

## Santander Totta, SGPS, SA

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Corporate Entity No. 507 096 851

Share Capital: € 1,972,962,079.58

Head Office: Rua do Ouro, 88 – 1100-063 Lisbon

## PRESS RELEASE

### Santander Totta reaches 230.4 million in net income, strengthening the solidity of the institution

Lisbon, 25 October 2012

- **230.4 million euros in net income, allowing the increase of the Core Capital ratio to 12.0%, materially above the minimum level demanded for end 2012 and attained solely with recourse to internally generated income**
- **Loan/deposit ratio reaches 134.5% at the end of September, showing an improvement relative to the homologous period (-10.4pp) and already achieving the objective set for end 2012**
- **Customer's deposits continued showing sustained growth, with a homologous variation of 8.4% in banking business. In turn, the credit portfolio is slowing down, in line with market trends**
- **The support programme for customers' non performing situations is showing good results, evidenced by the reduction in the number of non performing loans.**
- **Credit at risk at 4.23%, is evolving in line with expectation and stands below the average for the system**
- **Comfortable liquidity and equity positions, obtained without need for recourse to any type of public aid**

At the end of September 2012, Santander Totta, SGPS (in this Press Release referred to as "Santander Totta" or "Bank") obtained a **net income amounting to 230.4 million euros**. Within a very difficult and demanding economic and financial environment, the results achieved continue showing solid accounts and operational structure, with comfortable positions in terms of capital and liquidity.

The Core Capital ratio reached 12.0%, a much higher level than that demanded by the Bank of Portugal for end 2012, and with no need for recourse to any type of public or private share capital increase, with the Tier I ratio attaining 13.0%.

The Bank continues strengthening its portfolio of eligible assets as guarantees for financing operations with the Eurosystem which, at the end of September reached 14.3 billion euros. On the other hand, the net financing with the Eurosystem reached 6.6 billion euros.

The policy followed in liquidity management and in the rebalancing of the balance sheet has resulted in a significant improvement in the commercial gap, with the loan/deposit ratio having reduced to 134.5% at the end of September, already below the objective set for end 2012.

Deposits increased by 5.8% in homologous terms (+8.4% in banking business) and with a sustained growth in the first nine months of the year. In turn, the credit portfolio at end September amounted to 28.4 billion euros. In the **SME Invest Lines**, the Bank is maintaining an outstanding intervention in support of investment projects and of SME treasuries, with a 17% market share, and having placed more than 16 thousand operations, amounting to a total of 1.7 billion euros.

In order to overcome households' growing financial difficulties, the Bank has been implementing a number of solutions addressed to customers at risk, thus avoiding a worsening of the level of non performance and ensuring the resolution of these families' problems in the currently difficult context of the Portuguese economy. Throughout the year the Bank has launched a number of solutions to ensure flexibility for the payments assumed by the customers, which have been put to use by 6,050 customers in the area of home loans and by 1,500 consumer credit customers. Such solutions have allowed a substantial reduction in the number of customers with delayed credit instalments, which are now approximately 6% below the numbers recorded at end 2011.

In accordance with António Vieira Monteiro, Executive Chairman of Santander Totta, *"Santander Totta Bank, in spite of the unfavourable economic environment, continues recording good results, due to its business activities and its franchising of customers, and achieving a sustained growth in balance sheet deposits, thus strengthening the Bank's solidity and liquidity and, as a result, its capacity to service and support the Portuguese economy."*

*I would like to emphasize, in this quarter, the fact that Santander Totta continues achieving high market shares in the SME Invest Lines, as well as its placing a definite stake on aiding internationalization. I equally underline the programme we implemented a few months ago, to renegotiate and bring flexibility to family loans, which has brought excellent results, reflected in the fact that we have already finalized approximately 7,500 agreements with private customers.*

*Santander Totta, which is the sole large Bank that did not require recourse to State aid for the purpose of increasing its share capital or its liquidity, is showing a 12% core capital ratio, obtained through internal income generation, which is clearly in excess of the 10% ratio demanded by the authorities at the end of the current year."*

## MAIN HIGHLIGHTS

- Net income amounted to 230.4 million euros, as compared to 60.2 million euros in the homologous period last year.
- Net interest income amounted to 427.9 million euros, a 2.0% reduction relative to that recorded in September 2011, with the 3rd quarter value practically aligning with that recorded in the previous quarter.
- Net commissions and other banking income amounted to 248.0 million euros, showing a 5.1% reduction, attributable to commission performance in GBM (Global Banking and Markets), investment funds and insurance.
- Results of the insurance activity include 220 million euro revenue related with a monetization operation of Santander Totta Insurance, carried out in the 3rd quarter of the year.
- Operating expenses have been kept to a minimum and decreased by 8.0%.
- Total net impairments and provisions evolved to 363.3 million euros, a reinforcement framed within the conservative and prudent policy of the Bank's risk management.
- The loans-to-deposits ratio, calculated in line with the recommendations of the "Memorandum of Understanding", continues its sustained decrease, and has now reached 134.5%, an improvement of 10.4pp in relation to September 2011.
- Deposits increased to 19.6 billion euros (+5.8%) and credit (gross) decreased by 3.9%, mainly as a consequence of a lower demand for credit related to the difficult economic environment.
- The Core Tier I ratio reached 12.0%, largely above the 10% demanded by the Bank of Portugal for end 2012, and obtained without public aid. Net financing obtained with the ECB amounted to 6.6 billion euros.
- The credit at risk ratio evolved to 4.23% (2.34% in September 2011) and the respective coverage was 75.9%.
- In the first nine months of the year the Bank received the prize for "The Best Bank in Portugal", attributed by Euromoney Magazine, within the scope of the "Euromoney Awards for Excellence", that equally consecrated Santander as the Best Bank in the World.
- The current *rating* notations of Bank Santander Totta's long term debt as compared with the levels of the Portuguese Republic are the following: Fitch – BBB- (Portugal: BB+), Moody's – Ba1 (Portugal: Ba3), S&P – BB (Portugal: BB) and DBRS – BBBH (Portugal: BBBL).

## BUSINESS ENVIRONMENT

The Portuguese economy continues in a recessive environment, in spite of the moderate pace of quarterly shrinkage compared to the previous quarter, and which also mitigates the homologous rate of contraction.

Shrinkage in internal demand continues as the main factor explaining this adverse development, to which is added a lower positive contribution of net exports, starting to reflect the worsening of the external environment, especially in Europe.

Private demand will have eased the rate of contraction, especially in the case of retail sales, with a slight improvement perceived during the holiday period. Automobile sales, however, again fell to historical minimums, resulting from the uncertainty that still persists as to available family income, which affects decisions over the purchase of durable goods.

Available information concerning capital expenditure continues confirming the ongoing trend of contraction but, such as private consumption with a lesser pronounced rate than that in the previous quarter. This trend was generalized over different segments, such as civil construction and expenses with plant and equipment. The falls in domestic and external demand are factors that contribute towards the postponement of decisions for renewal of equipment or even for the expansion of installed capacity.

The sole positive contribution to growth results from net exports, although losing dynamism as compared with the previous quarters, especially due to the decrease in sales to Europe where the economic environment continues worsening. Exports outside the EU continue very dynamic, with increases recorded even in August, reflecting the focus placed by Portuguese companies throughout the last quarters in searching for new export markets.

Imports slightly eased the rate of shrinkage, mainly due to fuels (but especially due to the price effect).

Reduction in the trade deficit continues and information relative to the Balance of Current and Capital Accounts already show a surplus in July, which occurs for the first time in such a visible form since 1996. The swift correction of the external imbalance is thus confirmed, but at a higher rate than what was initially foreseen in the adjustment programme.

This is a reflection of the heavy adjustment to the level of financing capacity of the private sector, which was more pronounced during the latter quarters. In the second quarter the deficit in the Balance of the Current and Capital Accounts was set at 2.0% of GDP, whilst the private sector had a financing capacity of 5.0% of GDP. Families' savings rates increased, in this period, to 10.9%.

The public sector, however, continues responsible for the main adjustment to be carried out, since the deficit of the General Government departments is still above the 5.0% annual objective (after the review carried out within the scope of 5th quarterly assessment to the Programme of Economic and Financial Adjustment - PEFA, concluded in September). This divergence results mostly from the evolution in fiscal revenue, which is below estimates, especially in relation to VAT: the shrinkage in internal demand and the changes in the pattern of household consumption resulted in a fall in VAT revenue as compared to 2011 figures.

Concerning expenditure, reduction continues in line with estimates and, in some cases (personnel expenses) at a higher than expected rate.

The Government announced that it would be adopting additional measures to comply with the new budgetary target, including extraordinary measures assessed at 1pp of GDP (and that includes revenue equivalent to 0.75pp of GDP through the concession of airport services to ANA – Aeroportos de Portugal - that is the stage of becoming privatized).

For 2013, the Government's objective is to reduce the budgetary deficit to 4.5% of GDP, which demands measures amounting to 1.5pp of GDP, to which is added the adoption of measures assessed at more than 1.3pp to cover the impact of the adverse economic cycle (which worsens the expenditure with unemployment pay and reduces the tax bases).

Additionally, the Government had to adopt a number of extra measures to overcome the decision of the Constitutional Court that resulted in the repositioning of a subsidy for the Civil Service and of 1.1 subsidies for pensioners. This measure has an impact of 1.2pp of GDP on expenditure, cancelling the impact of the cuts in expenditure already considered.

Such measures include increases in personal income tax (IRS), with a reduction in the number of tax brackets, and an increase in the tax rates.

This greater dependence on revenue for reduction of the deficit increases uncertainty as to budgetary execution, insofar as the external environment worsens the risks associated to the weakness in internal demand.

After the completion of the fifth assessment to the Programme for Economic and Financial Adjustment, by the three international institutions IMF/EC/ECB, the previous conclusion was reasserted, that the Programme was being carried out in line with expectations.

The assessment concludes stating that "The authorities continue preparing the return to market financing during 2013 and are committed to cover the additional financing needs arising from the revised consolidation path. **Provided the authorities persevere with strict program implementation, euro area member states have declared they stand ready to support Portugal until full market access is regained.**" (our enhancement).

Externally, the available indicators signal a greater worsening of the economic environment in the euro zone, with increased recession in countries with new processes of budgetary adjustment, such as Spain. The final results of the audit carried out by consultants Oliver Wyman to the Spanish banking system confirmed capital requirements amounting to 59.3 billion euros, near enough the initial estimate of 51-62 billions. Santander, BBVA and LaCaixa Banks do not require recapitalization.

The European Central Bank maintained its reference interest rates at 0.75%, but announced the details of its programme for the purchase of public debt, the "Outright Monetary Transactions". This programme aims to replace normality in the transmission process of monetary policy, when eliminating the risk of convertibility that resulted in a pronounced increase in the *spreads* of Spanish and Italian public debt. In general terms, the ECB's intervention will be preceded by a formal request from the more affected countries and is subject to conditionality. Once this formality is completed, the ECB will have unlimited intervention over the shorter terms of the income curve (up to 2 years).

For countries already undergoing adjustment programmes, such as Portugal, the ECB regards the possibility of intervention when access to the market becomes a reality. Portugal is currently testing several means to ensure this access to the market in 2013, and has already carried out a debt exchange operation, repurchasing part of a bond issue that falls due in September 2013 by reinforcing the October 2015 bond issue (3.8 billions of September 2013 Treasury Bonds, that is, 40% of the total). Full access to the market could consist in the issue of a new benchmark series, to be decided during 2013.

In the USA, the Federal Reserve decided that its monetary policy should depend more on the movement of the unemployment rate which, although decreasing to 7.8% in September, is perceived as still being much in excess of its "natural" level. As such, it advised that interest rates should continue at the current historical minimums until 2015, and announced a reinforcement of its programme of purchasing financial assets ("Quantitative Easing"), within which it will carry out US\$40 billion extra monthly purchases in mortgage credit securities.

## **RESULTS**

At the end of the first nine months of 2012, the net income of Santander Totta, SGPS amounted to 230.4 million euros, which compares with 60.2 million euros at in the homologous period.

Million Euros

	Sep-12	Sep-11	Var.
Commercial revenue	930.8	714.0	+30.4%
<b>Operating income and insurance activity</b>	<b>1,039.3</b>	<b>639.2</b>	<b>+62.6%</b>
Total operating expenses	(360.3)	(391.5)	-8.0%
<b>Net operating income</b>	<b>679.0</b>	<b>247.7</b>	<b>+174.1%</b>
Impairment and net provisions	(363.3)	(186.7)	+94.6%
Equity	7.6	8.0	-5.4%
Income before taxes and MI	323.3	69.0	>200%
<b>Consolidated net income</b>	<b>230.4</b>	<b>60.2</b>	<b>&gt;200%</b>

Net interest income amounted to 427.9 million euros, a decrease of 2.0% relative to September 2011 and the value for the 3rd quarter was slightly lower than that obtained in the previous quarter. This development demonstrates a prudent management of the *spreads* and an adequate segmentation of the commercial supply.

Net commissions and other results of the banking business amounted to 248.0 million euros, a homologous decrease of -5.1%, caused by lower commissions in the GBM (Global Banking and Markets) area, funds and insurance.

Results of the insurance activity include a gross revenue of approximately 220 million euros related to a monetizing operation of the life risk portfolio of Santander Totta Seguros, Companhia de Seguros de Vida, S.A., carried out in the 3rd quarter of the year.

Million Euros

	Sep-12	Sep-11	Var.
Net interest income (without dividends)	427.9	436.9	-2.0%
Net commissions and other banking income	248.0	261.3	-5.1%
Insurance activity	253.3	14.6	>200%
<b>Commercial revenue</b>	<b>930.8</b>	<b>714.0</b>	<b>+30.4%</b>

Operating expenses amounted to 360.3 million euros, an 8.0% decrease, mainly caused by a decrease of 11.3% in personnel expenses. In turn, general expenses also maintained a lowering trend, related to the reorganization of the operational structure, showing a homologous variation of -5.9%. Depreciation increased by 3.4%, demonstrating the impact of the closing down of several branches during the first nine months of the year.

The movement in revenues and expenses led to the improvement of the efficiency ratio (including depreciation) which, at the end of September 2012 was set at 34.7%, and to a net operating income amounting to 679.0 million euros.



Million Euros

	Sep-12	Sep-11	Var.
Personnel expenses	(206.9)	(233.2)	-11.3%
General expenses	(104.6)	(111.2)	-5.9%
<b>Operating expenses</b>	<b>(311.6)</b>	<b>(344.4)</b>	<b>-9.5%</b>
Depreciation	(48.7)	(47.1)	+3.4%
<b>Total operating expenses</b>	<b>(360.3)</b>	<b>(391.5)</b>	<b>-8.0%</b>
<b>Efficiency ratio</b> (excl. depreciation)	<b>30.0%</b>	<b>53.9%</b>	<b>-23.9 p.p.</b>
<b>Efficiency ratio</b> (incl. depreciation)	<b>34.7%</b>	<b>61.3%</b>	<b>-26.6 p.p.</b>

Total impairments and provisions amounted to 363.3 million euros that compare with 186.7 million euros accounted for in the homologous period. Strengthening of provisions demonstrates a prudent policy in risk management, considering the recessive economic environment that the Country is going through.

Income before taxes and minority interests amounted to 323.3 million euros and net income to 230.4 million euros.

## BALANCE SHEET AND ACTIVITY

Throughout 2012, deposits enjoyed a sustained growth, amounting to 19.6 billion euros at the end of September, thus a homologous growth of 5.8% (+8.4% with respect to banking business). This performance has compensated the negative evolution of off balance sheet resources, and as such total customers' resources grew 1.4% in homologous terms, attaining 26.4 billion euros.

In its turn, credit granted continues slowing down, in line with market trends, in respect of both private customers and companies, amounting to 28.4 billion euros, at the end of September 2012, thus a homologous 3.9% decrease.

The movement in deposits and credit has led to a gradual rebalancing of the Bank's balance sheet, with the loans-to-deposits ratio, calculated on the basis of the agreement established with the international entities, attaining 134.5%, an improvement of 10.4 pp relative to September 2011.

Although there is a pronounced reduction in credit requirements, Santander Totta's comfortable liquidity situation allows continuing a policy of support for economically viable companies, which is demonstrated by the outstanding position reached in the SME Invest Lines. Outstanding as well is the fact that, at the end of the 3rd quarter of the year, the Bank made available to companies, in association with official authorities, the possibility of expanding by twelve months the capital sum grace period, for operations contracted under the SME Invest Lines, thus easing the pressure on their treasuries.



Million Euros

	Sep-12	Sep-11	Var.
<b>Total Gross Loans</b>	<b>28,377</b>	<b>29,534</b>	<b>-3.9%</b>
<i>from which</i>			
Credit to Individuals	17,946	18,644	-3.7%
<i>from which</i>			
Mortgage	15,884	16,379	-3.0%
Consumer credit	1,444	1,608	-10.2%
Credit to Corporates	<b>10,038</b>	<b>10,475</b>	<b>-4.2%</b>
Small business	3,293	3,835	-14.1%
Corporates	4,879	5,014	-2.7%
Large Corporates and Institutionals	1,866	1,625	+14.8%
<b>Resources</b>	<b>26,393</b>	<b>26,032</b>	<b>+1.4%</b>
<b>Deposits</b>	<b>19,570</b>	<b>18,499</b>	<b>+5.8%</b>
Securities issued (clients)	416	485	-14.2%
<b>Balance sheet resources</b>	<b>19,986</b>	<b>18,984</b>	<b>+5.3%</b>
Investment funds	1,930	2,307	-16.3%
Insurance and other	4,477	4,741	-5.6%
<b>Off-balance sheet resources</b>	<b>6,407</b>	<b>7,048</b>	<b>-9.1%</b>

In order to avoid greater worsening in the quality of its credit portfolio, Santander Totta has been offering a number of solutions addressed especially to customers at risk, so as to inhibit the worsening of the level of non-performance and simultaneously, ensure the resolution of the problems suffered by these customers by closely following up each situation. The objective is to negotiate new conditions in order to achieve a payment plan more adequate to the current financial capacity of families in difficulties.

The restructuring of 6,050 home loan operations and approximately 1,500 consumer credit operations caused an impact in the credit at risk ratio, which was set at 4.23% at the end of September, and which compares with 2.34% recorded in the homologous period. In its turn, the non-performing and doubtful loans ratio was set at 3.25% and the respective coverage ratio at 98.8%.

	Sep-12	Sep-11	Var.
NPL ratio (+ 90 days)	3.21%	1.84%	+1.37 p.p.
NPL coverage ratio (+90 days)	100.0%	114.5%	-14.5 p.p.
NPL and doubtful loans ratio	3.25%	1.86%	+1.39 p.p.
Net NPL and doubtful loans ratio	1.44%	0.79%	+0.65 p.p.
NPL and doubtful loans coverage ratio	98.8%	113.0%	-14.2 p.p.
"Credit at risk" ratio (according to Instruction n° 23/2011)	4.23%	2.34%	+1.89 p.p.
Risk premium*	1.63%	0.69%	+0.94 p.p.

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

The ratio of new entries of non performing loans (in excess of 90 days), net of all recoveries, as a percentage of the average value of the credit portfolio was set at 1.63% (on an annualized basis), equivalent to a worsening of 0.94pp relative to the value recorded in the homologous period of 2011.

## LIQUIDITY, SOLVENCY AND PROFITABILITY

The Bank continues strengthening its *pool* of eligible assets to be used as collateral for ECB financing, such assets amounting, at the end of the first nine months of the year, to 14.3 billion euros. The net financing obtained by Santander Totta with the Eurosystem amounted to 6.6 billion euros, at the end of September 2012.

The commercial gap continued decreasing, thus becoming an improvement in homologous terms of 10.4pp in the transformation ratio which, at the end of September was set at 134.5%.

With respect to solvency, Santander Totta keeps to capitalization levels in excess of the minimum 10% limit, demanded in the programme of economic and financial adjustment for the end of 2012, with the adequacy of basic equity funds (Tier I) set at 13.0% and the Core Tier I ratio attaining 12.0%. These ratios were obtained without the need for recourse to the public recapitalization line, and its favourable evolution shows the capacity for income generation and the decrease of risk weighted assets.

	Million Euros	
	Sep-12	Sep-11
<b>Tier I capital</b>	<b>2,505</b>	<b>2,227</b>
Tier II capital	-7	-6
<b>Total capital</b>	<b>2,498</b>	<b>2,221</b>
<b>Risk weighted assets</b>	<b>19,273</b>	<b>22,448</b>
<b>Core capital *</b>	<b>12.0%</b>	<b>9.6%</b>
<b>Tier I *</b>	<b>13.0%</b>	<b>9.9%</b>

(\*) Excluding results generated net of payout, Core Capital is 11.5% and Tier I is 12.6%

## COMMERCIAL BANKING

The 3 first quarters of 2012 were characterized by the deepening of the international economic and financial crisis. This situation had negative consequences in the markets and caused the decrease in the countries' ratings and consequently those of the Banks.

The "READY" model of commercial management implemented in 2011, contributed strongly to minimize the current context of difficulties.

The strategy was maintained essentially focused on capturing and retaining resources in added value products, in the capture of new salary domiciling operations through campaigns comprising the offering of gifts, in the sale of protection products (insurance), and in controlling non performing loans, this having become a daily topic, permanently focused by the commercial teams. Additionally, a close focus was kept on traditional savings products, programmed savings and products with controlled margins.

Within the strongly competitive environment in the capture of deposits, Santander Totta launched a set of products and diversified solutions, materialized in structured deposits with guaranteed capital sum and minimum yield, seven issues having been placed amounting to 682 million euros.

With reference to campaigns and actions to capture and bind customers, a campaign was launched in February to capture salaries/pensions, and which will continue until year end, based upon the exemption of commissions in the main day-to-day services and on gifts being offered.

Continuing a usual procedure, several campaigns and actions were launched to capture and bind customers in the youth and university segments. In the latter case, in particular, the matriculation campaign recorded a growth of 12,000 new customers.

In the **Premium** segment a strategy continued being implemented that is based in three main vectors: quality of service, setting up opportunities so that customers may increase the diversification of their assets, and the creation of added value products and services. The campaign to domicile income was implemented with immense success and contributed significantly towards the capture of new customers.

In the **Business** segment a strategy was maintained to place a heavy focus on capturing new customers, in binding current customers, in increasing transactional possibilities and in the placing of POS and *Business* cards.

Also in this business segment and considering the context of difficulties faced by the economy, the Bank set up prevention devices to minimize the risk of non performing and doubtful loans.

As a result of the actions of the Central Banks and of a better perception of the issues associated to sovereign loans, the **Private Banking** area witnessed an easing of the feelings of uncertainty that, however, did not alter customer requirements for low risk and high liquidity assets. The Private area of the Bank continued providing answers to this environment by making available products that endeavour to preserve the value of the assets and provide a service based on proximity, trust and confidentiality. In the current context, a presence near the customers is a differentiating factor that has maximum relevance.

The solidity of the Bank and of the Santander Group and also the Euromoney prize for the foremost Private Banking acting in Portugal, have been crucial factors in recruiting new customers and in the increase of business volumes.

The **Companies** network maintained, during the 3rd quarter of 2012, a strategy based upon a balanced management between the volumes of the credit portfolio and of resources, guaranteeing the sustained growth of profitability in the commercial network.

As to pricing strategy, the Bank continues pricing new credit operations at levels adequate to the country's economic and financial environment.

The Bank is more than ever becoming a reference in the international business market, strongly focusing trade in support of exporting and internationalized companies, this having been reflected by a significant increase in the volume of business. The conference "Top Export 2012" that took place at the end of September was focused on the topic "Exports – Experience and Opportunities" during which the "TOP Export" award was attributed to our export customers.

As a result of the focus given to the SME Invest Lines, the Bank maintained an outstanding position with a 17% market share, having placed until September 2012 more than 16,000 operations, with a total value of 1.7 billion euros in these supporting lines. Also to be noted is the Bank's leadership in the SME Growth Line, launched in January of the current year, with a 22% market share in the total value of operations, and equally occupying the 1st place in the SME Expansion Line, with a 27% adherence Line.

The bank also maintains a leading position in factoring and confirming, with a 20.2% market share (August 2012), which proves the Bank's commitment and availability in supporting SME treasuries, an entrepreneurial fabric vital for the growth of the Portuguese economy.

## GLOBAL BANKING AND MARKETS

Outstanding, in the **Corporate Finance** area, is the successful completion, in the first nine months of the year, of the following financial consulting operations: (1) consultancy to Mercapital in the sale to Sogrape of Bodegas LAN in Spain; (2) consultancy to Cimpor in the scope of the Public 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% shareholding in Galp Energia, deriving from the agreement subscribed between ENI and the Caixa Geral de Depósitos Bank.

In the **Credit Markets** area, the continued existence of a restrictive economic environment maintained pressure on the economy, with a significant impact in private and public investment decisions. In spite of this context, the Bank continues being one of the few institutions with a constant presence in the analysis of the existing opportunities and in the support of smaller promoters in materializing their projects.

In the acquisition financing area, the bank continues very active in the analysis and structuring of the financing of several acquisition operations comprising Portuguese companies and assets on behalf of Portuguese and International corporate customers.

In the **Equity** area, a favourable performance was achieved in the marketing of structured products. Throughout the first nine months of the year, 12 structured

products were launched, of which 8 were issued in euros with a total value amounting to 651 million, and 4 were issued in US Dollars, with a total value of 61.5 million US Dollars. In September, Bank Santander Totta was distinguished by “Euromoney Structured Retail Products” as the best distributor of structured products in Portugal.

With respect to activities in **Cash Equities**, the generalized fall in transacted volumes should be underlined, under pressure from the lower interest shown by the shareholder markets, due to the sovereign debt crisis in the Euro Zone peripheral countries. However, the perspectives of debt purchasing by the European Central Bank, as well as the announcement of economy stimulus measures by the North American Federal Reserve, constituted the main argument for a recovery in the markets during the Summer period, attracting the return of many investors, even if showing great care, with many retail customers searching for refuge in bonds, as a more conservative investment, and naturally associated to lower risks.

Activity in the area of **Institutional Custody**, in spite of the adverse environment in the financial markets, particularly in Portugal, has maintained stable volumes and holds 2nd place in the national ranking of Custodians, with an approximate 22.3% share in the volume of assets under custody, in accordance with the latest figures published by CMVM (Securities Market Regulator).

Resident and non resident institutional customers had the opportunity of assessing the custody services provided by the Bank through the speciality publication *Global Custodian*, the outstanding factor being the award of the *Commended* prize in the 3 categories – Leading Clients, Cross-Border and Domestic.

## ASSET MANAGEMENT

At the end of September 2012, positive profitability was generally recorded in the security investment funds managed by Santander Asset Management (SAM), as follows: **Santander Multitresury** (4.4% annualized net profitability), **Santander Fixed Multirate** (3.5% annualized net profitability and **the best European fixed rate fund in 2011**), **Santander Global** (7.9% annualized net profitability) and **Santander America Shares** (best North American share fund at 1 and 2 years).

In this context, and in spite of the lack of stability in the financial markets, the core range of SAM funds has provided favourable yields in 2012, both in absolute and relative terms.

At end September, the security investment funds managed by SAM had an 11.7% market share.

## INSURANCE

Of interest commercially, in the 3rd quarter, was the launching of new products, continuing the expansion of the commercial offer of free selling products to the

Bank's customers, fulfilling their requirements, increasing their binding and contributing towards the reinforcement of a prime Bank with an expanded customer base. In this context, **SafeCare** was launched, an innovative solution that combines life insurance with a complementary medical assistance cover and the sale of contents insurance.

SafeCare was created with the idea of protection for customers and their families, aiding them in the preservation of their health and welfare, especially important in the current scenario. SafeCare allows the insured party and its family access to health care, medical consultations, tests and hospitalization in a private health network – **Future Healthcare** network – at agreed and more advantageous prices for customers. Regarding life insurance SafeCare includes cover for the death of the first person insured, with a 5,000€ sum insured which, in case of death, will revert in favour of the beneficiaries named for the purpose. More than 3,500 policies were sold following its launching on 9 July 2012.

Focus was equally maintained in the marketing of the **Family Protection Plan** – a solution for the protection of family income in case of death, of the **Salary Protection Plan** – life insurance covering unemployment, and **Viva Mais (Live More)** – insurance cover for the treatment of grievous sicknesses with the best international specialist physicians, and also **Home Protection** – composite building and contents insurance of which more than 5,500 policies were placed.

Relative to financial life insurance, the launching of financial life insurance policies should be noted: such policies, known as Income Plan, are non standardized Icae insurance, unit linked, that intend providing a monthly and quarterly return (based upon the amount subscribed and paid as a partial redemption); the total marketed volume amounted to 403 million euros in the first nine months of 2012.

Regarding life insurance, the value of premiums issued and contributions towards investment contracts amounted to 526.3 million euros. In risk and mixed purpose insurance, premium volume amounted to 80.8 million euros, with an outstanding performance in the marketing of products on the “open market”, and a decrease in the production of life insurance connected to home and consumer loans.

## **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. Founded in 1857, Santander had EUR 1.418 trillion in managed funds, 102 million customers, 14,569 branches – more than any other international bank – and 187,000 employees at the close of June 2012. It is the largest financial group in Spain and Latin America. Furthermore, it has significant positions in the United Kingdom, Portugal, Germany, Poland and the U.S. northeast. Santander Consumer Finance operates in the Group's core markets as well as in the Nordic region.

**Santander Totta, SGPS**

Indicators

Million Euros

	Sep-12	Sep-11	Var.
<b>Total Gross Loans</b>	<b>28,377</b>	<b>29,534</b>	<b>-3.9%</b>
<i>from which</i>			
Credit to Individuals	17,946	18,644	-3.7%
<i>from which</i>			
Mortgage	15,884	16,379	-3.0%
Consumer credit	1,444	1,608	-10.2%
Credit to Corporates	<b>10,038</b>	<b>10,475</b>	<b>-4.2%</b>
Small business	3,293	3,835	-14.1%
Corporates	4,879	5,014	-2.7%
Large Corporates and Institutionals	1,866	1,625	+14.8%
<b>Resources</b>	<b>26,393</b>	<b>26,032</b>	<b>+1.4%</b>
<b>Deposits</b>	<b>19,570</b>	<b>18,499</b>	<b>+5.8%</b>
Securities issued (clients)	416	485	-14.2%
<b>Balance sheet resources</b>	<b>19,986</b>	<b>18,984</b>	<b>+5.3%</b>
Investment funds	1,930	2,307	-16.3%
Insurance and other	4,477	4,741	-5.6%
<b>Off-balance sheet resources</b>	<b>6,407</b>	<b>7,048</b>	<b>-9.1%</b>
<b>By segment</b>			
<b>Commercial Banking Resources</b>	<b>23,659</b>	<b>23,749</b>	<b>-0.4%</b>
<b>Individuals and Small Businesses</b>	<b>22,221</b>	<b>22,059</b>	<b>+0.7%</b>
Deposits	16,118	15,259	+5.6%
Securities issued (clients), Investment Funds and insurance	6,103	6,800	-10.3%
<b>Corporates</b>	<b>1,438</b>	<b>1,690</b>	<b>-14.9%</b>
<b>Large Corporates, Institutionals and other</b>	<b>2,734</b>	<b>2,283</b>	<b>+19.8%</b>

**Santander Totta, SGPS**

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

	Sep-12	Sep-11	Var.
<b>Solvency</b>			
Core Tier I	12.0%	9.6%	+2.4 p.p.
Tier I	13.0%	9.9%	+3.1 p.p.
Solvency ratio	13.0%	9.9%	+3.1 p.p.
<b>Credit Quality</b>			
NPL and doubtful loans ratio	3.25%	1.86%	+1.39 p.p.
NPL and doubtful loans coverage ratio	98.8%	113.0%	-14.2 p.p.
Net NPL and doubtful loans ratio	1.44%	0.79%	+0.65 p.p.
"Credit at risk" ratio	4.23%	2.34%	+1.89 p.p.
"Credit at risk" ratio (net)	1.07%	0.30%	+0.77 p.p.
<b>Profitability</b>			
Income before taxes and MI/Average net assets	1.0%	0.2%	+0.8 p.p.
Operating income/Average net assets	3.3%	1.9%	+1.4 p.p.
Income before taxes and MI/Average equity	17.5%	3.2%	+14.3 p.p.
<b>Efficiency</b>			
Total operating expenses/Operating income	34.4%	60.5%	-26.1 p.p.
Personnel expenses/Operating income	19.8%	36.0%	-16.2 p.p.
<b>Transformation</b>			
Credit (net)/Deposits	141.7%	157.5%	-15.8 p.p.
"Leveraging ratio"*	134.5%	144.9%	-10.4 p.p.

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



**Santander Totta, SGPS**

Income Statement (\*)

Million Euros

	Sep-12	Sep-11	Var.
<b>Net interest income (without dividends)</b>	<b>427.9</b>	<b>436.9</b>	<b>-2.0%</b>
Dividends	1.7	1.3	+32.5%
<b>Net interest income</b>	<b>429.6</b>	<b>438.1</b>	<b>-1.9%</b>
Net commissions	255.5	268.3	-4.8%
Other banking income	-7.5	-7.0	+7.3%
Insurance activity	253.3	14.6	>200%
<b>Commercial revenue</b>	<b>930.8</b>	<b>714.0</b>	<b>+30.4%</b>
Gain/loss on financial transactions	108.5	-74.8	-
<b>Operating income and insurance activity</b>	<b>1,039.3</b>	<b>639.2</b>	<b>+62.6%</b>
Total operating expenses	(360.3)	(391.5)	-8.0%
<b>Net operating income</b>	<b>679.0</b>	<b>247.7</b>	<b>+174.1%</b>
Impairment and net provisions	(363.3)	(186.7)	+94.6%
Equity	7.6	8.0	-5.4%
<b>Income before taxes and MI</b>	<b>323.3</b>	<b>69.0</b>	<b>&gt;200%</b>
Taxes	(92.8)	(8.7)	>200%
Income after taxes	230.5	60.3	>200%
Minority interests	(0.1)	(0.1)	+11.4%
<b>Consolidated net income</b>	<b>230.4</b>	<b>60.2</b>	<b>&gt;200%</b>

(\*) Not audited

**Santander Totta, SGPS**

Balance Sheet

Million Euros

Assets	Sep-12	Sep-11	Var.
Deposits at Central Banks	400	804	-50.2%
Cash, loans and advances to banks	2,913	1,330	+119.1%
Financial assets	10,291	8,444	+21.9%
Net loans	27,467	28,944	-5.1%
Hedging derivatives	259	114	+126.2%
Non current assets held to sell	200	138	+45.5%
Other tangible assets	416	451	-7.7%
Other assets	1,169	1,241	-5.8%
<b>Total Assets</b>	<b>43,116</b>	<b>41,466</b>	<b>+4.0%</b>

Liabilities and Equity	Sep-12	Sep-11	Var.
Resources from Central Banks	6,950	3,000	+131.7%
Resources from other institutions	2,454	4,279	-42.7%
Financial liabilities held for trading	1,983	1,566	+26.6%
Financial liabilities designated at fair value through profit and loss	4,029	4,015	+0.3%
Resources of customers and others	19,570	18,499	+5.8%
Debt securities issued	3,917	6,153	-36.3%
Hedging derivatives	355	238	+49.1%
Provisions	473	523	-9.6%
Subordinated liabilities	0	0	-
Other liabilities	671	498	+34.6%
Shareholder's equity	2,715	2,695	+0.7%
<b>Total Liabilities and Equity</b>	<b>43,116</b>	<b>41,466</b>	<b>+4.0%</b>