal's request for international financial aid, similarly to the achievement in the 1st quarter.

Capital ratios continue strong, without requiring recourse to any type of share capital increase, either public or private, with the **Core Capital ratio reaching 11.4%,** a much greater level than the minimum demanded by the Bank of Portugal for end 2012, **and Tier I being set at 12.3%**. In terms of liquidity management, Santander Totta pursues a policy of continuous reinforcement of eligible asset portfolio to guarantee financing operations with the Eurosystem, which at the end of June amounted to 13.7 billion euros.

The Bank is thus keeping a unique position in the national financial system without recurring to any type of State aid, whether to reinforce its equity position through the line of public recapitalization or to reinforce its liquidity position through recourse to State guarantees.

The deleveraging process imposed within the scope of the international commitments assumed by the Portuguese State, is quietly being pursued, with the loans-to-deposits ratio recording a further reduction, to 136.8%, at the end of the half year.

Deposits continue recording a sustained growth, amounting to 19.4 billion euros at the end of June, resulting in an annualized growth of 9.4% with a strongly pronounced rate of growth in the 2nd quarter of the year.

Furthermore, the credit portfolio already shows a slight growth in the quarter, as a result of the reversal in the evolutionary trend of credit to non-financial corporates, with consecutive increases in the last two quarters.

In spite of the deterioration of the economic and financial environment, Santander Totta has maintained a comfortable position in terms of liquidity and equity thus allowing it to pursue a policy of support for companies and for the national economy, insofar as demand exists, with an adequate credit risk profile, without requiring any dependency from international financial markets. As such, Santander Totta maintains, through the **SME Investment Lines,** an outstanding intervention in the support to SME investment projects and treasury, with a 17% market share, having placed a number of operations in excess of 14,400, amounting to a total value of 1.5 billion euros.

As stated by António Vieira Monteiro, Santander Totta Chief Executive, "*In the adverse macroeconomic and financial framework of this 2nd quarter, Santander Totta continued favouring the maintenance of a high standard in the solidity of its balance sheet – the Core Capital of which at 11.4% already widely overtakes the* *year end target established by the Bank of Portugal – and its operational efficiency, recording an excellent level of recurring results in its commercial business, thus improving services rendered to its customers and strengthening its competitiveness.*

The increasing relationship and preference shown by customers for the Bank was reflected both in the 9.4% growth in deposits and in the very significant adhesion to the programme of readjustment of maturity dates and prices, prepared to support customers undergoing difficulties, namely those affected by decreases in wages or unemployment.

Additionally, Santander Totta continued to support the Portuguese Economy and the national companies and SMEs, which is shown by its leadership in the SME Growth financing programme and in the Factoring and Confirming products, with 24% and 20.4% market shares, respectively."

MAIN HIGHLIGHTS

- **Net income amounted to 62.5 million euros, a 13.9% decrease relative to the homologous period but recording a pronounced increase compared to the previous half year. This development reflects the 29.6% increase in revenue, an 8.6% reduction in operating expenses (-4.1% on a pro-forma basis) and the increase in the levels of provisioning. It should be recalled that a repurchasing operation of securities issued within the scope of securitization of credits operations was carried out during the 1st quarter of the year, however without any impact in net income since the gains obtained were totally cancelled by setting up non obligatory provisions, observing a conservative and prudent policy in risk management.**

- **The policy of rebalancing the accounts is maintained as one of the strategic priorities, resulting in the continuous improvement in the commercial gap, with the loans-to-deposits ratio (in line with definitions established in the "Memorandum of Understanding") reaching 136.8%, as compared with 152.2% recorded in June 2011.**

- **Deposits increased by 9.4%, amounting to 19.4 billion euros and credit (gross) recorded a 3.3% decrease, as a consequence of lower credit demand related to the difficult economic framework. However, the credit portfolio grew in the 2nd quarter of the year, for the first time since the start of the deleveraging process.**

- **The Santander Totta Core Tier I ratio reached 11.4%, widely above the 10% demanded by the Bank of Portugal for end 2012, and was obtained without any public help. Net financing with the ECB amounted to 5.9 billion euros.**

- **Net interest income, the main component of operating income, amounted to 284.7 million euros, a decrease of 8.1% relative to the value posted in the previous homologous half year. However, the favourable quarterly development of net interest income should be pointed out, since this is evidencing growth since the 4th quarter of 2011, reflecting the prudent management of spreads in assets and liabilities.**

- **Net commissions and other results amounted to 198.2 million euros, showing a 2.9% increase.**

- **The trend continues in the deterioration of the quality of the credit portfolio, as shown by the increase in the ratio of non performing loans (NPL). In June, the ratio of NPL and doubtful loans reached 2.90% and the NPL and doubtful loans coverage ratio was set at 99.2%. The "credit at risk" ratio, aligned with international policies, reached 4.03%. Total impairments and net provisions amounted to 250.2 million euros.**

- **Santander Totta was awarded the prize "Best Bank in Portugal", attributed by Euromoney magazine, within the scope of *Euromoney Awards for Excellence*, that equally consecrated Santander as the "Best Bank in the World".**

- **The current rating notations of Banco 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) and S&P – BB (Portugal: BB). In July, the DBRS rating agency began its coverage of Banco Santander Totta attributing it an A (low) notation for its long term debt and R-1 (low) for its short term debt.**

BUSINESS ENVIRONMENT

Quantitative and qualitative information available with respect to the second quarter indicates the continuing shrinkage of economic activity, but at a more moderate rate, reason why the homologous rate of growth may have stabilized, even if at the lower levels.

This trend is corroborated by the coincident indicators calculated by the Bank of Portugal, which already show a reversal in the growth rates of GDP and private consumption.

The current cycle is characterized by a much swifter adjustment than was expected in internal demand, especially regarding private consumption, which had already been shrinking for six consecutive quarters, including the last quarter of the half year under review. However the rate of shrinkage is becoming lower and the consumption of durable goods may have even recovered in quarterly terms, since the sales of passenger motor vehicles have increased relative to the previous quarter.

Investment, in its turn, will have continued to show a pronounced decrease, with a worsening shrinkage in the construction sector, as well as in expenditure in plant and machinery. Pressures in the credit markets, but especially the worsening of the crisis at European level, with a greater contamination to Spain and Italy and subsequent increase in uncertainty as to demand prospects, are the main factors causing the postponement of decisions concerning the expansion of installed capacity.

Net exports have continued to be the main driver of the economy, although slowing down compared to the previous quarter. The stated 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 slowing down, especially those destined for Europe. For example, sales to Spain fell by approximately 5% in the first five months of the year, but total exports grew by 9%. This reflects the capability of national enterprises to search for alternative export markets, with special success in non European markets (Angola and China, for instance).

Along with the recent trend, the trade deficit has been showing a sustained reduction. In its Summer Economic Bulletin, the Bank of Portugal has estimated that the balance of trade and services could show a surplus of 0.4% of GDP already in 2012.

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

The share capital increase for the involved institutions amounted to 7.75 billion euros. One of the institutions recurred exclusively to its shareholders, whilst two accessed the 12 billion euro recapitalization line (Bank Solvency Support Facility) established within the scope of the Programme of Economic and Financial Adjustment.

With the completion of the fourth assessment of the Programme of Economic and Financial Adjustment, by the three international institutions IMF/EC/ECB, the previous conclusion was reasserted, this being that the Programme is on course in line with expectations.

The assessment concludes that "this review confirms that the programme is making good progress amid continued strong external support. **Provided that the authorities persevere with strict programme implementation, the euro area Member States have declared they stand ready to support Portugal until market access is regained.** The efforts of the Portuguese authorities are being complemented by a strengthened EU economic policy framework and new EU initiatives to support growth and employment in Portugal and in Europe as a whole." (bold print is ours).

In spite of the existing challenges, the assessment of the international institutions also concluded that the budgetary target of 4.5% of GDP for 2012 could still be achieved without the need for additional measures.

However, the most recent data, that already includes information at VAT level, as to the total effects of the fiscal alterations put into practice at the beginning of the year (changes to the VAT rates), indicate that the largest fall in internal demand is being reflected at the level of indirect taxation. In its turn, the large increase in unemployment (that reached the historical maximum of 14.9% in 1Q2012) is being reflected on an increase in public expenditure on social allowances to families.

These two factors will hamper the strict compliance with the budgetary targets should additional measures not be adopted. However, it should be pointed out that the remaining expenditure components are evolving in line with expectations.

Externally, emphasis falls upon the euro zone, where the crisis of the sovereign debt has reached a new stage: the contamination with Spain has deepened and demanded a request for financial aid amounting to 100 billion euros to recapitalize the financial sector. This value was validated with a primary stress test exercise on the Spanish banking sector, carried out by consultants Oliver Wyman and Roland Berger, who estimated capital needs between 51 and 62 billion euros.

The Council of Europe, in its meeting on 28 and 29 June, decided that the recapitalization of the Spanish banks could be carried out directly by the European stability funds, but only after the setting up of a common European instrument of banking supervision, that would also comprise the ECB. The Council also decided to reinforce the measures of support for economic growth, by increasing the share capital of the European Investment Bank – EIB –, the reallocation of community funds and the creation of "project bonds", a common debt issued by the EU to finance investment projects, amounting to a total of 130 billion euros, or approximately 1% of European GDP.

In Greece, the second electoral process resulted in a parliamentary majority backed by the New Democracy, PASOK and DIMAR political parties, with the Government committed to comply with the agreements reached with the international institutions, but also requesting more flexible targets that would allow a less abrupt adjustment to the economy. No agreement has yet been reached to review the programme, in spite of the opening shown by the European leaders.

The ECB, reacting to the worsening signs of European recession, lowered the base interest rates, placing the refinancing rate at 0.75% and the deposit rate at 0%, this being reflected by a lowering in the market's interest rates. Even then, ECB recognizes that such measures should have a limited impact on the European economy.

The adoption of expansionist monetary policies was relatively generalized: the Chinese Central Bank decided to lower the basic interest rates, whilst the Bank of England published an increase in its public debt acquisition programme, to £375 billion (an increase of £50 billion).

RESULTS

At the end of June, Santander Totta's net income amounted to 62.5 million euros, a 13.9% decrease relative to the value recorded in the first half of 2011 but recording a pronounced increase over the previous half year.

It should be recalled that, in March, Santander Totta repurchased securities issued within the scope of credit securitization operations, gains from which were totally cancelled by strengthening the equity and, as such, had no impact on net income.

Operating income amounted to 562.6 million euros, evidencing a 29.6% increase. In turn, operating expenses evolved favourably, decreasing by 8.6% relatively to June 2011 (-4.1% on a pro-forma basis).

In spite of the positive behaviour of revenues and operating expenses, the variation in net income was conditioned by the increase in impairments and provisions, within a prudent policy of analysis of the risks to the credit portfolio, adequate to the recessive environment and to Portugal's economic perspectives.

Million Euros

	Jun-12	Jun-11	Var.
Commercial revenue	484.6	503.6	-3.8%
Operating income and insurance activity	**562.6**	**434.1**	**+29.6%**
Total operating expenses	(237.1)	(259.3)	-8.6%
Net operating income	**325.5**	**174.8**	**+86.2%**
Impairment and net provisions	(250.2)	(96.6)	+159.0%
Equity	4.6	4.9	-6.0%
Income before taxes and MI	79.9	83.1	-3.8%
Consolidated net income	**62.5**	**72.6**	**-13.9%**

Net interest income amounted to 284.7 million euros, 8.1% less than in the 2011 homologous period. The positive quarterly evolution of net interest income since the 4th quarter of 2011 should however be pointed out, evidencing a prudent management of spreads in assets and liabilities, within a very aggressive competitive environment in deposits, which has been very carefully managed through an adequate segmentation of the commercial supply. In turn, commissions and other results grew by 2.9% relative to June 2011.

Gains in financial transactions amounted to 78 million euros and include gains obtained in the repurchase of securities issued within credit securitization operations carried out in the 1st quarter. This value compares with the losses occurred in the 1st half of 2011 as a consequence of the sale of credit portfolios and securities.

As a consequence of the described development, operating income amounted to 562.6 million euros, equivalent to a 29.6% homologous increase.

Million Euros

	Jun-12	Jun-11	Var.
Net interest income (without dividends)	284.7	309.8	-8.1%
Commissions and other results	198.2	192.6	+2.9%
Commercial revenue	**484.6**	**503.6**	**-3.8%**
Gain/loss on financial transactions	78.0	(69.5)	-
Operating income and insurance activity	**562.6**	**434.1**	**+29.6%**

Operating expenses amounted to 237.1 million euros, an 8.6% reduction, mainly due to the pronounced 13.1% decrease in personnel expenses. Variation in personnel expenses is justified by the following circumstances: legislative changes in the calculation of death allowances amounting to 9.2 million euros, in June 2012, and expenses with the integration of Totta-IFIC and with early retirements, amounting to 2.4 million euros, in June 2011. Without considering these impacts, personnel expenses would have decreased by 5.6% and total operating expenses would have recorded a variation of -4.1%.

General expenses decreased by 5.3% related to the reorganization of the operational structure. In turn, depreciation increased by 6.5%, evidencing the impact of the extraordinary depreciation deriving from the closure of branches in the half year.

The movement in revenues and expenses led to an improvement in the efficiency ratio (including depreciation) which, at the end of June 2012 was set at 42.1% and to a net operating income amounting to 325.5 million euros, and thus an 86.2% increase.

Million Euros

	Jun-12	Jun-11	Var.
Personnel expenses	(134.4)	(154.6)	-13.1%
General expenses	(70.0)	(73.9)	-5.3%
Operating expenses	**(204.3)**	**(228.5)**	**-10.6%**
Depreciation	(32.8)	(30.8)	+6.5%
Total operating expenses	**(237.1)**	**(259.3)**	**-8.6%**
Efficiency ratio (excl. depreciation)	**36.3%**	**52.6%**	**-16.3 p.p.**
Efficiency ratio (incl. depreciation)	**42.1%**	**59.7%**	**-17.6 p.p.**

Total impairments and provisions amounted to 250.2 million euros that compares with 96.6 million euros in the accounts for the homologous period. As previously referred, this movement is a consequence of the strengthening of non obligatory provisions, within the context of a prudent and conservative policy in risk management, adequate to the recessionary economic environment that the Country is going through, thus totally cancelling the impact in the operating account of the gains obtained in the repurchase of the securities issued within the credit securitization operations.

Income before taxes and minority interests recorded a 3.8% decrease, amounting to 79.9 million euros, and net income amounted to 62.5 million euros.

Accounts and Activities

The development of commercial activity in the 1st half year, as compared to that at the end of June 2011, shows the sustained growth of customers' deposits, which increased by 9.4%, and the decreases in credit granted and off-balance sheet resources that decreased by 3.3% and 15.2% respectively.

The movement in deposits and credit has led to a gradual and balanced deleverage of the Bank's accounts, with the loans-to-deposits ratio, calculated in line with the agreement reached with the international institutions, improving by 15.4 pp relative to June 2011, and now set at 136.8%.

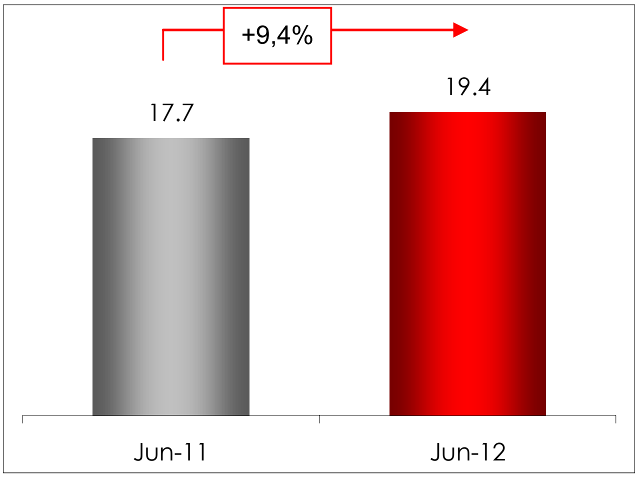
Although there is a pronounced reduction in credit demand, mainly associated to the worsening of economic perspectives and to the decrease in private individual available income, the comfortable liquidity position of Santander Totta allows continuing a policy of support to economically viable enterprises, which has been shown in the outstanding position reached in the PME Investment lines. In turn, credit to private individuals decreased by 3.7% relative to June 2011.

Million Euros

	Jun-12	Jun-11	Var.
Credit (gross)	**29,120**	**30,124**	**-3.3%**
from which			
Credit to Individuals	**18,118**	**18,808**	**-3.7%**
from which			
Mortgage	16,014	16,499	-2.9%
Consumer credit	1,487	1,627	-8.6%
Credit to SME's	**10,552**	**10,935**	**-3.5%**
Small business	3,439	3,971	-13.4%
Corporates	5,060	5,366	-5.7%
Large Corporates and Institutionals	2,053	1,598	+28.5%

Deposits grew by 9.4%, thus more than compensating the unfavourable movement of off balance sheet resources, which recorded an annual decrease of -15.2%.

Deposits (billion euros)



Total customers' resources amounted to 26.4 billion euros, an increase of 1.4% relative to the value accounted for in June 2011.

Million Euros

	Jun-12	Jun-11	Var.
Deposits	**19,357**	**17,693**	**+9.4%**
Securities issued (clients)	429	536	-20.0%
Balance sheet resources	**19,786**	**18,229**	**+8.5%**
Investment funds	1,897	2,811	-32.5%
Insurance and other	4,689	4,959	-5.4%
Off-balance sheet resources	**6,586**	**7,770**	**-15.2%**
Customers' resources	**26,372**	**25,999**	**+1.4%**

By segment

Commercial Banking Resources	**23,795**	**23,768**	**+0.1%**
Individuals and Small Businesses	**22,145**	**22,076**	**+0.3%**
Deposits	15,729	14,595	+7.8%
Securities issued (clients), Investment Funds and insurance	6,416	7,481	-14.2%
Corporates	**1,650**	**1,692**	**-2.5%**
Large Corporates, Institutionals and other	**2,577**	**2,230**	**+15.6%**

In order to avoid a greater deterioration in the quality of the credit portfolio, Santander Totta has been launching a set of measures based upon the definition of a diversified commercial approach in accordance with each customer's risk profile, through a close follow up of each situation.

At the same time greater focus is being placed in the area of recoveries, aiming towards greater swiftness and effectiveness in the resolution of non performing loans, through reinforcing negotiation with the customer as an alternative to a judicial procedure.

At the end of June, the NPL and doubtful loans ratio was set at 2.90%, as compared with 1.79% in June 2011 and the NPL and doubtful loan coverage ratio was set at 99.2%. It stands out that Santander Totta continues maintaining levels of non performing and doubtful loans below the average of the banking system, based upon the latest available data.

The credit at risk ratio, that relates non performing matured and yet to be matured loans (NPL) and restructured loans with the total value of the credit portfolio, was set at 4.03%.

	Jun-12	Jun-11	Var.
NPL ratio (+ 90 days)	2.87%	1.77%	+1.10 p.p.
NPL coverage ratio (+90 days)	100.3%	117.2%	-16.9 p.p.
NPL and doubtful loans ratio	2.90%	1.79%	+1.11 p.p.
Net NPL and doubtful loans ratio	1.33%	0.73%	+0.60 p.p.
NPL and doubtful loans coverage ratio	99.2%	116.1%	-16.9 p.p.
"Credit at risk" ratio (according to Instruction nº 23/2011)	4.03%	2.27%	+1.76 p.p.
Risk premium*	1.73%	0.64%	+1.09 p.p.

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

New entries in NPLs (in excess of 90 days), net of recoveries, as a percentage of the average value of the credit portfolio was set at 1.73% (on an annualized basis) which is equivalent to a worsening of 1.09 p.p. as compared to the value recorded in the 2011 homologous period.

LIQUIDITY, SOLVENCY AND PROFITABILITY

Considering that the market access of the Portuguese financial system is still closed down, Santander Totta continues strengthening its pool of eligible assets to be used as collateral for finance obtained with the ECB, as a result of measures agreed in the previous quarter, especially the acceptance of homogeneous pools of customer credits.

In this context, Santander Totta considers as one of its main priorities the decrease in the commercial gap, which resulted in an improvement, in homologous terms, of 15.4 pp in the loans-to-deposits ratio, which was set at 136.8% at the end of June.

At the end of the half year, Santander Totta's net financing with the Eurosystem amounted to 5.9 billion euros.

With respect to solvency, Santander Totta keeps to capital levels above the minimum 10% limit, as demanded in the programme of economic and financial adjustment for the end of 2012, with Tier ratio I reaching 12.3% and Core Tier I ratio being set at 11.4%. Such ratios have been achieved without recourse to the public recapitalization line, and their favourable evolution evidences the capacity to generate results and the decrease in risk weighted assets.

Million Euros

	Jun-12	Jun-11
Tier I capital	**2,424**	**2,621**
Tier II capital	-6	-6
Total capital	**2,418**	**2,615**
Risk weighted assets	**19,760**	**22,859**
Core capital *	**11.4%**	**10.7%**
Tier I *	**12.3%**	**11.5%**

(*) Excluding results generated net of payout, Core Capital is 11.3% and Tier I is 12.3%

At the end of June, Santander Totta's return on equity was set at 5.6%, an improvement relative to the end of the previous year, notwithstanding the continuing unfavourable economic and financial environment.

COMMERCIAL BANKING

The full implementation of the "READY" Model for Commercial Management, in 2011, created commercial dynamics capable to react to the current climate of greater difficulties.

A strategy was kept up essentially focused on capturing and retaining resources in products with added value, in capturing new payroll accounts and in the control of non performing loans. The latter is a priority item, permanently focused by the commercial teams.

Market conditions and the limitations imposed by the Bank of Portugal implied an adjustment in the interest rates offered for capturing deposits, however, the focus on traditional savings products and programmed savings was kept up.

Santander Totta launched a series of products and diversified solutions, embodied by structured deposits with guaranteed capital and minimum yield, financial insurance and programmed savings products.

Standing out amongst the products launched during the half year is the **SuperStar Deposit** – the carries an attractive yield and was used as the base for "soft sponsoring" communication in large audience soap operas – and **Super Idols Savings Deposits** – a solution launched within the scope of the Bank's sponsorship of the Idols programme, which rewards the amount and the period of permanence with the product.

With reference to customer capturing and binding, several actions and campaigns were launched to capture salaries/pensions, based upon the exemption of commissions on the main day-to-day services and on the offering of gifts.

As a means to prevent the increase in non performing and doubtful loans and in order to maintain full commitment to customers, the policy, commenced in 2011, to implement new solutions for regularization and renegotiation of pending loans, was adapted to cater to the level of non performance of each customer.

In the 2nd quarter, the Bank launched the IRIS programme, which aims to support and structurally resolve customers' non performance situations. On a first stage the plan approached a discreet set of customers with non performing mortgage loans.

In the ***Premium*** segment a policy based upon 3 fundamental pillars continued being implemented: quality of service, setting up opportunities in order that customers may increase the diversification of their assets, and the marketing of added value products and services, which allowed capturing new customers for the segment.

Singled out is the Bank's strong investment in training of *Premium* managers, which was embodied, in the first half year, in a number of training actions, amongst which stands out, due to its unquestionable value, training in Neurosales relationships.

The macroeconomic scenario continues challenging, however, and the capability to offer added value products has contributed towards setting up opportunities for customers to increase their asset diversification, thus resulting in a reduction of exposure to risk and in an increase in capital preservation.

To be equally singled out is, in January and in March, the launching of new sight deposit accounts – the **Super Global Accounts** – through which customers access a wide set of advantages, which comprise exemption of commissions and offers of insurance, with a fixed monthly charge. This offer was adapted to the different segments, namely the "+55", and offers especially attractive conditions to customers who domicile their salaries/pensions with the Bank.

In this half year part of the business in mortgages was redirected to financing the real estate portfolio and real estate that had been built with loans from Santander Totta. Very competitive pricing and financial conditions were thus put forward, investing on a greater disclosure of such conditions.

Additionally, in the face of the current economic environment and of the growing financial constraints of Portuguese households, this business was especially focused in designing and implementing swift solutions adapted to each Customer's situation, aiming towards the immediate reduction of the monthly expenses of families in greater difficulties.

In the ***Private Banking*** area, and deriving namely from uncertainties in sovereign debt issuance, continuity of the euro and solidity of the institutions, the Bank has strengthened customers' requirements for low risk and highly liquid assets. The Santander Totta *Private* responded to these challenges by making available a wide scope of products that endeavour preserving the assets under management and to provide a service based upon confidentiality, proximity and trust.

Simultaneously, the solidity of Banco Santander Totta was recognized with the award of the **Euromoney prize for best Private Banking** in Portugal, by improving the level of satisfaction and capability for attracting customers

In June 2012, the operating income of the **Means of Payment** area, which encompasses debit cards and TPA's, grew by 6.8% in homologous terms, countering the market's negative trend, and resulting in a greater capturing of customers and their binding and the excellence of the services placed at their disposal.

A number of initiatives to render the portfolio profitable and to promote the use of cards were launched, through invoicing and revolving campaigns, amongst which stands out the *Light* Summer campaign, providing benefits to customers in terms of offers and discounts and rewarding the regular use of our cards. Several support actions were also established through setting up new instruments to aid the commercial network, with new swift adhesion leaflets, sales guides and a permanently updated card panel comprising all the ongoing relevant actions.

In spite of the general pessimism that is current in Portugal, the global card issues grew annually by 2.2%, with a reduction in the number of cards cancelled by customers and with market shares evolving positively. Santander Totta's invoicing market share continued in excess of 10% at the end of the half year.

Santander Totta continues enjoying the acceptance of a major part of the larger retailers, which resulted in TPA commissions being 24% above the homologous value. Market share at 17.4% is much higher than Santander Totta's normal share, a result of the canvassing operations with the larger sized customers, of their greater fidelity and of retention policies, repricing and promotional campaigns.

The **Corporate** network, in the first half year of 2012, kept up a strategy based upon a balanced management between the volumes of the credit portfolio and of resources, guaranteeing the sustained growth of the profitability of the commercial network.

As to pricing strategy, Santander Totta continues adjusting the prices of new credit operations to the country's economic and financial environment.

Resulting from the focus of attention given to the SME Investment lines, Santander Totta maintained an outstanding position with a 17% market share. Until June 2012, the bank placed more than 14,400 operations in these support lines, amounting to a total value of 1.5 billion euros.

It should be emphasized that Santander Totta is the leading Bank in the SME Growth line, launched in January of the current year, with a 24% market share in total transactions, amounting to 321 million euros, and also detains the first position in the SME Enlargement line, with a 26% adhesion rate.

Equally outstanding is Santander Totta's leadership in *factoring* and *confirming*, with a 20.4% market share (as at May 2012), which proves the commitment and availability of the Bank in supporting SME treasuries, a vital entrepreneurial fabric for the growth of the Portuguese economy.

GLOBAL BANKING AND MARKETS

In the ***Credit Markets*** area, the current economic environment and the aid programme agreed with the *Troika* (IMF/EU/ECB) led the State to commence negotiating procedures with the concessionaires of the several projects carried out by Public Private Partnerships (PPPs) to reduce the amounts payable, through the reduction of the objects of the concessions. In this context, Santander Totta has been following up these negotiations and supporting its customers in the search for the best solutions.

In the area of financing acquisitions and projects, the Bank continues very active, and is analysing and structuring at this time the financing of several transactions for the acquisition of Portuguese companies and assets on behalf of Portuguese and international corporate customers, as well as several projects in the area of renewable energies. Still in this area Santander Totta has actively supported several customers and projects in restructuring their financing operations in order to adjust the companies' situations and their capacity to liberate funds.

Concerning ***Fixed Income***, Santander Totta has continued supporting its customers in managing interest rate risks through products providing basic risk coverage and global liquidity management products, the latter specifically for customers operating international businesses.

The management of exchange rate risk evinced growth based upon the increment in the customer base and as a complement to the Bank's stake on international business. Santander Totta surges as a natural partner of Portuguese exporting and importing companies, investing in its capacity to offer products that allow the efficient management of the exchange rate risk. Outstanding is the fact that the Bank was considered by *Global Finance* magazine as the best institution in Portugal in the area of exchange rate risk management, for the second consecutive time, and was appointed as the "World's Best Foreign Exchange Providers 2012".

In the ***Equity*** area, in the first half year of 2012, Santander Totta continued performing well in the marketing of structured products. Eight structured products were issued in the latter six months, six of which expressed in euros, amounting to a total of 471 million euros, and two expressed in US$ amounting to a total of 19.6 million US$. The issues placed in this period are indexed to different types of assets: Swiss equity market, German bond market, commodities market, euro zone equity market, equity market of companies with close links to emergent markets, equity market of oil producing companies and North American equity market, amongst others.

With respect to business in ***Cash Equities***, in spite of a favourable start to the year, the end of the half year, mainly the months of April and May, was branded by a climate of pessimism that drove the majority of private/retail customers away from the stock exchanges, and adopted a much more cautious attitude. Together with the fall in the markets, a notorious lack of liquidity was recorded, resulting in days when transacted volumes in the Portuguese market fell below 50 million euros. The Bank decided to focus the share brokerage business on the Spanish institutional segment, thus allowing a global and diversified offer for this range. Locally, the Santander Totta continued investing its efforts in energizing the retail segment, especially in the range of *Private Banking*.

Santander Totta's area of **Institutional Custody**, notwithstanding the financial crisis and the uncertainties of the financial markets, particularly in Portugal, has kept 2nd place in the national ranking of Custody Keepers, with approximately 23.1% market share in the volume of assets under custody, according to the last data made available by the Securities Market Commission (CMVM).

ASSET MANAGEMENT

Santander's performance in Asset Management in the last few years has been ruled by the management of its products with a controlled risk level, focusing on maintaining high and adequate liquidity levels, and benefiting from the opportunities provided by the market.

This strategy resulted in the recording, at the end of the first half of 2012, positive yield rates in most of the mutual funds managed by the company, namely: **Santander Multitreasurary** (5.9% gross annualized yield), **Santander Fixed Multirate** (3.9% gross annualized yield and **the Best European Fixed Rate Fund in 2011), Santander Global** (6.3% gross annualized yield) **and Santander America Shares** (Best North American Shares Fund at 1 and 2 years, as well as the **Best national security Investment Fund for a 12 month period)**.

In this context, and in spite of the instability in the financial markets, the core range of Santander Asset Management funds has shown appreciable yields in 2012, both in absolute and in relative terms.

The 1st half of 2012 also stood out due to the launching of the FEI Iberian Premium (totalling 48.8 million euros), but equally due to the energizing of its current range of funds, which totals 34 investment funds. Additionally the maturity of the FEI Santander Europe Invest became due (totalling 45.4 million euros).

In June 2012, the mutual funds managed by Santander Asset Management had an 11.8% market share.

With respect to real estate investment funds, yields obtained reflected the existing economic crisis and the current difficulties being encountered in the Portuguese real estate market. As such, the performance of the funds was generated through the rentals paid by the tenants. The half year was essentially marked by the renegotiation of the rental contracts with several tenants. in which the counterpart of reduced rental amounts was established as the enlargement of the obligatory contractual rental periods. At the end of the half year, real estate investment funds managed by Santander Asset Management totalled approximately 591.4 million euros, equivalent to an approximate market share of 6.6%.

INSURANCE

With regard to financial life insurance, the appreciable commercial performance stands out in the monthly launching of financial insurance policies, which were named Income Plan, as non standardized unit linked "Icae" Insurance policies, intending to provide a monthly and quarterly return (calculated on the basis of the amount subscribed and paid under the form of a partial redemption), with a total marketed volume amounting to approximately 366 million euros, in the 1st half of 2012.

In the year's 2nd quarter the new commercial approach stands out in the sale of life insurance policies in the open market, the **Family Protection 50x2%**. This concept, inspired in best Group practice, is based upon a more intuitive message to the customer – "Protect the Family with 50 Salaries / Monthly incomes at a cost of only 2% of the salary / income". This message calls upon the interest of the customer in protecting a fundamental financial need, which is the family's monthly income in case of death or disability. Sales of this product attained more than 18,400 plans sold until end June.

Also made available was a new open market solution – **Home Protection**. This is an insurance policy covering household effects and/or the building with excellent coverage and simple contractual procedure, achieving a wider customer target (customers that live in their own houses or customer that live in rented houses). Over 4,100 policies were placed.

Marketing was also kept focused on the **Salary Protection Plan** – life insurance covering unemployment and on **Live More** – insurance covering serious ailments with the best international medical specialists.

The sale of these products was energized through good coordination with the commercial dynamics area of the broker/bank, based upon the **Smart Energy** campaign, in the 1st quarter, and in the **4S Insurance** contest, focused upon the energizing of those products.

In life insurance, the value of premiums issued and contributions to investment contracts amounted to 435.9 million euros. In risk and mixed insurance policies premiums amounted to 54.6 million euros, with its good performance standing out in the marketing of products in "open market", and the reduction in the production of life insurance linked to home loans and consumer loans.

INSTITUTIONAL INFORMATION

Santander (SAN.MC, STD.N, BNC.LN) is a commercial bank with chartered offices in Spain and is active in 10 main markets. Santander is the foremost Bank in the Euro zone and one of the 15 world's largest in market capitalisation. Founded in 1857, it has 1,383 billion euros in managed funds. Santander has more than 102 million customers, 14,760 branches – more than any other international bank – and 193,000 employees. It is the main financial group in Spain and in Latin America, with relevant positions in the United Kingdom, Portugal, Germany, Poland and in the north eastern United States of America. Santander Consumer Finance operates in the main markets of the Group and in the northern countries. In 2011, Santander recorded a net recurring result of 7,021 million euros.

Santander Totta, SGPS

Indicators

Million Euros

	Jun-12	Jun-11	Var.
Total Gross Loans (*)	**29,120**	**30,124**	**-3.3%**
from which			
Credit to Individuals	18,118	18,808	-3.7%
from which			
Mortgage	16,014	16,499	-2.9%
Consumer credit	1,487	1,627	-8.6%
Credit to Corporates	**10,552**	**10,935**	**-3.5%**
Small business	3,439	3,971	-13.4%
Corporates	5,060	5,366	-5.7%
Large Corporates and Institutionals	2,053	1,598	+28.5%
Resources	**26,372**	**25,999**	**+1.4%**
Commercial Banking	**23,795**	**23,768**	**+0.1%**
Individuals and Small Businesses	**22,145**	**22,076**	**+0.3%**
Deposits	15,729	14,595	+7.8%
Securities issued (clients), Inv. Funds, Insurance & Other	6,416	7,481	-14.2%
Corporates	**1,650**	**1,692**	**-2.5%**
Large Corporates, Institutionals and other	**2,577**	**2,230**	**+15.6%**
ROE	**5.6%**	**5.2%**	**+0.4 p.p.**
Efficiency ratio (excl. depreciation)	**36.3%**	**52.6%**	**-16.3 p.p.**
Efficiency ratio (incl. depreciation)	**42.1%**	**59.7%**	**-17.6 p.p.**

Santander Totta, SGPS

Ratios calculated in accordance with instructions nº 16/2004 and nº 23/2011 from the Bank of Portugal

	Jun-12	Jun-11	Var.
Solvency			
Core Tier I	11.4%	10.7%	+0.7 p.p.
Tier I	12.3%	11.5%	+0.8 p.p.
Solvency ratio	12.2%	11.4%	+0.8 p.p.
Credit Quality			
NPL and doubtful loans ratio	2.90%	1.79%	+1.11 p.p.
NPL and doubtful loans coverage ratio	99.2%	116.1%	-16.9 p.p.
Net NPL and doubtful loans ratio	1.33%	0.73%	+0.60 p.p.
"Credit at risk" ratio	4.03%	2.27%	+1.76 p.p.
"Credit at risk" ratio (net)	1.21%	0.24%	+0.97 p.p.
Profitability			
Income before taxes and MI/Average net assets	0.4%	0.4%	+0.0 p.p.
Operating income/Average net assets	2.7%	1.9%	+0.9 p.p.
Income before taxes and MI/Average equity	6.5%	5.6%	+0.9 p.p.
Efficiency			
Total operating expenses/Operating income	41.8%	59.1%	-17.3 p.p.
Personnel expenses/Operating income	23.7%	35.2%	-11.5 p.p.
Transformation			
Credit (net)/Deposits	147.4%	167.9%	-20.5 p.p.
"Leveraging ratio"*	136.8%	152.2%	-15.4 p.p.

* According the definitions in the "Memorandum of Understanding"

Santander Totta, SGPS

Income Statement (*)

Million Euros

	Jun-12	Jun-11	Var.
Net interest income (without dividends)	**284.7**	**309.8**	**-8.1%**
Dividends	1.6	1.2	+32.8%
Net interest income	**286.4**	**311.0**	**-7.9%**
Commissions and other results	198.2	192.6	+2.9%
Commercial revenue	**484.6**	**503.6**	**-3.8%**
Gain/loss on financial transactions	78.0	-69.5	-
Operating income and insurance activity	**562.6**	**434.1**	**+29.6%**
Total operating expenses	(237.1)	(259.3)	-8.6%
Personnel expenses	(134.4)	(154.6)	-13.1%
General expenses	(70.0)	(73.9)	-5.3%
Depreciation	(32.8)	(30.8)	+6.5%
Net operating income	**325.5**	**174.8**	**+86.2%**
Impairment and net provisions	(250.2)	(96.6)	+159.0%
Equity	4.6	4.9	-6.0%
Income before taxes and MI	**79.9**	**83.1**	**-3.8%**
Taxes	(17.4)	(10.5)	+66.3%
Income after taxes	62.5	72.7	-13.9%
Minority interests	(0.1)	(0.1)	-22.2%
Consolidated net income	**62.5**	**72.6**	**-13.9%**

(*) Not audited

Santander Totta, SGPS

Balance Sheet

Million Euros

Assets	Jun-12	Jun-11	Var.
Deposits at Central Banks	900	710	+26.8%
Cash, loans and advances to banks	1,736	1,390	+25.0%
Financial assets	9,697	8,007	+21.1%
Net loans	28,282	29,530	-4.2%
Hedging derivatives	197	50	>200%
Non current assets held to sell	180	121	+48.4%
Other tangible assets	430	457	-5.8%
Other assets	1,180	1,245	-5.2%
Total Assets	**42,603**	**41,509**	**+2.6%**

Liabilities and Equity	Jun-12	Jun-11	Var.
Resources from Central Banks	6,852	3,471	+97.4%
Resources from other institutions	2,345	4,702	-50.1%
Financial liabilities held for trading	1,800	1,171	+53.7%
Financial liabilities designated at fair value through profit and loss	4,144	4,148	-0.1%
Resources of customers and others	19,357	17,693	+9.4%
Debt securities issued	4,426	6,337	-30.1%
Hedging derivatives	314	149	+110.3%
Provisions	471	545	-13.6%
Subordinated liabilities	0	0	-
Other liabilities	471	563	-16.3%
Shareholder's equity	2,421	2,730	-11.3%
Total Liabilities and Equity	**42,603**	**41,509**	**+2.6%**