

2012 1st Half Year Report



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## Main Indicators

	Jun-12	Jun-11	Var.
<b>Balance Sheet and Results (million euro)</b>			
Net Assets	40,223	38,557	+4.3%
Net Loans	28,318	29,554	-4.2%
Customers' Resources	27,218	26,727	+1.8%
Own Funds + Minority Interests + Subordinated Liabilities	2,112	2,145	-1.5%
Net Interest Income (excluding dividends)	282.2	292.6	-3.6%
Fees and Other Income	176.8	179.3	-1.4%
Operating Income	539.3	403.1	+33.8%
Net Operating Income	304.8	152.2	+100.3%
Income Before Taxes & Minority Interests	64.0	63.5	+0.8%
Consolidated Net Income	52.1	61.8	-15.6%

### Ratios

ROE	7.5%	6.0%	+1.6 p.p.
ROA	0.3%	0.3%	-0.1 p.p.
Efficiency Ratio (including depreciation)	43.5%	62.3%	-18.8 p.p.
Solvency Ratio*	10.9%	10.3%	+0.6 p.p.
Tier I*	10.9%	10.4%	+0.5 p.p.
Core Capital *	9.5%	9.1%	+0.4 p.p.
Non Performing Loans (+ 90 days) Ratio	2.85%	1.76%	+1.1 p.p.
NPL and Doubtful Loans Ratio	2.89%	1.78%	+1.1 p.p.
Credit at Risk Ratio	4.03%	2.27%	+1.8 p.p.
NPL Coverage (+ 90 days)	100.7%	112.1%	-11.3 p.p.
NPL and Doubtful Loans Coverage Ratio	99.6%	111.0%	-11.4 p.p.
Credit at Risk Coverage Ratio	71.4%	90.9%	-19.5 p.p.
Loan to Deposit Ratio**	131.2%	145.3%	-14.1 p.p.

### Rating

FitchRatings	short term	F3	F1+
	long term	BBB-	AA
Moody's	short term	NP	P-2
	long term	Ba1	A3
Standard & Poor's	short term	B	A-3
	long term	BB	BBB-
DBRS	short term	R-1L	-
	long term	AL	-

### Other Data

Employees	5,670	5,784	-114
Employees in Portugal	5,620	5,730	-110
Branches	684	730	-46
Total Branches and Corporate Centers in Portugal	659	689	-30

\* With results net of dividend payout

\*\* calculated according to the definitions in "Memorandum of Understanding"



## Governing Bodies

### BANCO SANTANDER TOTTA, S.A.

#### General Meeting

Chairman	António Manuel de Carvalho Ferreira Vitorino
Deputy Chairman	António de Macedo Vitorino
Secretary	António Miguel Leonetti Terra da Motta

#### Board of Directors

Chairman	Matias Pedro Rodriguez Inciarte
Directors	António José Sacadura Vieira Monteiro Carlos Manuel Amaral de Pinho Eduardo José Stock da Cunha João Baptista Leite José Carlos Brito Sítima José Urgel Moura Leite Maia José Manuel Alves Elias da Costa Luís Filipe Ferreira Bento dos Santos Pedro Aires Coruche Castro e Almeida

#### Board of Auditors

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

#### Auditors

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

#### Executive Committee

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

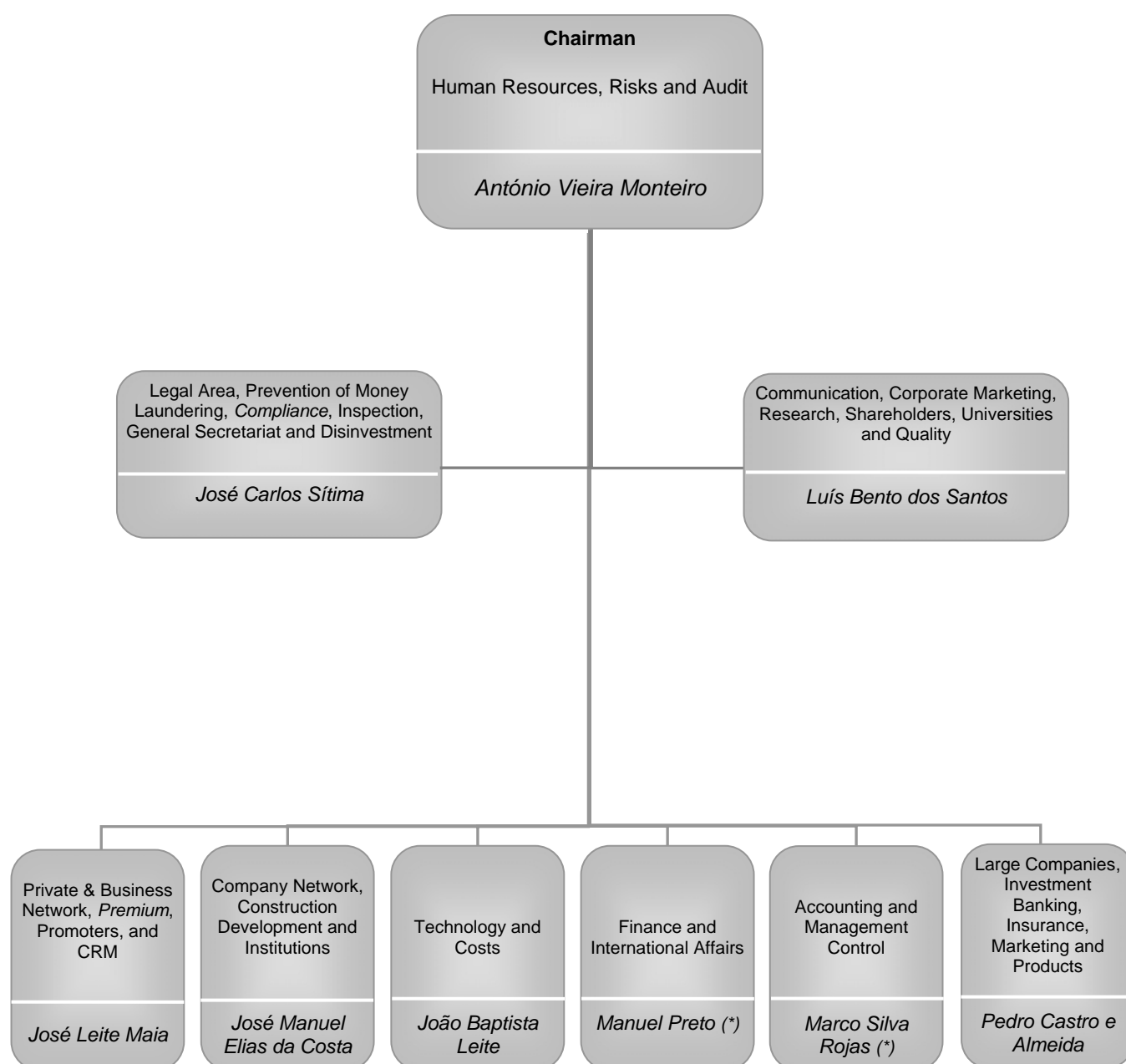
#### Company Secretary

Office holder	António Miguel Leonetti Terra da Motta
Alternate	Luís Manuel Batista Figueiredo



# Functional Organization Chart

## Executive Committee



(\*) Co-Directors to the Executive Committee

### Notes:

(1) Nuno Manuel da Silva Amado renounced office on 27/01/12

(2) Miguel de Campos Pereira de Bragança renounced Office on 11/02/12



## Business and Economic Environment

### International Economic Developments

The external economic conditions remained subject to increased uncertainty, especially in Europe, due to the worsening of the sovereign debt crisis in the euro area. The successive shock waves have materialized into higher uncertainty, which is adversely impacting economic activity, through lower private consumption and investment. Those shock waves have spread not only from the European periphery to the core, but also to other economic areas, such as Asia.

Data relative to the second quarter, in the euro area, confirm the recessionary state of the economy, with GDP contracting 0.4% year-on-year. Germany, which so far had been relatively immune to the European crisis is showing clearer signs of contagion, as activity (including exports) decelerate and business confidence falls to the lowest levels since 2009.

Contagion spread further still in the first quarter, as the crisis expanded into Spain and Italy, as reflected in higher yields demanded by investors in the various public debt auction, both short and long term.

Tensions aggravated in Spain following the Government's simultaneous announcement of a higher budgetary deficit for 2011, as a result of spending slippages at the level of the autonomous communities, as well as of a slower adjustment in 2012.

Later, and following the increase in non-performing loans at Bankia Bank (itself the result of the merger of various savings banks – *cajas de ahorros*) it was decided to conduct a stress test to the whole Spanish financial system. The exercise, conducted by Roland Berger and Oliver Wyman estimated the capital needs of the system between 51 and 62 billion euros, which falls within the 100 billion euros programme negotiated with the European authorities for banking sector recapitalization and resolution.

Initially this line will be provided by means of loans to the Spanish Government, which will redirect the funds to the requiring banks through FROB. Once it has been instituted a single bank supervision mechanism, which also involves the ECB, the loans will be directly provided to the banks by the European supports funds (EFSF/ESM).

The first quarter also witnessed the conclusion of the restructuring programme of the Greek public debt ("PSI – private sector involvement"), in which the great

majority of the private investors accepted the terms of exchange, with a related loss equivalent to 53.5% of the nominal value (approximately 75% of the value invested). On one hand, released the approval of a second bailout package, amounting to 130 billion euros, and, on the other, should contribute towards the reduction of the Greek public debt to 117% of GDP by 2020.

Still in Greece, the second electoral process resulted in a parliamentary majority backed by the New Democracy, PASOK and DIMAR political parties, with the Government not only 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 European authorities have, in the short term, adopted a set of temporary measures to provide supports to the economy, while structural mechanisms to solve the crisis are being analysed.

The European Council, in its meeting on 28 and 29 June, 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.

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.

By late July, the ECB President Mario Draghi, at a conference in London, stated the ECB, within its mandate, is ready to do whatever it takes to preserve the euro, something he described it will be enough. Side by side with the European bailout funds, it was decided in the August meeting of the ECB that for an intervention to happen, countries should make a formal request to the European funds EFSF/ESM, subjected however to some conditionalities.

In the USA, economic growth has been moderate, with the unemployment rate stable around 8.3%, well above





the average of the past few years and the levels consistent with full employment (which the consensus estimates at around 6%). As a result and also responding to the higher risks posed by the European crisis, the Federal Reserve has been mentioning the possibility of adopting new non-conventional measures. Although investors have anticipated a new wave of “quantitative easing”, the Federal Reserve extended “operation Twist”, in which it reinvests and extends the maturities of its current public debt holdings.

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).

Uncertainty continued to affect financial markets, with the Spanish and Italian credit spreads reaching new highs, after which were pulled back somewhat. German bund yields have fallen significantly, as a result of a flight-to-quality movement, which has resulted in negative yields for the tenors up to two years.

Equity markets have evolved in line with the differentiated macroeconomic conditions, appreciating in the US, where the earning season has surprised on the upside, and stagnating in Europe, except for the peripheral markets, which faced steeper price devaluations.

This climate of increased uncertainty also affected the euro in the forex markets, where its effective exchange rate fell to the lowest level since 2003. This is the result of a depreciation against the US dollar to the lowest since 2010 (and also touching levels last seen in 2006), against the pound sterling to the lowest since 2008 and a depreciation against the Japanese yen to its lowest since 2000. As for the cross against the Swiss Franc it has stabilized at 1.2 CHF, following the Swiss National Bank's decision to peg the currency, in order to avoid a further appreciation of the franc.

## Portuguese economic developments

GDP continued to contract, falling 3.3% year-on-year, after -2.3% in the previous quarter, therefore deepening the recessionary conditions of the economy.

The current cycle is characterized by a much swifter adjustment than it was expected in domestic 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 relatively to the previous quarter.

Investment, in its turn, has 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.

In the first quarter, it was completed workstream 3 of the Special on-site Inspection Programme conducted by the Bank of Portugal, with the assistance of external consultants. This workstream evaluated the quality of the methodologies and systems used by the Portuguese banks in the stress test exercises. It concluded that two institutions (one being Santander Totta SGPS) had the top evaluation, with “methodologies that are clearly appropriate”.

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 (on 30 June), as well as 10% in the end of the year, 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 resorted 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 15.0% in 2Q2012) 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.

Published in this same period were the rules relative to the ECB's decision, adopted in December, to widen the range of assets eligible for financing operations with the same Institution. These alterations, which were placed under the auspices of the national central banks, were adopted by seven countries: Ireland, Cyprus, Spain, France, Italy, Austria and Portugal.

In the Portuguese case, the Bank of Portugal took two decisions: (i) with respect to personal credits, to lower the minimum amount to 100,000 euros (previously 500,000 euros) and to increase the related probability of default (PD) to 1.5% (from 0.4%); and (ii) to accept homogeneous credit pools, with no need for rating (i.e., through setting up synthetic securitizations).

These measures are very relevant in the current environment where the Republic (and the banks) faced its ratings revised to the “speculative grade” level, insofar as it separates the capacity for financing with the ECB from the actions of the rating agencies. Should this measure have not been adopted, would subsist the

risk that several securitizations would lose eligibility, compromising the financing of the Portuguese economy.

Credit spreads have narrowed during the first half of the year, especially from Spring onwards. This was the result of the reduction in Portuguese yields, as German Bund yields also fell to historical minima. For the 10 year tenor, the yield fell below 10%, to its lowest level since the request for economic and financial assistance, in May 2011.

Throughout the first semester the Portuguese Treasury maintained its regular presence in short term debt markets, by issuing monthly Treasury Bills which maximum maturity has been extended to 18 months. Demand, mostly from domestic investors, has remained resilient, and average allotment rates fell to 2.3% in the 6-months tenor and 3.5% for the one-year tenor.

Moody's downgraded Portugal's rating to Ba3, still in the “high yield” range, while Standard and Poor's downgraded the Republic to BB, within their overall review and assessment of European sovereign ratings.

The measures adopted by the ECB and the Bank of Portugal, in terms of the new rules for collateral eligible for ECB funding, have minimized the liquidity risk of these downgrades for both the sovereign and the banks that could have posed for acceding ECB liquidity.

The overall amount of funding raised at the ECB by the Portuguese financial system increased to 60 billion euros in the end of June, but that trend reflected two situations: the second 3-year LTRO by the ECB, in February, and the increase of funding at the ECB by the local branches of non-domestic banks, in replacement of stable lines they had with their parent company.

The pace of deleveraging slowed in the first half of 2012, following the steeper reduction in the loans-to-deposits ratio seen in the second half of 2011. The changes in the collateral rules, as well as the flexibilization in the ratio, which is now indicative instead of mandatory, explain this moderation.

Deposit growth remained resilient, although banks have changed the way they were managing deposit capturing and retention, in order to protect the net interest margin. The new rules by the Bank of Portugal on the maximum spreads payable on deposits, which brought down interest rates being paid, have also contributed to this change in pace.

Credit continued to contract, especially at level of loans to the non-financial corporate sector (NFCs), but this also associated with lower deposits from NFCs, which may be an indicator of loans being repaid, in a context of high spreads on loans, especially to the companies in the riskier business segments. New production of



mortgages has fallen significantly, to around 150 million euros per month, which is below the average monthly redemption of existing mortgage loans.

## Main risks and uncertainties in the second half of 2012

The main risks and uncertainties which may affect activity in the second half of 2012 are twofolded, from domestic and external origins.

At the level of the external environment, the risk factors are associated with the growth prospects in the euro area, which are more negative, affected by the contagion of the sovereign debt crisis to Spain and Italy, and also by the impact this is having on the economic activity of the larger countries, which, so far, had been immune to the crisis. As the euro area is the main export market for Portugal, buying over 60% of domestic products sold abroad, a deeper recession may bring to a stall the source of economic growth in Portugal, which has been exports.

Also the current doubts and concerns, by global investors, regarding the current composition and size of the euro area may prove to be an important risk factor, because it puts a convertibility premium on Portuguese bond yields, despite the fact that Portugal has been meeting the targets, both fiscal and economic, agreed with the international institutions. Additionally, such premium hampers the access by the Republic and also by the domestic banks to the wholesale markets, worsening their overall funding conditions.

At the domestic level, the main risks are associated with the growth prospects. The steeper contraction in domestic demand, especially private consumption, is taking its toll on the tax revenue, namely at the level of VAT, which is well below the targets set in the 2012

State Budget. On the other hand, the increase in unemployment to new historical maxima, is negatively affecting the accounts of Social Security, through both a decrease in revenues from contributions on wages and an increase in the expenditure with unemployment benefits. These dynamics increase the negative risks when meeting the fiscal targets, and may also require additional austerity measures, which would aggravate further the recession.

At the level of the financial sector, one of the risks is associated with the economic outlook. As the economic recession deepens, NPL ratios may worsen, affecting both the profitability and capital of the banking institutions. Portuguese banks are still required to meet the 10% core Tier I capital ratio by the end of 2012, and four of the institutions have to comply with the sovereign buffer demanded by the European Banking Authority.

Additionally, and despite the flexibilization of the targets relative to the loans-to-deposits ratio, banks still have to increase their deposit base, in a context of diminishing income at the level of households and increased uncertainty about the fundamentals of the banking sector.

Strict compliance with the objectives, by the State or by the Banking sector, is fundamental for the recovery of the confidence of international investors and to allow that the current level of financing in the global markets (which is anyway reduced) may be maintained and, in the long term, expanded.

## Economic and Financial Information

### Consolidated Activity

#### Introduction

In a context of economic recession, Banco Santander Totta focused in the control of non-performing loans and operating costs and in the improvement of the commercial gap.

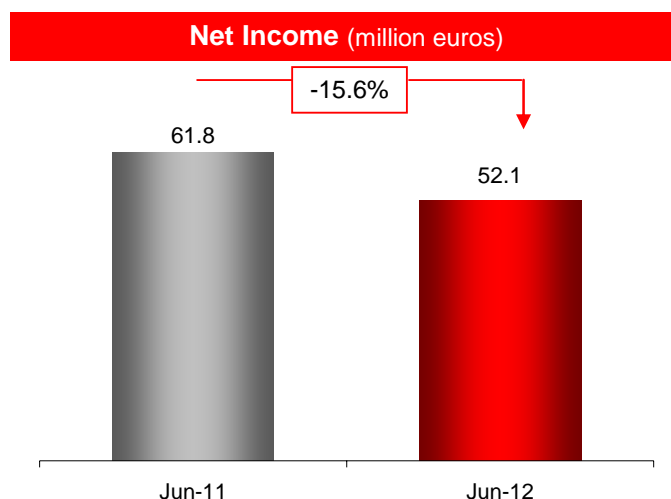
The deleveraging policy resulted in a decrease in loan-to-deposit ratio that, at the end of June 2012 stood at 131.2%. The improvement of 14.1 p.p. over the same period last year reflected a 9.7% annual increase in customers' deposits and the decrease of 4.2% in net loans.

In June 2012, the Tier I ratio stood at 10.9% and the Core Capital ratio stood at 9.5%.

Consolidated net income reached 52.1 million euros, compared with 61.8 million euros recorded in the same

period last year. This was a sign of good performances in revenues and operating costs, mitigated by increased impairment and provisions, under the prudent risk assessment policy of the Bank.

Operating income increased 33.8%, driven by a gain obtained in the repurchase of securities issued within credit securitization operations carried out in the 1st quarter. This gain was totally cancelled by constituting non obligatory provisions, as a precautionary measure forced by a context of deteriorating economic conditions, and thus did not had any impact on net profit of the semester. Meanwhile, operating costs decreased 6.5% compared to the figure recorded in June 2011.



## Income Statement

million euro	Jun-12	Jun-11	Var.
Net Interest Income (without Dividends)	282.2	292.6	-3.6%
Dividends	1.6	1.2	+32.8%
<b>Net Interest Income</b>	<b>283.8</b>	<b>293.9</b>	<b>-3.4%</b>
Fees and Other Income	176.8	179.3	-1.4%
<b>Commercial Revenue</b>	<b>460.6</b>	<b>473.2</b>	<b>-2.7%</b>
Gain/Losses on Financial Transactions	78.7	(70.0)	<-200%
<b>Operating Income</b>	<b>539.3</b>	<b>403.1</b>	<b>+33.8%</b>
Operating Costs	(234.5)	(251.0)	-6.5%
Personnel Expenses	(133.1)	(148.4)	-10.3%
Other Administrative Expenses	(68.7)	(71.9)	-4.4%
Depreciation	(32.7)	(30.6)	+6.8%
<b>Net Operating Income</b>	<b>304.8</b>	<b>152.2</b>	<b>+100.3%</b>
Impairment and Other Provisions	(245.5)	(95.2)	+157.9%
Equity	4.6	6.5	-28.7%
<b>Income Before Taxes and MI</b>	<b>64.0</b>	<b>63.5</b>	<b>+0.8%</b>
Taxes	(11.8)	(1.7)	>+200%
Minority Interests	0.0	0.0	-50.0%
<b>Net Income</b>	<b>52.1</b>	<b>61.8</b>	<b>-15.6%</b>

\* Personnel Expenses in June 2011 exclude 4.3 million euros related to the pension fund (excess of the corridor)

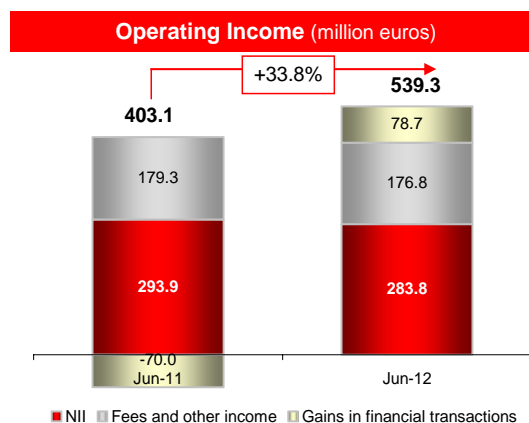
Banco Santander Totta achieved a consolidated net income of 52.1 million euros, at the end of the 1st half of 2012, which compared with 61.8 million euros in June 2011, represents a 15.6% decrease. Operating income increased by 33.8%, operating costs decrease 6.5% and impairment and other provisions recorded a 157.9% increase. 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 it did not have any impact in net income since the gain obtained was totally cancelled by setting up non obligatory provisions.

Net interest income, the main component of operating income, amounted to 282.2 million euros, 3.6% less than in the 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 and competitive environment in deposits, which has been carefully managed through an adequate segmentation of the commercial supply.

Fees and other income amounted to 176.8 million euros, showing a 1.4% decrease. It can be highlighted the favourable evolution in the commissions of commercial paper, financial insurance, accounts, cards and POS. On the other side there is a negative influence brought by a decrease in performance of credit commissions, advisory, mutual funds and risk insurance.

Gains in financial transactions amounted to 78.7 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 539.3 million euros, equivalent to a 33.8% homologous increase.



Operating expenses amounted to 234.5 million euros, a 6.5% reduction. Variation in the personnel expenses of -10.3%, is justified by the legislative changes in the calculation of death allowances amounting to 9.2 million euros, in June 2012, 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 been

decreased by 2.6% and total operating expenses would have recorded a variation of -1.9%.

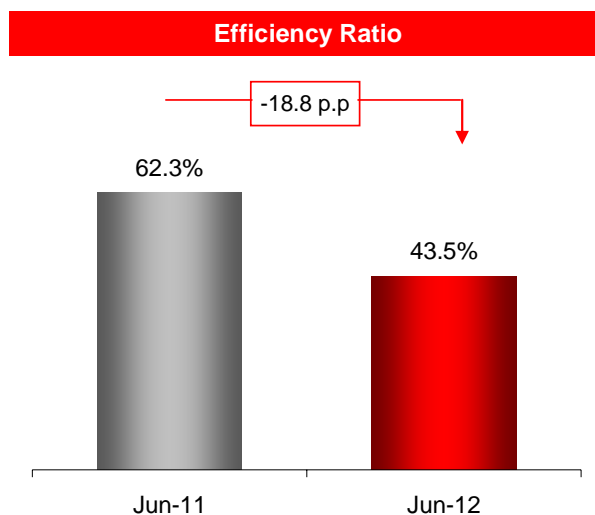
General expenses decreased by 4.4%, related to the reorganization of the operational structure and depreciation increased by 6.8%, evidencing the impact of technology investments and the extraordinary depreciation deriving from the closure of branches.

million euro	Jun-12	Jun-11	Var.
Personnel Expenses	(133.1)	(148.4)	-10.3%
Other Administrative Expenses	(68.7)	(71.9)	-4.4%
<b>Operating Costs</b>	<b>(201.8)</b>	<b>(220.3)</b>	<b>-8.4%</b>
Depreciation	(32.7)	(30.6)	+6.8%
<b>Total Operating Costs</b>	<b>(234.5)</b>	<b>(251.0)</b>	<b>-6.5%</b>
<b>Efficiency Ratio</b> (excludes depreciation)	<b>37.4%</b>	<b>54.7%</b>	<b>-17.2 p.p.</b>
<b>Efficiency Ratio</b> (includes depreciation)	<b>43.5%</b>	<b>62.3%</b>	<b>-18.8 p.p.</b>

Efficiency ratio, which represents total operating expenses as a percentage of operating income, was set at 43.5% in June 2012. This improvement by 18.8 p.p. when comparing to the same period last year, was a

consequence of the increase in revenues (33.8%) and the decrease in operating expenses (-6.5%).

Net operating income, 304.8 million euros, represented a 100.3% increase when comparing to the amount reached in June 2011 (152.2 million euros).



Regarding productivity, the evolution of resources per branch and per employee must be highlighted.

million euro	Jun-12	Jun-11	Var.
Loans <sup>(1)</sup> per Employee	5.4	5.5	-1.7%
Resources per Employee	4.8	4.6	+3.9%
Loans <sup>(1)</sup> per Branch <sup>(2)</sup>	44.6	43.4	+2.9%
Resources per Branch <sup>(2)</sup>	39.8	36.6	+8.7%

(1) Include guarantees

(2) Include branches, corporate centers and representative offices

Total impairments and provisions amounted to 245.5 million euros comparatively to 95.2 million euros in the homologous period, in other words an increase of 157.9%. As previously referred, this movement is a consequence of the strengthening of non obligatory provisions, within a context of a prudent and conservative policy in risk management, adequate to the recessionary economic environment. However it cancels the impact in net income of the gain obtained in the

repurchase of the securities issued within the credit securitization operations.

Income before taxes recorded an increase of 0.8%, reaching 64.0 million euros. Consolidated net income amounted to 52.1 million euros, equivalent to a 15.6% decrease regarding the 61.8 million euros recorded in June 2011.

## Balance Sheet and Activity

The strategic priorities of Banco Santander Totta were the soundness and the deleveraging of the balance sheet, in a framework marked by liquidity constraints in banks' access to international funding markets and the programme of economic and financial adjustment of Portugal.

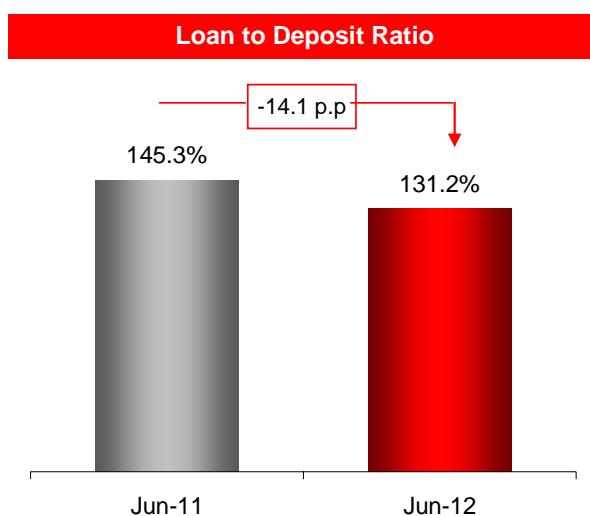
Loans (including guarantees) decreased 3.6%, amounting to 30.5 billion euros in June 2012. Customers' resources amounted to 27.2 billion euros (+1.8%) by the 8.8% increase in balance sheet resources and the decline of 15.2% in off-balance sheet products. This evolution led to an annual change of -1.1% in the business volume at the end of the semester which amounted to 57.7 billion euros.

million euro	Jun-12	Jun-11	Var.
Business Volume	57,741	58,387	-1.1%
Gross Loans <sup>(1)</sup>	30,523	31,661	-3.6%
Customers' Resources	27,218	26,727	+1.8%

<sup>(1)</sup> Includes guarantees

The decline in credit simultaneously with the increase in customer deposits has lead to a gradual deleveraging of the balance sheet, with the loan-to-deposit ratio reaching 131.2%, a 14.1 p.p. decreasing, compared to 145.3% in June 2011 (ratios calculated in accordance

with the definition set out in the Memorandum of Understanding).



The decrease in the loan portfolio reflects the sharp decline in demand for credit, mainly associated with the deteriorating economic outlook and reduced disposable income. However, the comfortable liquidity position of the bank allows the continuation of a policy to support viable businesses which has been translated in a

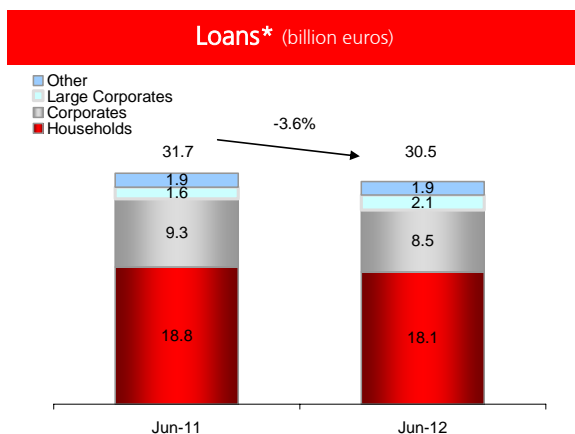
prominent position achieved in SMEs Invest Lines in which the Bank has a market share of 17 % having placed more than 14,400 transactions with a total value of 1.5 billion euros.



million euro	Jun-12	Jun-11	Var.
<b>Total Gross Loans (includes guarantees)</b>	<b>30,523</b>	<b>31,661</b>	<b>-3.6%</b>
<b>Gross Loans</b>	<b>29,156</b>	<b>30,149</b>	<b>-3.3%</b>
of which			
<b>Commercial Banking</b>	<b>26,617</b>	<b>28,145</b>	<b>-5.4%</b>
Loans to Corporates	8,499	9,337	-9.0%
Small Business	3,439	3,971	-13.4%
Corporates	5,060	5,366	-5.7%
Loans to Individuals	18,118	18,808	-3.7%
of which			
Mortgage Loans (including securitization)	16,014	16,499	-2.9%
Consumer Loans	1,487	1,627	-8.6%
<b>Large Corporates and Institutionals</b>	<b>2,053</b>	<b>1,598</b>	<b>+28.5%</b>

Loans to households stood at 18.1 billion euros, falling year-on-year, 3.7%, with variations of -2.9% on housing loans, which accounted for 52.5% of total loan portfolio, and -8.6% in consumer credit.

Loans to large companies and institutionals increased 28.5%, related to the repurchase of credits.



Despite the deterioration of credit quality indicators, reflecting the recessionary environment, the ratios presented by Banco Santander compare favorably with the average of the national banking system, according to the latest available data.

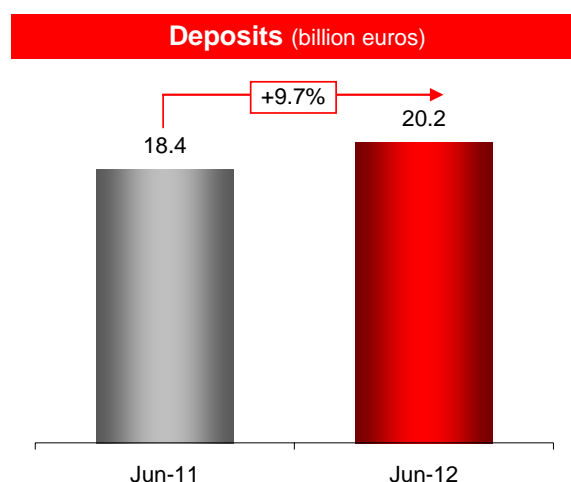
In June NPL ratio (>90 days) was set at 2.85% (+1.1p.p. increase regarding the homologous period), with a coverage ratio of 100.7% (112.1% in June 2011). NPL and doubtful loans ratio was set at 2.89% at the end of 1st semester, above the 1.78% recorded in June 2011, with a coverage ratio of 99.6% (111.0% in June 2011). In turn, the credit at risk (that relates non performing matured and yet to be matured loans (NPL) and restructured loans) represented 4.03% of total loans, and deteriorated +1.8 p.p. compared to 2.27% in June 2011, with a coverage ratio of 71.4% (90.9% in June 2011).

	Jun-12	Jun-11	Var.
Non Performing Loans Ratio	3.03%	1.88%	+1.2 p.p.
Non Performing Loans Ratio (+90 days)	2.85%	1.76%	+1.1 p.p.
Non Performing Loans and Doubtful Loans Ratio	2.89%	1.78%	+1.1 p.p.
Credit at Risk Ratio	4.03%	2.27%	+1.8 p.p.
Non Performing Loans Coverage Ratio	94.8%	104.8%	-10.0 p.p.
Non Performing Loans Coverage Ratio (+90 days)	100.7%	112.1%	-11.3 p.p.
NPL and Doubtful Loans Coverage Ratio	99.6%	111.0%	-11.4 p.p.
Credit at Risk Coverage Ratio	71.4%	90.9%	-19.5 p.p.



Total customers' funds at the end of June 2012 totaled 27,200 million euros, 1.8% up, over the figure recorded in June 2011.

Noteworthy are the deposits, representing 74.2% of total customer funds, which rose 9.7% in June 2012 over the same period last year.



million euro	Jun-12	Jun-11	Var.
<b>Customers' Resources</b>	<b>27,218</b>	<b>26,727</b>	<b>+1.8%</b>
On-Balance Sheet Resources	20,632	18,957	+8.8%
Deposits	20,203	18,421	+9.7%
Securities issued and placed with clients	429	536	-20.0%
Off-Balance Sheet Resources	6,585	7,769	-15.2%
Investment Funds	1,897	2,810	-32.5%
Insurance and Other Resources	4,688	4,959	-5.5%

By segment:

<b>Commercial Banking Resources</b>	<b>23,926</b>	<b>23,774</b>	<b>+0.6%</b>
Households and Small Businesses	22,276	22,082	+0.9%
Deposits	15,860	14,601	+8.6%
Securities issued (clients), Inv. Funds and Insurance	6,416	7,481	-14.2%
Corporates	1,650	1,692	-2.5%
<b>Large Corporates, Institutionals and Other</b>	<b>3,292</b>	<b>2,953</b>	<b>+11.5%</b>

In the first half of 2012, clients continued to reveal a major appetite for bank deposits in alternative to higher risk products.

Customers' deposits represent a prime source of funding in an environment of scarce liquidity in international funding markets. Deposits of individuals and business segment rose by 8.6% over the same period of 2011.

This growth was achieved by attracting savings and by the conversion of off-balance sheet resources, such as investment funds and financial insurance for deposits.

Balance sheet resources totaled 20.6 billion euros, representing 75.8% of total funds raised from

customers, and rose 8.8%, while the off-balance sheet totaled 6.6 billion euros, decreasing 15.2% compared to the figure recorded in June 2011.

This evolution reflected the instability in bond market and stock market, leading to greater risk aversion among investors and also by the need of deleverage, with the focus on balance sheet resources. Investment funds decreased 32.5%, reaching 1.9 billion euros. Insurance products and other resources stood at 4.7 billion euros, decreasing 5.5% over the first half of last year.

## Solvency

In June 2012, Tier I ratio stood at 10.9% and Core Capital ratio was 9.5%, including retained earnings (10.4% and 9.1% in June 2011). Excluding retained earnings, Tier I ratio and Core Capital ratio would be

10.9% and 9.4%, respectively. These ratios were obtained without the need to increase capital or public support.

million euro	Jun-12	Jun-11	Var.
Total capital	2,141	2,331	-8.2%
Tier I Capital	2,147	2,336	-8.1%
Tier II capital	-6	-6	+9.4%
Risk weighted assets	19,688	22,530	-12.6%
<b>Core Capital</b>	<b>9.5%</b>	<b>9.1%</b>	<b>+0.4 p.p.</b>
<b>Tier I</b>	<b>10.9%</b>	<b>10.4%</b>	<b>+0.5 p.p.</b>
<b>Solvency Ratio</b>	<b>10.9%</b>	<b>10.3%</b>	<b>+0.6 p.p.</b>

## Business Areas

### Individuals and Small Businesses

The “READY” Model for Commercial Management had a full implementation in 2011, creating a commercial dynamic capable of reacting to the current climate of major difficulties.

A strategy was kept up essentially focused on capturing and retaining resources in added value products, capturing new payroll accounts and the control of non performing loans, which became a priority in the commercial teams.

Market conditions and the limitations imposed by the Bank of Portugal led to 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.

Amongst the products launched during the half year, those who stand out are the **SuperStar Deposit** – which carries an attractive yield and was used as the base for “soft sponsoring” communication in large audience soap operas – and the **Super Idols Savings Deposit** – 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.

In January and March, the launching of new sight deposit accounts – the **Super Global Accounts** – has to be highlighted. This product allows customers to access a wide set of advantages, which comprise exemption of commissions as well as offers of insurance, with a fixed monthly charge. This offer was adapted to the different segments, namely the “+55”, and offers attractive conditions to customers who domicile their salaries/pensions with the Bank.

Several actions and campaigns were launched with the objective of capturing and binding customers. Via these, it was possible to obtain salaries/pensions, based upon the exemption of commissions on the main day-to-day services and by offering gifts.

As a continuation of the 2011 policy to prevent the increase in non performing and doubtful loans and to maintain full commitment to customers, new solutions were implemented for the regularization and the renegotiation of pending loans, 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 this semester 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, regarding the current economic environment and the growing financial constraints of Portuguese households, this business focus was to design and implement swift solutions adapted to each customer’s situation, aiming towards the immediate reduction of the monthly expenses of families in greater difficulties.

### Private Banking e Premium

In the **Premium** segment a policy based upon 3 fundamental pillars continued being implemented: quality of service, setting up opportunities so 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.

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

The macroeconomic scenario continues challenging. Still, the ability 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.

In the **Private Banking** area, and deriving namely from uncertainties in sovereign debt issuance, continuity of the euro and solidity of the institutions, the customers require low risk and highly liquid assets. The Bank 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

## Corporate

The **Corporate** network, in the semester of 2012, kept up a strategy based upon a balanced management between the volumes of credit portfolio and resources, granting 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 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 20.3% market share, which proves the commitment and availability of the Bank in supporting SME treasuries, a vital entrepreneurial fabric for the growth of the Portuguese economy.

## Promoters and Brokers

The Promoters and Brokers area, which has the responsibility to monitor and stimulate these external partners channels, held a strategy that favours a close proximity with the external promoters and stores.

Accordingly, in addition to the quarterly road shows, whose importance is now fully assimilated by our external promoters, the Bank began to implement actions to host the new promoter stores. Among other things, it disclosed the history and culture of Santander, the characteristics and objectives of the project stores; as well as advantages and profitability resulting from the promoter activity, best practices and techniques and the major commercial campaigns and strategic priorities of the Bank.

Following the reestruuration in the promoters and brokers' portfolio, the main priority was to attract new partners, by launching two campaigns quarterly, involving managers of promoters, branches and commercial divisions of the Bank.

During the 1st semester, a wide range of competitions and campaigns was launched to boost external promoters channel and reward the best performers.

For promoter stores, the priority is to keep 250 stores active and committed to their targets.

## Cards and POS

In June 2012, the operating income of the 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 at their disposal.

A number of initiatives were launched to render the portfolio profitable and to promote the use of cards. This was accomplished through invoicing and revolving campaigns, in which stands out Light Summer campaign, providing benefits to customers in 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, such as new swift adhesion leaflets, sale guides and a permanently updated card panel comprising all the ongoing relevant actions.

In spite of the general pessimism 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 kept up above 10% at the end of the half year.

Santander Totta continues to be the reference to a major of larger retailers, which resulted in TPA commissions being 24% above the homologous value. Market share of 17.4% is superior to the Santander Totta's normal share, as a result of the canvassing



operations with the larger customers, their fidelity, retention policies, repricing and promotional campaigns.

## Transaction banking

### Cash Management and International Business

During the first half of 2012, plans were made focusing on dinamizing products for companies and businesses. These plans had the involvement of teams of experts/facilitators, who together with the customer and product managers have developed specific programmes aimed at attracting customers and dinamizing business.

The products offer through Netbanco, were enlarged to the confirming and factoring, allowing customers more autonomy, extended service and unique features.

It was also provided a tool for multinational companies which allow sending files of payments or receipts, in an automated way, for countries where the Group is represented.

This semester, the Bank continued to offer unique products and consolidated the "Home Deposit" which continues to be a product that distinguishes the Bank from the competition. This kind of product allows the Bank to be one of the leading providers of Cash Management in Portugal.

### Customer Service

Currently one of the strongest differentiation weapons in the market is the after sales area. Within this area it was consolidated the commercial side, which visits major customers side by side with the commercial area, supporting and strengthening the business relationship with companies.

Intense investment continued to be carried out by following up and controlling the resolution of incidents, improving answering times and satisfying companies' requirements.

## Complementary Channels

In May 2012 Santander Totta's **Contact Centre** has been considered for the 4th consecutive year the "Best Contact Centre of Portugal in the financial sector", attributed by the Portuguese Association of Contact Centers.

The total number of contacts made by the operators of the Contact Centre is in line with the same period in

2011. The customers' service chat was reinforced, existing on the website of the Bank many more points of contact request.

We have implemented measures to increase the number of situations solved at 1st contact, and launched new initiatives on Facebook pages, with simultaneous improvement in the management of social networks.

**In Internet channels**, we highlight the improvements made to the "NetBanco Companies" by launching new features for payment, collection, confirming and factoring. There were also improvements in the availability and performance of websites and an increase in traffic, with the number of unique visitors to increase 9%.

The number of frequent users of the private Netbanco grew by 6% in the 1st half of 2012.

It was launched a new version of Mobilie Banking, optimized for the main types of mobile devices, iPhone, iPad, Android, BlackBerry, and with even more features.

The activity of **Self Banking** was based in the optimization of the ATM network. The market share in number of ATMs and transactions were stabilized at 12% and 12.5%, respectively.

In the ATM network it was also implemented a pilot project for a new system for dyeing of notes, with this process taking place successfully. The use of such intelligent banknote neutralization systems has proved itself as an effective prevention and protection of attacks on ATMs, a factor that leads to a growing investment of the bank in this security area. In a standpoint of customer proximity, was given continuity to the adjustment and increase in deposit automation solutions, reaching the 570 equipments already installed with a coverage of about 72% of its branch network.

## International Activities

During the first half of 2012, the international activity of Banco Santander Totta continued to focus on services offered to overseas residents, with greater impact on the gaining of deposits and clients, based on a business model which favours proximity to clients and links to the commercial network in Portugal.

Some events took place, namely in Paris, London and Caracas, targeted to the most important Luso-descendent clients and business people, where ties with Portugal were strengthened and where BST's





services and its availability for support to the communities were made known.

As usual, at the end of this first half-year, the summer campaign was launched. The campaign is structured in such a way as to welcome Portuguese nationals who live overseas by greeting and communicating with them through the renewed image displayed in the national airports and the new airport metro station in Lisbon.

The volume of business in the overseas residents sector was reduced by 0.3%, mainly due to the slowing down in credit concession. In any case, during the second quarter of the year, a positive increase in deposits took place.

Following the commercial strategy of maintaining strong relationships with clients who live abroad, various visits were made by branch managers to areas with a high concentration of such clients. Likewise, through careful planning, visits were made possible by the managers of representative offices to branches and places in Portugal in order to maximise links with the commercial network.

Whilst promoting and offering services to the overseas community and taking advantage of Euro 2012, a campaign was launched in order to stimulate transfers to Portugal, which proved to be quite successful and resulted in an increase in remittances of 2% compared with the previous year, most significantly in transfers made through overseas units.

In order to guarantee alternative channels for the promotion of products and services of the bank abroad, a specific website aimed at clients in this sector was kept updated, with links to the home page of the bank and London Branch.

London Branch has been showing an increase in the volume of deposits and maintains strong support to the branches in Portugal.

## Global Banking & 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 clients, 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 with basic risk coverage and global liquidity management, the latter specifically for customers operating in international businesses.

The management of exchange rate risk showed an increment in the customer base related to the focus of the Bank 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, Santander Totta continued performing well in the marketing of structured products. Eight structured products were issued in the latter six months, six 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 exchange. Together with the fall in the markets, a notorious lack of liquidity was recorded, with days where 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, 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

In the last few years, Santander's performance in Asset Management 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, of positive yield rates in most of the mutual funds managed by the company: **Santander Multitresury** (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%.



## Outlook for the 2nd half 2012

The banking sector activity in Portugal will remain conditioned by the implementation of the Economic and Financial Assistance Programme, which aims to create the conditions for fiscal sustainability, to implement structural reforms on the economy and to set specific measures for the financial sector, namely the strengthening of core capital and of the pool of eligible assets for ECB funding operations, subject to a deleverage and recapitalization process to be implemented until 2014.

The more adverse external outlook, resulting from the worsening of the sovereign debt crisis in Europe, is a risk factor for the adjustment process, as it dampens export growth, therefore adding to the downside risks on economic growth itself as well as on unemployment.

The current process of correction of the structural economic imbalances of the Portuguese economy has clear short term negative impacts, namely through higher unemployment and also weaker economic and financial conditions of the Portuguese households and non-financial corporates, which, in turn, is reflecting in worsening risk indicators for the loan book. Banco Santander Totta will, therefore, maintain its policies of rigorous control of credit risk and selective lending, nevertheless maintaining its support to companies which produce tradable goods.

On the other hand, the Bank will maintain its strategy of gradual deleveraging of the balance sheet, aiming to reduce the loans-to-deposits ratio to 120% in 2014, therefore keeping great focus in deposit growth, although in a context of low savings by households.

As aforementioned, the management of its loan book credit risk is an important objective for Banco Santander Totta, as it is key in defending both profitability and capital, which is fundamental in the current adverse economic environment. For this purpose, the Bank has put special emphasis in preventing delinquency, by creating a programme of selective analysis of the clients, anticipating potential risk events by offering conditions which bring the payment profile more in line with the client's economic and financial situation.

Simultaneously, the Bank maintains an important focus on recoveries, by reinforcing its policy of negotiating with the clients in order to avoid a judicial resolution of conflicts.

## Introduction

The quality of risk management is fundamental for the activity of Banco Santander Totta, in line with the Group's corporate policy. Prudence in risk management allied to the use of advanced management technologies has constituted a decisive factor, particularly in a very difficult, uncertain and volatile environment within the financial markets.

## Credit Risk

### Main features of activity

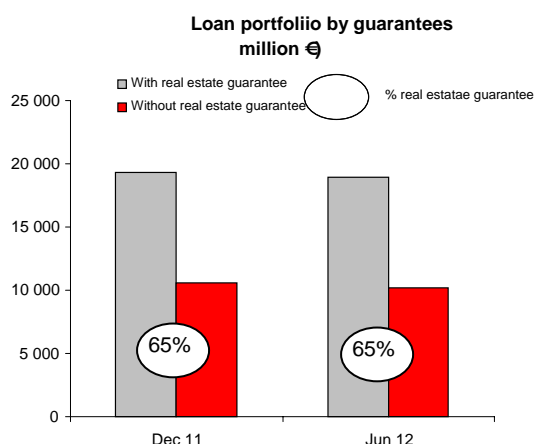
In the 1st half of 2012, the activity in Credit Risk Area comprised the following main features:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of customers and products;
- Reinforcing the rigour in the admission criteria and consequently in the quality of the risks admitted in each of the segments aiming to preserve the quality of the credit portfolios;
- Relative to portfolio risks, proximity with customers was intensified in order to anticipate their needs and eventual problems surrounding their payment capability. This action and the level of the quality of customers' credit allowed continuously to maintain reduced levels of delays and of non performing loans. On the other hand, support levels were kept up for the business in capturing new operations and good risk customers;
- With respect to following up portfolios and customers, a permanent focus is kept in monitoring segments with lower ratings and sectors that could be more affected by the macroeconomic context. This action aims to mitigate the ratios of non performing loans and delays. A review was carried out of the customer's portfolio within the scope of the Special Inspection Programme (SIP), and was concluded that the portfolio was analysed with adequate criteria and that the level of impairments was also adequate;
- In standardized risks, the main focus was on maintaining the quality of the portfolio, acting upon the management delay and non performing loans, while offering products to restructure loans to adapt

customers' expenditure to their repayment capability relative to the new macroeconomic framework. For this purpose, action was taken to adequate the admission strategies in the Bank's systems of decision and to the use of behavioural systems to identify preventive measures to be offered to customers;

- Still in standardized risks, as regards the admission of new operations, the Bank continued to be selective in terms of risk and profitability, using its automated decision models in place, including the scoring and behavioral systems;
- In an adverse macroeconomic scenario with a consequent increase in non performing loans, recoveries activity was heavily focused to reinforce agility in intervention. Prominence for the activity in tele-collections and massive management recoveries with a simultaneous permanent follow up of special cases and those liable to court or out of court actions;
- Also with respect to recoveries activity the policy was maintained to reinforce negotiation aiming to obtain donations in payment as an alternative to court actions;
- With respect to solvency and credit control, permanent attention continued being given to the knowledge of the portfolio, so as to keep strict control of the risk involved, in order to be able to provide adequate and timely management information, as to allow measures to be taken in order to avoid operations from becoming non performing and resolve those which already are non performing;
- Focus was equally maintained on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purpose of calculating equity fund requirements, as well as their inclusion in management.

## Indicators



## Risk Model

### Introduction

Credit risk is originated from the possibility of losses derived from total or partial non performance of loans contracted with the Bank by its customers.

The organization of the credit risk function in Santander Totta is specialized in line with customer typology, differentiating, throughout the whole process of risk management, between non-standardized customers and standardized customers.

- Non-standardized customers are those who, fundamentally due to the assumed risk, have been attributed a risk analysis. This group comprises the wholesale companies, financial institutions and a part of the companies belonging to the retail banks. The risk assessment of these customers is carried out by the analyst, and supplemented with decision support tools based upon internal models of risk valuation;
- Standardized customers are those who do not have a specifically appointed risk analyst. Included in this group are private individuals, independent entrepreneurs and retail bank companies without portfolio. The assessment of these risks is based upon internal models of valuation and automated decision, subsidiarily supplemented and, when the model is not sufficiently precise, with specialized risk analysis teams.

## Measurements and measuring instruments

Santander Totta uses its own tools for the attribution of internal solvency ratings for different customer segments, which then uses to measure the credit quality of a customer or operation, with each rating corresponding to a probability of non performance.

Global rating tools are applied to the segments of country risk, financial institutions and wholesale banking, both in determining their rating as in following up the assumed risks. Such tools attribute a rating to each customer as a result of a quantitative or automated module, based upon balance sheet data/ratios or macroeconomic variables complemented by the analysis carried out by the risk analyst that follows up the customer.

In the case of companies and institutions of the retail banking, the attributed rating is based upon modules such as those referred above, quantitative or automated in this case (analysing the credit performance of a customer sampling and its correlation with a set of accounting data and ratios), and qualitative, dependent from the analysis of the risk analyst, whose duty is to carry out a final review of the attributed rating.

Attributed ratings are reviewed periodically, incorporating any new financial information that may have meanwhile become available as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This periodicity increases in the case of customers where the internal alert and risk classification system so demands.

For the standardized risk portfolios, scoring tools have been implemented that automatically attribute a valuation/decision for the operations submitted. Such decision tools are complemented by a behavioural scoring model, a tool that permits a greater predictability of the assumed risks and which are used both for pre-sale as well as for sale.

The valuation of the customer and/or operation, through rating or scoring, is an assessment of credit capacity which is quantified through probability of default (PD). In addition to the customer's valuation, the quantitative risk analysis considers other features such as the period of the operation, the type of product and the existing guarantees. Thus, what is taken into account is not just the probability of the customer entering into default (PD) but the exposure at default (EAD) which is also estimated as well as the proportion of EAD that is not recoverable (loss given default or LGD).



These factors (PD, LGD and EAD) are the main parameters of credit risk, allowing when jointly considered the estimate of both the expected loss and the non expected loss. The expected loss (or probable loss) is considered as a further activity expenditure (reflecting the risk premium), with this risk conveniently included in the price of the operations. The unexpected loss, which is the basis of the estimation of the regulatory capital in accordance with the standards of the Basel Capital agreement (BIS II), relates to a very high loss level, although not very probable, which is not considered recurrent due to its nature and can thus be covered by equity.

In small and medium size enterprises, the balance sheet information is used not just for the rating attribution but also to obtain explanatory factors as to probability of default. In retail portfolios, PD is estimated by observing delays being entered and correlating these with the scoring attributed to the operations. Excepted are portfolios in which, derived from a lower internal default experience, such as financial institutions, country risk or wholesale banking, the calculation of these parameters is based upon alternative sources of information, such as market prices or assessments by experienced and competent agencies with a portfolio containing a sufficient number of bodies (such portfolios are designated as low default portfolio).

The calculation of LGD is based upon the observation of the recovery process of operations in default, considering not only the income and expenditure related to this process but also the timing when these come about and the indirect costs deriving from the recovery activity.

The EAD estimation is based upon the comparison between the use of committed lines at the moment of default and at a normal situation in order to identify the lines' real consumption when default takes place.

The estimated parameters are immediately linked to normal operations and differentiated for low default portfolios and for the remainder.

### **Credit risk cycle**

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

This process commences in the business area, which proposes a given risk probability. These risks are analysed and decided upon by specific committees, which act with competences delegated by the Executive Committee or the Higher Credit Council

(HCC). It is the HCC that establishes policies and procedures, the limits and delegation of capacities.

### ***Planning and establishing limits***

Establishing risk limits is conceived as a dynamic process that identifies the risk profile that the Bank is prepared to assume, through the assessment of the business proposals and the opinions of the Risks area.

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

With portfolio risks the more basic level is the one of the customer and when certain features concur – generally at a level of relative importance – this is object of an individual limit, normally designated as preclassification, through a very simplified system and normally for those customers that comply with certain requisites (personal knowledge, rating, among others).

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

### ***Risk assessment, operating decision, follow up and control***

Risk assessment is a prior requisite to the authorization of any credit operation in Banco Santander Totta. This assessment consists in analysing the customer's capacity to comply with the contractual commitments with the Bank, which implies analysing the customer's credit qualities, its credit operations, its solvency and its profitability. Additionally an assessment and a review are also carried out of the attributed rating whenever there is an alert or event that affects the customer/operation.

The decision process is aimed at analysing and deciding these same operations, taking into consideration the risk profiles and the relevant components by determining a balance between risk and profitability.

In order to maintain adequate control of the portfolio's credit quality, in addition to the actions developed by the Internal Audit, a specific follow-up function is established in the Risks area, made up of special teams and responsible officers. This function is also specialized in line with customer segmentation and is fundamentally based upon a continuous observation



process that allows the prior detection of incidents that may occur in the evolution of the risk, with the objective of carrying out, in anticipation, the required mitigation actions.

### Recoveries

Recovery management in Santander Totta is an integrated business strategic activity. The specific objectives of the recovery process are the following:

- Ensure the collection or the settlement of the values in irregular situations, with preference for negotiated solutions, so that the customer's credit situation returns to normal. In case the negotiated solution is not possible, the Recoveries area will then try to recover credits through the courts of law;
- Maintain and strengthen relations with the customer, safeguarding his behaviour with respect to the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private and Business & Companies, with specific management models. Recovery management, thus segmented, also respects the distinct management stages: preventive management, management of irregulars and management of non performing loans and bankruptcies. The whole of this activity is shared with the business areas.

## Counterparty Risk

The counterparty risk, latent in contracts carried out in financial markets – organized or over the counter markets (OTC) – corresponds to the possibility of non performance by the counterparts under the contracted

terms and subsequent occurrence of financial losses for the institution.

The types of transactions covered include the purchase and sale of securities, operations in the interbank money market, "repos" contracting, security loans and derivative instruments.

The control of these risks is carried out via an integrated system that permits the record of the approved limits and provides information as to their availability for the different products and maturities. The same system equally permits the transversal control of the concentration of risks for certain groups of customers/counterparts.

The risk in derivative positions, known as Equivalent Credit Risk is the result of the addition of the present value of each contract (or the current replacement cost) with the respective potential risk, providing a component that reflects an estimate of the expected maximum value until maturity, according to the volatility of the underlying market factors and the contracted flow structure.

During the first half of 2012 there was a significant reduction of activity in derivatives with a marked decrease in the number of customers and ongoing operations. As to product families and segments that contributed most to the referred trend were interest rate contracts as well as contracts in progress with financial institutions. At the same time a generalized increase was evident in the present value of contracts in progress (Mark-to-Market) due to level variations and interest rate volatility, particularly the Euribor rates.

### Santander Totta

Derivatives - Credit Risk Equivalent as of 30/06/2012 (10<sup>3</sup> Euros)

Total Consolidated					
	<1 Year	1-5 Years	5-10 Years	>10 Years	Total
Interest Rate Derivatives	41,113	326,584	123,732	1,589,530	2,080,959
Foreign Exchange Derivatives	8,272	629	0	72,244	81,145
Equity Derivatives	61,386	0	0	0	61,386
<b>Total</b>	<b>110,771</b>	<b>327,213</b>	<b>123,732</b>	<b>1,661,774</b>	<b>2,223,491</b>

## Balance Sheet Risk

The management of structural risk is ensured by a body in the highest structural level with decisions being taken by the Assets & Liabilities Committee (ALCO), presided by the Chairman of the Executive Committee,

which comprises the Directors responsible for the Financial, Risks, Commercial and Marketing areas. The committee meets on a monthly basis.

## Interest rate risk

The interest rate risk of the consolidated balance sheet is measured through a model of dynamic risk analysis of the market risk of the balance sheet, modelling the timing variation of risk factors and the Bank's positions over the assets and liabilities sensitive to variations in interest rates. The model used allows measuring and controlling all the risk factors related to the balance sheet market risk, namely the risk originated directly from the movement of the income curve, given the existing structure of indexing factors and reappreciation, which determines the exposure to interest rate risk of the aggregates that constitute the balance sheet.

Considering the uncertainty in the variation of interest rate levels in 2011, the policy followed was to keep sensitivity at the adequate levels.

## Exchange rate risk

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

## Liquidity risk

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

By keeping up to a conservative profile the Bank is better protected with respect to potential crises that affect its environment, and enables it to prepare a timely, adequate and better quality reaction.

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

All the liquidity management procedures are focused on crises prevention and not on reacting to them. This idea underlies the contingency plan that is focused in modelling potential crises through the analysis of several scenarios, in the identification of the crisis types, in the definition of internal and external communications, as well as in the responsibility for each of the areas involved in the process.

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

The structural liquidity situation is well balanced. In June 2012, the Bank presented an asset situation in the money market (short term) of approximately 492 million euros.

During the 1st half, the capital market half ran very unevenly. In this context the ECB, by leading monetary policy assumed itself as the counterpart of the system via lending operations and absorbing liquidity. To participate in these operations is necessary to hold assets as eligible collateral in the ECB. In June 2012 the Bank had 13.6 billion euros of eligible assets that constitute a very comfortable liquidity reserve.

## Market Risk

### Activities subject to market risk

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

In line with the effect of the risk, activities are segmented as follows:

- Negotiation: this division includes the financial service rendered to customers;
- Balance sheet management: interest and liquidity risk arises as a result of the timing differentials existing in the maturities and re-pricing of assets and liabilities. Additionally, this division also includes the active management of the credit risk inherent to the situation of Santander Totta's banking activity;
- Structural Risks:
  - Structural exchange rate risk: exchange rate risk resulting from the currencies in which investments are carried out in companies that may or may not be consolidated;
  - Structural variable income: comprised in this division are investments made through shareholdings in companies that do not consolidate, financial and non financial, that may generate variable income risks.

## Methodologies

### Trading Activity

The standard methodology, applied within the scope of Santander Totta's banking activity, is the Value at Risk (VaR). The standard of historic simulation is the base used, with a 99% confidence level and a one day time frame, with the application of statistical adjustments that allowed a swift and effective inclusion of the more recent events that condition the assumed risk levels.

Stress testing is used as a supplement, consisting in the definition of behavioural scenarios of differing financial variables and to obtain the respective impact on income when applied on the Bank's activity. These scenarios can replicate the behaviour of financial variables in relation to past occurrences (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of probability of occurrences not covered by VaR.

Several measures of sensibility (BPV and Greeks) and equivalent volumes are also equally calculated.

A daily following up of the positions is carried out in parallel, with an exhaustive control of the changes occurring in portfolios, in order to detect profile alterations or possible incidences for their correction. The daily preparation of the income and expenditure account is a risk indicator, since it allows identifying the impact of variations on the financial variables or of the changes in the contents of portfolios.

### Back-testing measures

The reliability of the VaR model is periodically checked through a back-testing analysis. Back-testing consists of a comparative analysis between the estimates of the Value at Risk (VaR) and the clean P&L (result related to the revaluation of the closing portfolios of the previous day at the closing prices of the following day), where the spot/sporadic variations of the results deriving from the estimated measures are analysed.

The back-testing analyses that are carried out for the banking activity in Santander Totta, comply with the BIS recommendations, as regards the comparison with the internal systems used in the measurement and management of financial risks. Additionally, hypothetical tests are carried out in back-testing: excess tests, normality tests, measures of average excess, among others.

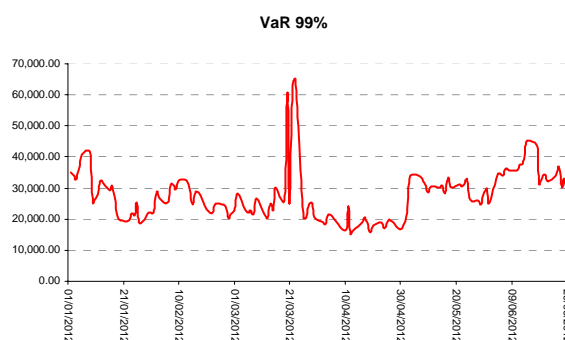
### Limits

In the case of negotiation portfolios, quantitative limits are used that are classified in two groups, and established in line with the following objectives:

- Limits intended to protect the volume of potential future losses. Instances of such limits are the VaR limits, over sensibility measures (BPV or Greeks) or over equivalent positions;
- Limits intended to protect/accommodate the volume of effective losses or to protect results already reached during the period. The objective of this type of limits is to generate alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the limit of maximum loss is reached (stop loss), and from which it will be considered that losses have reached unacceptable levels and the positions will be immediately closed.

### Quantitative analysis of VAR during the semester

VaR was kept at reduced levels, varying between 15,000 and 65,000 euros.



## Operational Risk

Santander Totta defines operational risk as "the risk of loss resulting from deficiencies or failures in internal processes, human resources or systems, or derived from external circumstances". This is generally a risk that exists in internally generated processes (people, systems, among others) or as a consequence of external risks such as natural catastrophes.

The management and control of operational risk are part of the responsibility for all areas, since they have a greater understanding of the processes, as well as the points which could cause significant operational risk exposures and they are accompanied by a central area, responsible for implementing and monitoring the project.

The implemented model has the following global advantages:

- To identify the operational risk inherent in all activities, products, processes and systems of the bank;
- To measure and assess operational risk, consistent with the Basel II standards and set goals and analyze the risk profile defining the boundaries;
- To conduct a continuous monitoring of exposure to OR in order to detect levels of risk not assumed;
- To implement control procedures, improving the knowledge of the causes of OR as well as their implications;

- To establish mitigation measures that eliminate or minimize the OR.

In the 1st half of 2012 was authorized, by the Bank of Portugal, the adoption of Standard Methods for the calculation of capital requirements for operational risk.

## Complementary Information and Attachments

### Governance Practices and Internal Control Model

The Governance of the Company structure, as well as the ones relative to policies, procedures and internal control bodies, have not been subject to any changes from what is stated and detailed in the annual report for 2011.

### Shareholder Structure

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

## Movements in Shares and Bonds of Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of the Company's Act and of Regulation 5/2008 of the Security's Market Regulation Code, it is hereby stated that the movements in shares and bonds carried out by corporate officers, during the 1st half of 2012 were as follows:

Name	Securities	Situation at 31/12/11	Movements in 2012				Situation at 30/06/12
			Date	Acquisitions	Disposals	Unit Price (€)	
João Baptista Leite	Bond BST – Caixa EUA - Cx	820					820
	Bond BST – Caixa Rendimento América Latina TOP 3	400					400



## **Declaration referred to under item c) of § 1 of article No. 246 of the Security Market Regulation Code**

Item c) of §1 of Article No. 246 of the Security Market Regulation Code determines that each of the company's corporate officers issues a declaration therein defined.

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

"I declare, in the terms and for the purposes of item c) of §1 of Article No. 246 of the Security Market Regulation Code that, to my best knowledge, the condensed financial statements relative to the first half of 2012 were prepared in line with the applicable accounting standards, and provide a true and fair image of the assets and liabilities, of the financial situation and of the results of Banco Santander Totta, S.A. and of the companies included in the consolidation, and that the management report of the period under review faithfully expresses the information required in the terms of §2 of Article No. 246 of the Security Market Regulation Code."

### **Board of Directors**

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Matias Pedro Rodriguez Inciarte  
Chairman

---

António José Sacadura Vieira Monteiro  
Director

---

Carlos Manuel Amaral de Pinho  
Director

---

Eduardo José Stock da Cunha  
Director

---

João Batista Leite  
Director

---

José Carlos Brito Sítima  
Director

---

José Urgel Moura Leite Maia  
Director

---

José Manuel Alves Elias da Costa  
Director

---

Luís Filipe Ferreira Bento dos Santos  
Director

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Pedro Aires Coruche Castro e Almeida  
Director



## Consolidated Financial Statements



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2012 AND 31 DECEMBER 2011 AND AS AT 01 JANUARY 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheets originally issued in Portuguese - Note 48)

ASSETS	Notes	30-06-2012			31-12-2011	Restated 01-01-2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30-06-2012	31-12-2011	Restated 01-01-2011
		Amounts before Impairment and Depreciation	Depreciation e Impairment	Net Assets	Net Assets	Net Assets					
Cash and deposits at central banks	5	279.429	-	279.429	387.837	316.872	<b>Liabilities</b>				
Balances due from other banks	6	183.844	-	183.844	356.962	236.219	Resources of central banks	18	6.851.615	4.913.234	4.807.162
Financial assets held for trading	7	2.058.272	-	2.058.272	1.995.784	1.649.296	Financial liabilities held for trading	7	1.855.892	1.663.299	1.312.988
Financial assets designated at fair value through profit or loss	8	93.318	-	93.318	80.121	93.286	Resources of other financial institutions	19	2.632.474	3.611.532	9.614.681
Available-for-sale financial assets	9	5.014.326	62.035	4.952.291	4.439.605	6.925.123	Resources of customers and other loans	20	20.203.046	19.844.104	18.006.436
Loans and advances to banks	10	2.462.438	-	2.462.438	2.692.911	5.209.821	Debt securities issued	21	5.763.447	7.393.865	8.880.346
Loans and advances to customers	11	29.155.968	837.951	28.318.017	28.372.027	29.773.732	Hedging derivatives	12	314.027	282.889	189.423
Hedging derivatives	12	196.633	-	196.633	167.302	131.512	Provisions	22	71.929	75.482	104.193
Non-current assets held for sale	13	263.154	83.048	180.106	141.163	89.123	Current tax liabilities	16	2.995	6.545	6.608
Other tangible assets	14	842.739	495.397	347.342	365.415	391.323	Deferred tax liabilities	16	98.716	66.972	47.885
Intangible assets	14	345.417	263.740	81.677	74.230	74.375	Subordinated liabilities	23	4.321	4.328	32.316
Investments in associates	15	143.263	500	142.763	133.052	158.846	Other liabilities	24	316.290	289.589	446.066
Current tax assets	16	25.428	-	25.428	17.632	21.985	Total liabilities		<u>38.114.752</u>	<u>38.151.839</u>	<u>43.448.104</u>
Deferred tax assets	16	700.763	-	700.763	714.817	477.690					
Other assets	17	225.315	24.828	200.487	176.456	293.928	<b>Shareholders' equity</b>				
							Share capital	25	656.723	656.723	620.105
							Share premium account	25	193.390	193.390	163.703
							Other equity instruments	25	135.000	135.000	135.000
							Revaluation reserves	25	(901.170)	(1.008.461)	(588.356)
							Other reserves and retained earnings	25	1.429.155	1.404.582	1.138.700
							(Treasury shares)		(42.400)	(42.400)	(42.113)
							Consolidated net income attributable to the shareholders of BST	26	52.148	47.121	399.196
							Shareholders' equity attributable to the shareholders of BST		<u>1.522.846</u>	<u>1.385.955</u>	<u>1.826.235</u>
							Minority interests	27	585.210	577.520	568.792
							Total shareholders' equity		<u>2.108.056</u>	<u>1.963.475</u>	<u>2.395.027</u>
Total assets, net		<u>41.990.307</u>	<u>1.767.499</u>	<u>40.222.808</u>	<u>40.115.314</u>	<u>45.843.131</u>	Total liabilities and shareholders' equity		<u>40.222.808</u>	<u>40.115.314</u>	<u>45.843.131</u>

The accompanying notes form an integral part of these income statements.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of income statement originally issued in Portuguese - Note 48)

	Notes	30-06-2012	Restated 30-06-2011
Interest and similar income	29	904.435	866.612
Interest and similar charges	30	(622.269)	(573.991)
<b>Net interest income</b>		<b>282.166</b>	<b>292.621</b>
Income from equity instruments	31	1.645	1.239
Income from services and commission	32	203.149	210.274
Charges with services and commission	33	(23.051)	(25.522)
Result of assets and liabilities valued at fair value through profit or loss	34	(3.544)	5.529
Result of available-for-sale financial assets	35	(3.815)	(77.011)
Result of foreign exchange revaluation	36	2.610	1.794
Result from the sale of other assets	37	83.495	(358)
Other operating results	38	(3.310)	(5.437)
<b>Net income from banking activities</b>		<b>539.345</b>	<b>403.129</b>
Staff costs	39	(133.100)	(148.419)
General administrative costs	40	(68.730)	(71.910)
Depreciation in the year	14	(32.710)	(30.631)
Provisions, net of cancellations	22	(4.107)	243
Loan impairment net of reversals and recoveries	22	(214.881)	(73.249)
Impairment of other financial assets net of reversals and recoveries	22	(20)	(3.305)
Impairment of other assets net of reversals and recoveries	22	(26.447)	(18.863)
Result from associates	41	4.603	6.459
<b>Income before taxes and minority interests</b>		<b>63.953</b>	<b>63.454</b>
Taxes			
Current	16	(21.020)	(15.103)
Deferred	16	9.212	13.393
<b>Income after taxes and before minority interests</b>		<b>52.145</b>	<b>61.744</b>
Minority interests	27	3	6
<b>Consolidated net income attributable to the shareholders of BST</b>	26	<b>52.148</b>	<b>61.750</b>
Average number of ordinary shares outstanding		641.943.023	647.525.720
Earnings per share (in Euros)		0,08	0,09

The accompanying notes form an integral part of these income statements.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of income statement originally issued in Portuguese - Note 48)

	30 June 2012		30 June 2011 (Restated)	
	Attributable to the shareholders' of BST	Attributable to minority interests	Attributable to the shareholders' of BST	Attributable to minority interests
Consolidated net income for the year	52.148	(3)	61.750	(6)
Income not included in the consolidated income statement				
. Exchange fluctuations on foreign subsidiaries	6.444	7.712	(5.222)	(20.338)
. Revaluation reserves of associated companies valued at equity method				
. Fair value	394	-	(22)	-
. Tax effect	(114)	-	14	-
. Actuarial and financial deviations related to remuneratory pensions				
. Fair value	(5.762)	-	(49.112)	-
. Tax effect	(7.962)	-	14.198	-
. Changes in fair value of financial assets available for sale				
. Fair value	137.653	-	(250.829)	-
. Tax effect	(39.879)	-	72.751	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	24.724	-	(12.479)	-
. Tax effect	(7.170)	-	3.619	-
	108.328	7.712	(227.082)	(20.338)
Consolidated comprehensive income for the year	160.476	7.709	(165.332)	(20.344)

The accompanying notes form an integral part of these income statements.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED ON 30 JUNE 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 48)

	Revaluation reserves													
	Share Capital	Share premium account	Other equity instruments	Legal revaluation	Fair value	Foreign exchange fluctuation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income in the year	Minority interests	Total
Balances as at 31 December 2010	620.105	163.703	135.000	23.245	(507.379)	(3.545)	142.578	215.832	828.691	94.177	(42.113)	394.028	568.792	2.633.114
Impact of change in accounting policy related to pensions (Note 1.5.)	-	-	-	-	(340.502)	-	97.247	-	-	-	-	5.168	-	(238.087)
Balances as at 01 January 2011 (Restated)	620.105	163.703	135.000	23.245	(847.881)	(3.545)	239.825	215.832	828.691	94.177	(42.113)	399.196	568.792	2.395.027
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	(416)	27.801	68.419	132.307	-	(228.111)	-	-
. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	(171.085)	-	(171.085)
. Preference shares	-	-	-	-	-	179	-	-	(30.213)	-	-	-	62	(29.972)
Merger with Totta IFIC	36.618	29.687	-	-	-	-	-	-	67.611	-	-	-	-	133.916
Payment of share-based remuneration	-	-	-	-	-	-	-	-	34	-	-	-	-	34
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(281)	-	-	(281)
Other	-	-	-	-	-	-	388	-	-	-	-	-	-	388
Comprehensive income for the first semester of 2011	-	-	-	-	(312.442)	(5.222)	90.582	-	-	-	-	61.750	(20.344)	(185.676)
Balances as at 30 June 2011	656.723	193.390	135.000	23.245	(1.160.323)	(8.588)	330.379	243.633	934.542	226.484	(42.394)	61.750	548.510	2.142.351
Preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(90)	(90)
Payment of share-based remuneration	-	-	-	-	-	-	-	-	(81)	-	-	-	-	(81)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	(6)	-	-	(6)
Other	-	-	-	-	-	-	(130)	-	4	-	-	-	-	(126)
Comprehensive income for the second semester of 2011	-	-	-	-	(275.628)	2.472	80.112	-	-	-	-	(14.629)	29.100	(178.573)
Balances as at 31 December 2011	656.723	193.390	135.000	23.245	(1.435.951)	(6.116)	410.361	243.633	934.465	226.484	(42.400)	47.121	577.520	1.963.475
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	229	2.229	30.071	14.592	-	(47.121)	-	-
. Preference shares	-	-	-	-	-	(1.266)	-	-	(29.346)	-	-	-	(22)	(30.634)
Tax benefit on transfer of Pension Fund to the Social Security	-	-	-	-	-	-	-	-	-	7.587	-	-	-	7.587
Payment of share-based remuneration	-	-	-	-	-	-	-	-	(624)	-	-	-	-	(624)
Other	-	-	-	-	-	-	-	-	62	2	-	-	3	67
Comprehensive income for the first semester of 2012	-	-	-	-	157.009	6.444	(55.125)	-	-	-	-	52.148	7.709	168.185
Balances as at 30 June 2012	656.723	193.390	135.000	23.245	(1.278.942)	(938)	355.465	245.862	934.628	248.665	(42.400)	52.148	585.210	2.108.056

The accompanying notes form an integral part of these income statements.



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE SIX MONTH PERIOD ENDED ON 30 JUNE 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of cash flow statement originally issued in Portuguese - Note 48)

	<u>30-06-2012</u>	<u>30-06-2011</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commission received	1.006.802	1.020.727
Payment of interest and commission	(584.782)	(520.142)
Payments to staff and suppliers	(212.794)	(233.871)
Foreign exchange and other operating results	6.136	(24.156)
Recovery of uncollectable loans	5.228	10.980
Operating results before changes in operating assets and liabilities	<u>217.491</u>	<u>253.538</u>
 (Increase) / decrease in operating assets:		
Loans and advances to banks	215.382	4.411.836
Financial assets held for trading	(56.306)	511.012
Loans and advances to customers	(174.969)	2.105.215
Assets and liabilities designated at fair value through profit and loss	(124.179)	3.306
Non-current assets held for sale	(55.713)	(28.687)
Other assets	985	86.911
	<u>(194.800)</u>	<u>7.089.593</u>
 Increase / (decrease) in operating liabilities:		
Resources of financial institutions	951.912	(8.894.591)
Resources of customers and other loans	361.462	359.388
Financial liabilities held for trading	192.594	(105.953)
Other liabilities	20.515	(62.030)
	<u>1.526.483</u>	<u>(8.703.186)</u>
 Net cash flow from operating activities before income tax	1.549.174	(1.360.055)
Income tax paid	(39.953)	(35.011)
<b>Net cash flow from operating activities</b>	<u>1.509.221</u>	<u>(1.395.066)</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	1.645	2.813
Purchase of assets available for sale	(1.549.328)	(271.486)
Sale of assets available for sale	1.198.963	2.985.817
Income from assets available for sale	156.940	142.851
Purchase of tangible and intangible assets	(28.722)	(22.516)
Sale of tangible assets	361	479
<b>Net cash flow from investment activities</b>	<u>(220.141)</u>	<u>2.837.958</u>
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Dividends paid	-	(171.085)
Issuance/(redemption) of debt securities	(1.498.834)	(1.042.749)
Interest paid on bonds issued and other	(71.702)	(109.487)
Interest paid on subordinated liabilities	(70)	(497)
<b>Net cash flow from financing activities</b>	<u>(1.570.606)</u>	<u>(1.323.818)</u>
 <b>Net increase in cash and cash equivalents</b>	<u>(281.526)</u>	<u>119.074</u>
 Cash and cash equivalents at the start of the period	744.799	553.090
Entry of entities in the consolidation perimeter		2
Cash and cash equivalents at the end of the period	463.273	672.166

The accompanying notes form an integral part of these income statements.

## Notes to the Consolidated Financial Statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011  
(RESTATED)

(Translation of notes originally issued in Portuguese – Note 48)

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

## INTRODUCTION

Banco Santander Totta, S.A. (hereinafter referred to as the “Bank”, “BST” or “Group”), previously known as Companhia Geral de Crédito Predial Português, S.A. (CPP), was founded in 1864 and has its registered office in Portugal in Rua do Ouro, no. 88, Lisbon. The Bank was nationalised in 1975 and transformed into a government owned corporation in 1990. On December 2, 1992 the Bank’s capital was re-privatised through an Initial Public Offering carried out in a special session of the Lisbon Stock Exchange.

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group during the first semester of 2012 and the year 2011 are detailed in Note 45.

On December 16, 2004, a demerger/merger operation of Totta was carried out, under which its investments in Foggia, SGPS, S.A. and Totta Seguros – Companhia de Seguros de Vida, S.A. were demerged and the remainder of its operations, together with Banco Santander Portugal, S.A. (“BSP”), were merged into CPP, which then changed its name to the current one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, S.A. (“BSN”). For accounting purposes the operation was recorded as from January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeira de Crédito, S.A. (“Totta IFIC”). For accounting and tax purposes the operation was recorded as from April 1, 2011, which was the date of registration.

BST’s operations consist in obtaining funds from third parties, in the form of deposits and other, to apply along with its own funds, in all sectors of the economy, mostly in the form of loans granted or securities and providing other banking services in Portugal and abroad.

The Bank has a domestic network of 640 branches (659 branches as at 31 December, 2011) and also has a branch in London, as well as an offshore financial branch and an international offshore financial branch in the Autonomous Region of Madeira. The Bank also has subsidiaries and representation offices abroad as well as investments in subsidiaries and associated companies.

## 1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

### 1.1. Bases of presentation of the accounts

BST’s consolidated financial statements were prepared on a going concern basis, from its books and accounting records maintained in accordance with the accounting principles set forth in the International Financial Reporting Standards (IAS/IFRS) as adopted by the European Union, Regulation (CE) 1606/2002 of July 19 of the European Parliament and Council, transposed to Portuguese legislation by Decree Law 35/2005 of February 17, and Notice 1/2005 of February 21 of the Bank of Portugal. Where Group companies used different accounting principles, appropriate adjustments were made for conversion to the IAS/IFRS.

The Bank adopted Standard IAS 34 – Interim Financial Reporting, in the presentation of its half-year financial statements.

In 2011, the Bank adopted the amendments to IAS 24 – “Related party disclosures”, IAS 32 – “Financial instruments: presentation”, IFRIC 14 – “The limit on a defined benefit asset, minimum funding requirements and their interaction” and IFRIC 19 – “Extinguishing financial liabilities with equity instruments”, but the adoption of these standards had no impact on its financial statements.

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The Bank also reviewed the amendments to IAS 39 – “Financial instruments: Recognition and Measurement”, on the identification of inflation as a hedged risk and a hedging through options, but these had no impact on its financial statements. The amendments to IFRS 2 - “Share-based payments”, to IFRIC 16 – “Hedge of a net investment in a foreign operation”, to IFRIC 17 – “Distribution of non cash assets to owners” and to IFRIC 18 – “Transfer of assets from customers”, also had no impact on its financial statements.

As at 30 June 2012, the following standards (new and revised) and interpretations, already adopted by the European Union, were available for early adoption:

- IFRS 7 (Amendment) - "Financial instruments: Disclosures" – This revision has increased disclosure requirements for transactions involving the transference of financial assets. Aims to ensure greater transparency in relation to exposure of the risks arising out from the transfer of financial assets when the transferor retains some involvement on those assets, and is mandatory for reporting periods beginning on or after 1 July 2012.
- IAS 1 (Amendment) - “Presentation of Items of Other Comprehensive Income” - The alterations to the standard include some modifications to the way in which comprehensive income is presented.
- IAS 19 (Amendment) - “Employee benefits” - The alterations to the text of the standard issued in June 2011 include modifications related with the recognition of the cost with defined benefit plans and their respective break down and disclosures on the defined benefit plans.

Although these standards are endorsed by the European Union, they were not adopted by the Bank at 30 June 2012, as their application was not yet mandatory. The Board of Directors believes that their application will not have a materially relevant impact on the financial statements.

Furthermore, up to the date of approval of the attached financial statements, the following standards and improvements, which are still not endorsed by the European Union, were also issued:

- IFRS 9 – “Financial instruments” – The new standard uses a unique approach to determine the accounting of a financial asset valued at amortised cost or fair value, simplifying the classification of the IAS 39. The classification is based upon the contractual characteristics of the asset and how it is managed. The standard does not cover financial liabilities. It is mandatory for reporting periods beginning on or after January 1, 2015.
- IFRS 11 – “Joint arrangements” – The new standard establishes that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The joint venture may be classified as a “joint operation”, in the case whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, or as “joint venture”, in the case whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. It is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 12 – “Disclosures of Interests in Other Entities” - The objective of this standard is to require the disclosure of information to enable users of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities, namely the effects of those interests on its financial position, financial performance and cash flows. It is mandatory for reporting periods beginning on or after January 1, 2013.

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- IFRS 13 – “Fair Value Measurement” - The standard defines fair value and sets out a framework for its determination. It has also established a “fair value hierarchy”, in accordance to the inputs used in valuation models. The standard also requires disclosures on fair value determination. It is mandatory for reporting periods beginning on or after 1 January 2013.
- IAS 27 – “Separate Financial Statements” - The standard sets principles to be applied when accounting for investments in subsidiaries, jointly controlled entities and associates when an entity opts, or it is required by the local regulators, to present separate (non-consolidated) financial statements. It is mandatory for reporting periods beginning on or after 1 January 2013.
- Improvements to the IFRS (2009-2011 period) – this includes, among others, amendments to the following standards:
  - . IAS 1 – Clarifies the requirements over the disclosure of comparative information
  - . IAS 32 – Clarifies that the fiscal effect of a distribution of income to the holders of instruments representing capital should be accounted in accordance with the requirements of IAS 12 – Income Tax
  - . IAS 34 – Clarifies the requirements over the interim disclosure of assets by segments so that there is greater consistency with the requirements of IFRS 8 – Operating Segments.The alterations are mandatory for reporting periods beginning on or after 1 January 2013.
- IFRS 10, IFRS 11 and IFRS 12 (amendments) – The amendments to these standards include clarifications concerning the obligation to disclose comparative information, namely eliminating the requirement to present comparative information for periods prior to those immediately before the period of reference. The alterations are mandatory for reporting periods beginning on or after 1 January 2013.

1.2. Consolidation principles and recording of associated companies

The consolidated financial statements include the accounts of the Bank and those of the entities controlled directly and indirectly by the Bank (Note 4), including special purpose entities.

Subsidiary companies are those in which the Bank exercises effective control over the current management in order to obtain economic benefits from its activities. Control usually exists when more than 50% of the share capital or of the voting rights are held. Furthermore, as a result of the application of the IAS 27 – “Consolidated and separate financial statements”, the Group includes special purpose entities in the consolidation perimeter, namely vehicles and funds created under securitization operations, when it exercises effective financial and operating control over them and in which the Bank owns most of the risks and benefits associated to their activity.

The financial statements of subsidiaries are consolidated by the full integration method, from the time that BST has control over their activities to the time control ceases. Transactions and the significant balances between the companies subject to consolidation were eliminated. Furthermore, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full integration method are accounted for under the caption “Minority interests” (Note 27).

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a participation (direct or indirect) exceeds 20% or where the Bank has the power to participate in decisions relating to their financial and operating policies, but does not have control or joint control over them.

Companies in which the Bank's participation is less than 20%, but that are majority held by the Santander Totta SGPS Group are also considered associated companies. Participations in associated companies are recorded in accordance with the equity method, from the time the Bank has significant influence until the date it ceases.

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In accordance with the equity method, the consolidated financial statements include the part of shareholders' equity and profit or loss of the associated companies attributable to the Bank.

Goodwill corresponds to the excess of the acquisition costs over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of subsidiary and associated companies. At least once a year, the Bank performs impairment tests to the goodwill in the balance sheet, in accordance with the requirements of IAS 36 - "Impairment of Assets". For this purpose, the "goodwill" is allocated to units that generate cash flows, and assessed the recoverable amount based on estimates of future "cash flows" date based on discount rates considered appropriate by the Bank. Impairment losses associated with "goodwill" are recorded in the income statement and cannot be reversed.

The Bank decided not to apply IFRS 3 – Business Combinations, retrospectively. Therefore goodwill on acquisitions up to January 1, 2004 is reflected as a deduction from shareholders' equity in compliance with the former accounting policy. On the other hand, previously recognised negative goodwill was recorded as an increase in shareholders' equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associated companies after January 1, 2004 are recorded in accordance with the purchase method. Cost of the acquisition corresponds to the fair value of the assets and liabilities of the subsidiaries and associated companies as of the acquisition date. Goodwill is recorded as an asset and is subject to impairment tests in accordance with IAS 36, but is not amortised. Furthermore, whenever it is seen that the fair value of the assets acquired and of the liabilities incurred or assumed is higher than the acquisition cost (negative goodwill), the difference is recognised in the income statement.

With the application of the amendments to IFRS 3 and IAS 27, the Bank defined as accounting policy the fair value valuation through profit or loss when there is a change of control for subsidiaries acquired in stages. In such cases, the share participation acquired prior to the time of the change of control is revalued at fair value through profit or loss (Note 15). Goodwill is calculated on a given date as the difference between total acquisition cost and the proportion in the fair value of the associate's assets and liabilities. Similarly, by the application of the said amendments, the Bank reassesses through profit or loss the undertakings in which joint control is lost (Note 4).

The Bank decided to reverse, as of the transition date (1 January 2004) the reserve resulting from foreign exchange differences arising out from the conversion of financial statements of subsidiaries expressed in functional currencies other than the Euro. As from that date, in compliance with IAS 21, the foreign currency financial statements of subsidiary and associated companies have been converted to Euros as follows:

- Assets and liabilities stated in foreign currency are converted using the closing exchange rate for Euros on the balance sheet date;
- Non-monetary assets recorded at historical cost, including tangible assets, remain reflected at the original exchange rates; and
- Foreign currency income and expenses are converted to Euros at the average exchange rates of the month in which they are recognised.

Exchange differences arising upon conversion to Euros are stated in the equity of the Bank, in the caption of "Foreign exchange fluctuation reserves".



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1.3. Summary of the main accounting policies

The main accounting policies used in the preparation of the financial statements were the following:

a) Accruals basis

The Bank uses the accrual-based accounting principle for most of its financial statement captions. Therefore, expenses and income are recorded in the period to which they relate, independently of when they are paid or received.

b) Foreign currency transactions

The Bank's accounts are prepared in the currency of the economic environment in which the Bank operates (functional currency), being expressed in Euros.

Transactions in a currency other than the functional currency, and the corresponding income and expenses, are recorded at the exchange rate of the date that they occur. Foreign currency assets and liabilities are translated to Euros at the fixing exchange rates as of the balance sheet date (Bank of Portugal fixing).

c) Loans and accounts receivable

This category of financial assets includes loans and advances to customers and applications in credit institutions.

Loans and advances to customers include loans to costumers, as well as other security operations (commercial paper) not intended for sale in the short term, are recorded at inception at their nominal value.

Subsequently, loans and other accounts receivable are recorded at amortised cost, being submitted to periodic impairment analysis.

Commission and external costs attributable to the underlying operations included in this category, as well as the interest associated to the loans and advances granted, are recognised on an accruals basis, using the effective interest rate method, regardless of when they are received or paid. The Bank opted to defer commission received and paid relating to credit granted as from January 1, 2004.

The Bank classifies as overdue credit, instalments of principal and interests overdue for more than 30 days. Credits with overdue instalments are denounced in accordance with the approved credit procedures, the whole debt being considered overdue.

The Bank periodically analyses the loans and advances which should have already been paid in full but where the effort to collect them had no effect. Where the prospects of recovering a loan are negligible, loans are considered to be uncollectible and impairment losses are recognised for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently, are recognised in the income statement in the caption "Loan impairment net of reversals and recoveries".

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Impairment

The Group periodically analyses the loans and advances granted to customers and other amounts receivable in order to identify evidence of impairment. A financial asset is considered to be impaired if, and only if, there is evidence that one or more loss events have occurred that have a measurable impact on the estimated future cash flows of that asset or group of assets.

For the purpose of determining loan impairment, the Group's loan portfolio is segmented as follows:

- Corporate customers;
- Mortgage loans;
- Consumer credit;
- Credit granted through credit cards;
- Other credit to individual customers;
- Guarantees and sureties; and
- Derivatives.

The Group makes an individual assessment of corporate customers that have:

- Credit granted greater than tEuros 5,000;
- Credit granted greater than tEuros 500 that is classified in the Bank's system as "doubtful not in litigation";
- Credit granted greater than tEuros 1,000 if classified in VE1 and Substandard and tEuros 1,500 if classified in VE2 and VE3, in the Bank's special monitoring system;

In this regard, these segments may include customers without overdue credit. Occasionally the Bank also includes some customers without the mentioned features in individual assessment, by professional judgment.

Customers assessed individually with no evidence of impairment are subsequently assessed on a collective basis, being segmented between customers with liabilities greater or less than tEuros 300.

The Bank carries out a collective impairment assessment on the remaining segments of the loan portfolio.

Evidence of impairment of an asset or group of assets, as defined by the Group, corresponds to the observation of several loss events, such as:

- Contractual breach of, such as delay in principal and/or interest payments;
- Significant financial difficulties of the debtor;
- Significant change of the debtor's financial situation;
- Other adverse changes, such as:
  - . Conditions and/or ability to pay; and
  - . Economic conditions in the sector in which the debtor operates with an impact on the debtor's ability to comply with its obligations.

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Impairment losses for customers without overdue credit correspond to the probability of having overdue credit (PI) times the difference between the book value of the respective credits and the present value of estimated future cash flows of those operations. The PI corresponds to the probability of one transaction, operation or client starting to have overdue credit during an emergency period. An emergency period corresponds to the period between the occurrence of a loss event and the identification of that event by the Bank (incurred but not reported). For all loan portfolio segments, the Bank considers an emergency period of 6 months.

If there is evidence that the Group has incurred in an impairment loss on credits or other receivables, the amount of the loss is determined by the difference between the book value of those assets and the present value of the estimated future cash flows, discounted at the interest original rate of the asset or financial assets. The book value of the asset or assets is reduced by the impairment loss account balance. In the case of credits with variable interest rates, the discount rate used to determine an impairment loss is the current interest rate, as determined by the contract. Impairment losses are recorded in the income statement.

In accordance with the Group's current impairment model for the customer loan portfolio, impairment losses are assessed individually, on a sample basis, and on a collective basis. When a group of financial assets is assessed collectively, the future cash flows of that group are estimated based on the contractual cash flows of the assets of that group and on historical data regarding losses arising out from assets with similar credit risk characteristics. Whenever the Group considers it necessary, the historic information is updated based on current observable data in order to reflect the effect of current conditions.

When, in a subsequent period, there is a decrease in the amount of impairment losses due to a specific event, the previously recognised amount is reversed and the impairment loss balance is adjusted. The amount of the reversal is recognised directly in the income statement.

Reverse entry of principal and interest

In accordance with the policies in place in the Bank, interest arising overdue credits without a real guarantee are reverted three months after the due date of the operation or after the first overdue instalment. Unrecorded interest on the above-mentioned credits is only recognised in the period of its actual collection.

Interest on mortgages loans or on loans granted with other real guarantees are not reverted provided that the outstanding principal and interest due is less than the collateral value.

Loan sales

Gains and losses on the definitive sale of loans are recorded in the income statement in the caption "Results from the sale of other assets" (Note 37). These gains or losses correspond to the difference between the sale value agreed and the book value of these assets, net of impairment losses. Contingent future collections are not considered in the determination of the sale price.

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Finance leasing operations

Lease operations are classified as finance leases when substantially all the risks and benefits relating to ownership of the leased asset are transferred to the lessee under the lease contract. Finance lease operations are recorded in accordance with the following criteria:

i) As lessee

Assets held under finance lease are recorded at their fair value in tangible assets and in liabilities and the corresponding depreciation is recognised. The lease instalments are divided in accordance with the respective financial plan, the liabilities being decreased by the amount corresponding to payment of the principal. Interest included in the instalments is recorded in the caption "Interest and similar charges".

ii) As lessor

Assets under a finance lease contract are recorded in the balance sheet as loans granted, which are repaid by amortising the principal in accordance with the financial plan of the contracts. Interest included in the instalments is recorded in the caption "Interest and similar income".

Guarantees given and irrevocable commitments

Responsibilities for guarantees given and irrevocable commitments are recorded in off- balance sheet accounts for the amount at risk, while interest, commission and other income are recorded in the income statement over the period of the operations.

d) Recognition of income and costs relating to services and commission

Income from services and commission obtained in the execution of a significant act, for example such as commission from syndicating loans operations, is recognised in the income statement when the significant act has been completed.

Income from services and commission obtained as the services are rendered is recognised in the income statement in the period to which it refers.

Income from services and commission that is part of the remuneration from financial instruments is recorded in the income statement using the effective interest rate method.

Costs relating to services and commission are recognised using the same criteria as adopted for income.

e) Financial instruments

The following assets and financial liabilities are recognised and valued in accordance with IAS 32 and IAS 39 within the following specific categories:

- Financial assets and liabilities held for trading;
- Financial assets and liabilities at fair value through profit or loss;
- Available-for-sale financial assets; and
- Other financial liabilities.

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i) Financial assets and liabilities held for trading and financial assets and liabilities at fair value through profit or loss

Financial assets held for trading include fixed income securities and variable yield securities traded on active markets, as well as derivatives purchased with the intention of being sold or repurchased in the short term. Trading derivatives with a receivable net value (positive fair value), and options bought are included in the caption "Financial assets held for trading". Trading derivatives with a payable net value (negative fair value), and options sold are included in the caption "Financial liabilities held for trading".

Assets designated at fair value through profit or loss include fixed income securities.

Financial assets and liabilities held for trading and financial assets and liabilities at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from subsequent fair value valuation are recognised in the income statement.

The interest inherent to financial assets and the difference between their acquisition cost and their nominal value (premium or discount) is calculated in accordance with the effective rate method and recognised in the income statement in the caption "Interest and similar income". The effective rate is that which is used to discount the estimated future cash flows associated to the financial instrument, and makes its present value equal to the value of the financial instrument on the date it was initially recognised.

Interest associated to trading derivative financial instruments is classified in the caption "Results of assets and liabilities valued at fair value through profit or loss" in the income statement.

ii) Available for sale financial assets

Available for sale financial assets include equity and debt instruments that are not classified as financial assets held for trading, at fair value through profit or loss, as investments to be held to maturity or as loans and accounts receivable.

Available for sale financial assets are stated at fair value, with the exception of equity instruments not listed on an active market if their fair value cannot be determined reliably, which are recorded at cost. Subsequent gains or losses resulting from changes in fair value are reflected in the specific equity caption called "Fair value reserve" until they are sold (or until impairment losses are recognised on them), when they are transferred to the income statement. Foreign exchange gains or losses on monetary assets are directly recognised in the income statement.

Reclassification of financial assets

In accordance with the amendment introduced on 13 October 2008 in Standard IAS 39 - "Financial instruments: Classification and measurement", the Bank "may reclassify a financial asset that is no longer held for sale or repurchase in the short term (although it may have been acquired or incurred mainly for sale or repurchase in the short term), removing it from the category of fair value through profit or loss if certain requirements are met. However, reclassifications are not permitted for the category "Financial assets at fair value through profit or loss".

Disclosure on the reclassifications made under this amendment is provided in Note 9.

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iii) Income Recognition

Interest inherent to the financial assets and the recognition of the difference between their acquisition cost and their nominal value (premium or discount) is calculated in accordance with the effective rate method and recorded in the “Interest and similar income” caption in the income statement.

Income from variable return securities is recognised in the income statement on the date that it is declared. In accordance with this criterion, interim dividends are recognised as income in the year the distribution is declared.

iv) Sale operations with repurchase agreements

Securities sold with repurchase agreements are maintained in the portfolio in which they were originally recorded. Funds received are recorded on the settlement date in a specific liability account, interest being recorded on an accrual basis.

v) Impairment of financial instruments

When there is evidence of impairment of an asset or group of assets, the impairment loss is recognised in the income statement.

For quoted securities, evidence of impairment exists when the price falls continuously or significantly. Evidence of impairment for unquoted securities exists when there is a negative impact on the estimated future cash flows of the financial asset, provided that this can be reliably estimated.

The Group considers the specific nature and features of the assets being valued in its periodic impairment loss assessment. In terms of objective impairment criteria, the BST considers a 24 month period to be adequate for the prolonged devaluation of financial instruments in relation to their acquisition cost. Furthermore, BST considers the existence of unrealised capital losses exceeding 50% of the acquisition cost to be a significant devaluation.

Except as explained in the following paragraph, if in a subsequent period there is a decrease in the amount of impairment loss attributable to a specific event, the previously recognised amount is directly reverted through an adjustment to the impairment losses account. The amount of the reversal is recognised directly in the income statement.

When there is objective evidence of impairment of financial assets available for sale as a result of a significant or prolonged decrease in the fair value of the security or financial difficulty of the issuer, the accumulated loss of the fair value reserve is transferred from equity to the income statement. Impairment losses recorded on fixed income securities can be reverted through profit or loss if there is an increase in the fair value of the security resulting from an event that occurs after determination of the impairment. Impairment losses on variable yield securities cannot be reverted and so any unrealised capital gain arising after recognition of the impairment loss is recorded in the fair value reserve. In the case of variable yield securities for which impairment losses have been recognised, subsequent reductions in fair value are always recognised in the income statement.

For financial assets recorded at cost, namely unquoted shares whose fair value cannot be measured reliably, the Bank also carries out periodic reviews for impairment. In this context, the recoverable amount corresponds to the present value of the estimated future cash flows, using a discount rate that reflects the underlying risk of the asset held



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vi) Income recognition

Other financial liabilities essentially correspond to resources of credit institutions, customers' deposits and debt issued. These liabilities are initially valued at fair value, which normally corresponds to the amount received, net of transaction costs, and are subsequently valued at amortised cost in accordance with the effective interest rate method.

Bond issues are entered in the captions "Other subordinated liabilities" and "Debt securities issued".

On the issue date debt securities issued are recorded at fair value (issue price) and subsequently are valued at amortised cost using the effective interest rate method.

Embedded derivatives in debt securities issued are recorded separately and valued at fair value through profit or loss.

Fair value

As mentioned above, the financial assets recorded in the categories of financial assets held for trading and at fair value through profit or loss and financial assets available for sale are valued at fair value.

The fair value of a financial instrument corresponds to the amount for which an asset or financial liability can be sold or settled between independent, knowledgeable and interested parties in the transaction under normal market conditions.

The fair value of financial assets is determined by an independent area of the Bank's trading function, based on:

- Closing price at the balance sheet date for the instruments traded on active markets;
- For debt instruments not traded on active markets (including unquoted securities or with limited liquidity) methods and valuation techniques are used, which include:
  - i) Bid prices provided by financial information services, namely Bloomberg and Reuters, including market prices available for recent transactions;
  - ii) Indicative quotes (bid prices) obtained from financial institutions that operate as market-makers;
  - iii) Valuation models, which take into account market inputs when determining the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and credit risk associated to the instrument.

Amortised cost

Financial instruments measured at amortised cost are initially recorded at fair value added to or deducted from the income or costs directly attributable to the transaction. Interest is recognised by the effective rate method.

Whenever the estimate of payments or charges associated with financial instruments valued at amortised cost is revised, the book value is adjusted to reflect the new expected cash flows. The new amortised cost results from the present value of the revised future cash flows discounted at the original effective rate of the financial instrument. The adjustment in amortised cost is recognised in the income statement.

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f) Valuation of derivative instruments and hedge accounting

Derivative instruments traded by the Group are always recognised in the balance sheet at their fair value.

Derivatives embedded in other financial instruments (namely in debt issued) are separated from their host contract whenever their risks and characteristics are not closely related to those of the host contract and the whole instrument is not measured at fair value with changes in fair value recognised in profit or loss.

The BST uses derivative financial instruments for the hedging of interest rate and exchange rate risks resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under the financial assets or financial liabilities held for trading captions, and all variations in their fair value are reflected in the income statement.

Derivatives that qualify for hedge accounting are recorded at fair value and the corresponding capital gains and losses are recognised in accordance with the hedge accounting model adopted by BST.

In accordance with IAS 39.88, hedge accounting is applicable only when the following requirements are cumulatively met:

- There is formal documentation of the regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:
  - . Identification of the hedging instrument;
  - . Identification of the hedged item;
  - . Identification of the type of hedged risk; and
  - . Definition of the method used to measure the efficacy of the hedging and subsequent monitoring.
- Initial expectation that the hedging relationship is highly effective; and
- Throughout the life of the operation, the efficacy of the hedging is kept between 80% and 125%. The hedging effectiveness is tested on each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

Hedge accounting is only applied as from the time all these requirements are met. In the same way, if at any time the hedging effectiveness ceases to be between 80% and 125%, hedge accounting is discontinued.

Fair value hedges

Gains or losses on the revaluation of a hedging instrument are recognised in the income statement. If the hedge is effective, the gains or losses resulting from variations in the fair value of the hedged item relating to the risk being hedged are also recognised in the income statement.

If a hedging instrument matures or is terminated early, the gains or losses in the valuation of the hedged risk recognised as value adjustments of the hedged items, are amortised over the remaining period. If the asset or liability being hedged is sold or settled, the amounts recognised as a result of the valuation of the hedged risk are recognised in the income statement for the year and the derivative instrument is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognised as value adjustments of the hedged items are amortised through the income statement over the remaining period.

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Hedge accounting is not applied in the case of foreign exchange rate hedging of monetary items, with the gain or loss arising from the derivative and from the foreign exchange variation of the monetary items both being recognised in the income statement for the period.

Cash flow hedges

Cash flow hedges refer to hedging the exposure to variability in future cash flows that can be attributed to a particular risk associated with a recognized asset or liability, or to a highly probable forecast transaction that may affect profit or loss.

BST has entered into derivative financial instruments to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

The application of cash flow hedge accounting is subject to the previously mentioned general hedge accounting requirements and is accounted for as follows:

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in a specific equity caption; and
- The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in profit or loss.

Furthermore, the gain or loss in the hedging instrument recognised in other comprehensive income corresponds to the lesser of the following amounts (in absolute amounts):

- The cumulative gain or loss in the hedging instrument from the inception of the hedge; and
- The cumulative change in fair value of the hedged item, relating to the risk that is being hedged, from the inception of the hedge.

In this regard, and if applicable, the remaining of the gain or loss on the hedging instrument not recognised in other comprehensive income is included in profit or loss.

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is terminated early, if the hedge relationship becomes ineffective or if it is decided to de-designate the hedge relationship. In these cases, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income continues to be separately classified in equity, being recorded in the income statement in the same period that the gains or losses of the hedged item are recognised.

g) Other tangible assets

Tangible assets used by the Bank in its operations are recorded at cost (including directly attributable costs), less accumulated depreciation and impairment losses, when applicable.

Depreciation of tangible assets is recorded on a straight forward basis over the estimated useful lifetime of the assets:

	<u>Years of useful life</u>
Property for own use	50
Equipment	4 to 10

Investment expenses in works that cannot be recovered carried out on buildings that are not owned by the Bank (rented) are amortised over a period compatible with that of their expected useful life or of the rental contract, if this is shorter. On average this corresponds to a period of ten years.

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As permitted by IFRS 1, tangible assets acquired up to 1 January 2004 were stated at their book value on the transition date to the IAS/IFRS, which corresponded to the cost adjusted by legal revaluations based on evolution of the general price index. 40% of the increase in depreciation resulting from such revaluations is not tax deductible, with the deferred tax liability being recognised accordingly.

Impairment tests are made periodically. The branches are considered as cash flow generating units for this purpose with impairment losses being recognised whenever the recovered value of the property (through the use in the operations or sale) is lower than the net book value.

The criteria followed in the valuations of the buildings normally use the market comparison method, and the amount of the valuation corresponds to the market value of the property in its current condition.

h) Intangible assets

In this caption the Bank recognises the expenses incurred in the development phase of IT systems implemented and in their implementation phase, as well as the expense of acquiring software, in both cases where the estimated impact extends beyond the financial year in which the expenses are paid out. Impairment losses assessments are made on an annual basis.

Intangible assets are amortised on a monthly basis over the estimated lifetime period of the assets, which corresponds to three years on average. For the new computer platform (Partenon), the expected useful lifetime corresponds to a maximum of five years.

i) Non-current assets held for sale

The Group accounts for property and other assets received in settlement of non-performing loans under this caption, by the amount agreed under negotiation or court decision, when these are available for immediate sale in their present condition and their sale is highly probable within one year's time. Should these criteria not be met, these assets are accounted for under the caption "Other assets" (Note 17).

The caption also includes participation units of a closed-end real estate investment fund acquired following a debt settlement agreement with a customer.

The buildings are subject to periodic appraisals conducted by independent real estate appraisers. Impairment losses are recognised whenever the appraised value (net of costs to sell) is lower than the book value.

Assets recovered as a result of the early termination of financial lease contracts are accounted for under this caption at the outstanding amount as at the contract termination date.

Furthermore, the Bank's property for own use which is in the process of being sold off is accounted for under this caption. These assets are transferred for their carrying amount in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and accumulated impairment losses), thereafter being subject to a periodic assessment of impairment losses.

According to IFRS 5 - Non-current assets held for sale and discontinued operations, no unrealised gains are recognised on these assets.

The Bank's Board of Directors considers that the methods adopted are appropriate and reflect the market situation.

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j) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) resulting from past events relating to which there will be a probable future outlay of resources, and this can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle a liability on the balance sheet date.

If the future disbursement of resources is not expected, there is a contingent liability. Contingent liabilities are disclosed unless the probability of materializing is remote.

This caption of liabilities includes the provisions set up namely to cater for specific post-employment benefits of members of the Board of Directors, for restructuring, for tax risks, lawsuits and other specific risks arising from the BST's activity, in accordance with IAS 37 (Note 22).

k) Employees' post-employment benefits

The Bank signed the Collective Labour Agreement (*Acordo Colectivo de Trabalho* - ACT) for the Portuguese Banking Sector, under which its employees or their families are entitled to retirement, disability and survival pensions.

For employees hired by the Bank up to December 31, 2008, BST's pension plan corresponds to a defined benefit plan, as it establishes the criteria for determining the amount of the pension that each employee will receive during retirement, based on his/her time of service and remuneration at the time of retirement, where the pensions are updated annually based on the remuneration established in the ACT for the serving employees. For these employees the Bank has been responsible for the payment of the full amount of the pensions established under the ACT. The liabilities arising out from the defined benefit plan are covered by a Pension Fund.

As from January 1, 2009, employees hired by the Bank started to be registered in the Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. The plan is supported by contributions from the employees (1.5%) and from the Bank (1.5%) over the amount of the effective monthly salary. For this purpose, each employee can choose his/her own pension fund.

The employees of the former Totta were already covered by Social Security, thus the Bank's liability with those employees consists in the payment of only the supplements.

In October 2010 an agreement was reached between the Ministry of Labour and Social Solidarity, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE) to include workers of the banking sector in the General Regime of the Social Security. Following this agreement, Decree-Law No. 1-A/2011, dated January 3, was published in 2011, which defines that serving workers in the banking sector at the date of its entry into force (January 4, 2011) are to be included in the General Regime of the Social Security with regard to retirement pensions and in the event of maternity, paternity or adoption. Given the complementary nature allowed for under the rules of the Collective Labour Agreement for the Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Regime of the Social Security and those resulting from the Collective Labour Agreement.

Pursuant to the instructions of the National Council of Financial Supervisors, past service liabilities as at December 31, 2010 have not changed as result of the above-mentioned Decree Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011. Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). The Bank maintains the responsibility of paying out disability pensions and survival pensions along with any sickness allowances.

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In December 2011 a three party agreement was established between the Ministry of Finance, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE) concerning the transfer to the Social Security of part of the liabilities for pensioners which, as at December 31, 2011 were covered by the substitutive regime of the Social Security as per the Collective Labour Agreement (ACT) in force for the banking sector.

Following the above-mentioned three party agreement, Decree-Law no. 127/2011, dated December 31, was issued determining that as from January 1, 2012 the Social Security started to be responsible for the above-mentioned pensions for an amount corresponding to the pension computed in accordance to the terms and conditions in force under the Collective Labour Agreement for the banking sector as at December 31, 2011, including both the vacation (14th month) and Christmas subsidies.

In accordance with this Decree Law, the Bank, through its Pension Fund, only maintains the responsibility for paying:

- i) The update of the pensions referred to above, in accordance to the Collective Labour Agreement for the banking sector;
- ii) the employer's contributions to healthcare benefits (SAMS) managed by the respective unions, over the retirement and survival pensions, accordance with the terms of the Collective Labour Agreement for the banking sector;
- iii) the death subsidy;
- iv) the survival pensions for children;
- v) the survival pension for children and living spouse, provided it refers to the same employee;
- vi) the survival pension for the family of a current pensioner, meeting the vesting conditions as from January 1, 2012.

Under the transfer of responsibilities to the Social Security, the Bank's pension fund assets backing such responsibilities were also transferred. The value of the pension fund assets transferred corresponds to the value of the responsibilities assumed under the mentioned Decree Law, which were determined bearing the following assumptions in mind:

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

The assets to be transferred were to be in cash and up to 50% in Portuguese government debt securities valued at the respective market value.

Under the terms of the said Diploma, the ownership of the assets was transferred by the Bank as follows:

- i) Up to 31 December 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities;
- ii) By 30 June 2012, the remaining amount to complete the definite present value of the liabilities transferred.

In this regard, and prior to the transfer to the Social Security, the Bank obtained actuarial studies that helped to calculate the amount of the transfer.



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Following the transfer agreement of the pensioners to the Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions in Decree Law no. 127/2011, of 31 December, the Bank calculated the liabilities separately for serving and retired employees, having defined specific assumptions for each case (Note 43).

The difference between the amount of the liabilities transferred to the Social Security determined as per the above assumptions, and the liabilities determined based on updated actuarial assumptions as adopted by the Bank was recorded under the caption "Staff costs" in the income statement.

Furthermore, the London branch employees are covered by a defined benefit pension plan, for which there is a separate pension fund (Note 43).

In February 2010, a supplementary defined contribution pension plan was approved for a defined set of the Bank's executives, for which an insurance policy was taken out.

BST's retirement pension liability is calculated annually by external experts (Towers Watson International Limited, Portuguese Branch), based on the "Projected Unit Credit" method. The discount rate used in the actuarial calculations is determined based on market rates for high quality corporate bonds, in the currency in which the benefits will be paid (Euros), with similar maturity of the plan's liability. Employees' post-employment benefits also include healthcare assistance (SAMS) and death subsidy during retirement.

Banco Santander Negócios Portugal, S.A. (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. In 2006 the BSN established a defined contribution pension fund under which employees are allowed to make voluntary contributions. BSN's contribution depended on the results and corresponded to a percentage of the employees wages, with an annual floor of 1,000 Euros per participant. Following the merger of BSN into BST, the employees of the former BSN have been incorporated in the ACT and in BST's defined benefit pension plan as from May 2010, with recognition of the seniority of employees hired before July 1, 1997.

Totta IFIC had no pension fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were integrated in the ACT and in BST's defined benefit pension plan as from April 2011. The seniority of the employees hired before July 1, 1997 has been recognised. The increase of past service liability with the employees of Totta IFIC was recognised in the caption "Staff costs".

In the first semester of 2011 BST assumed an increase in liabilities of tEuros 1,044 concerning the employees of Totta IFIC (Note 43).

#### Application of IAS 19

On 1 January 2004, BST opted not to apply IAS 19 retrospectively, and therefore has not recalculated the actuarial gains and losses that would be deferred on the balance sheet if this standard had been adopted as from the beginning of the pension plans. Accordingly, the actuarial gains and losses existing as at January 1, 2004, as well as those resulting from adopting IAS 19 were reversed/recorded against retained earnings as at the transition date.

In 2011 the Bank decided to change the accounting policy for recognizing actuarial gains and losses using the corridor method, having started to recognize actuarial gains and losses in equity, as permitted by IAS 19. The Board of Directors believes that this change reflects the economic and financial position of the Bank more appropriately in respect of pension liabilities.

This alteration of accounting policy was applied retrospectively, as required by IAS 8 (Note 1.5.).

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The BST records the following components in the “Staff costs” caption of the income statement:

- Interest cost of the plan, net of the estimated return on plan assets;
- Current service cost; and
- Early retirement cost corresponding to the increase in the past service liability due to early retirement.

Liabilities with retirement pensions, less the fair value of the assets of the Pension Fund are recorded in the “Other assets” caption (Note 17).

Notice no. 4/2005 of the Bank of Portugal states that the liability arising from pensions being paid shall be fully funded and a 95% minimum funded level for the past service liability of serving employees. Notwithstanding this, it also established a transition period ranging from 5 to 7 years in respect of the increase in the liability as result of the adoption of IAS 19.

A contribution was made by the Bank on December 31, 2011 and 2010 to fully fund its employees’ benefit liability, including healthcare assistance (SAMS).

I) Long service bonus

In compliance with the ACT, BST has assumed the commitment to pay serving employees with fifteen, twenty-five and thirty years of good and effective service, a long service bonus corresponding to one, two or three months of their effective monthly wage (in the year the premium is attributed), respectively.

BST determines the present value of its liability for long service bonuses by actuarial calculations using the “Projected Unit Credit” method. The actuarial assumptions used (financial and demographic) are based on expectations, as of the balance sheet date, regarding salary increases and are based on mortality tables adapted to BST’s population. The discount rate used is determined based on market rates for high quality corporate bonds with similar maturity of the liability.

Long service bonuses liabilities is recorded in the caption “Other liabilities – long service” (Note 24).

Income tax

BST and the Group’s companies are subject to the tax regime established in the Corporate Income Tax Code (“CIRC”). The branches’ accounts are consolidated with those of the Bank for tax purposes. In addition to being subject to Corporate Income Tax, the results of the branches are also subject to local taxes in the countries/territories in which they are established. Local taxes are deductible for Corporate Income Tax in Portugal under the terms of article 91 of the CIRC and the Double Taxation Agreements signed by Portugal.

The Offshore branch in the Autonomous Region of Madeira benefits from article 33 of the Statute of Tax Benefits (“EBF”), which grants the exemption from corporate income tax until December 31, 2011. In accordance with article 34 of EBF, for the purposes of this benefit, at least 85% of the taxable profit of the Bank’s total operations is considered to result from operations outside of the Madeira free trade area.

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In accordance with article 92 of the Corporate Income Tax Code, tax paid under the terms of item 1, article 90, net of international double taxation and any tax benefits, cannot be less than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in item 13, article 43 and article 75 of the Corporate Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum local surcharge of up to 1.5% over taxable income subject to and not exempt from corporate income tax. This provision implied that a tax rate of 25% was used at 30 June 2012 and on 31 December 2011 in the computation of deferred tax on any reportable tax losses and that a tax rate of 26.5% would be applied for all other temporary differences resulting from the recognition of corporate income tax for the year.

With the publication of Law no. 12-A/2010, of 30 June, a state surcharge was introduced, and is payable by all taxpayers subject to and not exempt from corporate income tax with taxable income in excess of tEuros 2,000. The state surcharge corresponds to 2.5% of the taxable income exceeding that limit. This means that the tax burden used for the computation of deferred taxes, except for tax losses carried forward, and for the recognition of income tax for the period, was 29%.

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, dated December 30), the companies that present higher taxable income are subject to higher state surcharge rates. In this sense, the companies with taxable income between tEuros 1,500 and tEuros 10,000 are now subject to a state surcharge rate of 3% and the companies with taxable income exceeding tEuros 10,000 are subject to a rate of 5%. Therefore, whenever the taxable income exceeds tEuros 10,000, a 3% state surcharge rate will be applied to the amount of tEuro 8,500 and a rate of 5% to the exceeding remaining taxable income. Consequently, the tax rate used in the year 2011 was 26.5% up to tEuro 1,500 of taxable income, 29.5% up to tEuro 8,500 of taxable income and 31.5% for the remainder. The Bank determined a tax loss for the year 2011.

The 2011 tax loss can be carried forward for four years, although its deduction will be restricted pursuant to the State Budget Law for 2012, mentioned above, which established that the deduction of tax losses in each year cannot exceed 75% of the respective taxable profit, though the remaining 25% continue to be deductible until the end of the four year period.

It should be pointed out that the losses arising from the 2012 financial year, inclusive, can be carried forward within the five subsequent tax years.

With the publication of Law no. 55 - A/2010, of 31 December, the Bank is subjected to the banking sector contribution regime. The basis of such contribution is as follows:

- a) Liabilities deducted from Tier 1 and Tier 2 capital and deducted from the deposits under the Deposits Guaranteed Fund coverage. The following are also deducted from the liability thus computed:
  - Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
  - Liabilities associated to the recognition of liabilities for defined benefit plans;
  - Provisions;
  - Liabilities resulting from the revaluation of derivative financial instruments;
  - Deferred income, without consideration of that arising from liability operations and;
  - Liabilities resulting from assets not derecognised within securitization operations.

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- b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, excepting hedge derivatives or with open symmetric risk positions.

The rates applicable to the bases of incidence defined in lines a) and b) above are 0.05% and 0.00015%, respectively, as allowed for in no. 1 and 2 of article 5 of Dispatch no. 121/2011, of 30 March.

Deferred tax assets and liabilities correspond to the amount of the tax recoverable and payable in future periods resulting from temporary differences between the carrying value of assets and liabilities in the balance sheet and their respective tax bases. Tax credits are also recognised as deferred tax assets.

Deferred tax assets are recognised when it is estimated that they will be recovered and only up to the amount that will probably be recovered through the existence of sufficient expected future taxable income to absorb the deductible temporary differences.

Deferred tax assets and liabilities were calculated based on the tax rates decreed for the period in which the respective assets are expected to be realised or the liabilities incurred.

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders' equity, namely potential gains and losses on securities available for sale and on cash flow hedging derivatives, and actuarial deviations related to pension liabilities following the change in accounting policy (Note 1.3. k)).

m) Long term incentive plans

The Group has long-term incentive plans for stocks and stock options of Banco Santander, S.A., holding company of the Santander Group. Given their characteristics, these plans consist of equity settled share-based payment transactions, as defined in IFRS 2 and IFRIC 11. The management, hedging and implementation of these long-term incentive plans is provided directly by Banco Santander, S.A.. The Group pays out annually these plans to Banco Santander, S.A..

The acknowledgment of such plans imply the recognition of the Group's employees right to these instruments in the caption "Other reserves" and in the caption "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentives plans for stocks and stock options of Banco Santander S.A. in force at 30 June 2012 and 31 December 2011 is included in Note 46.

n) Insurance brokerage services rendered

The Bank uses the principle of accrual accounting for income from the provision of insurance brokerage services - commission. Thus, this income is recorded as it is generated, irrespective of when it is received. Amounts receivable are submitted to impairment analysis.

o) Cash and cash equivalents

In preparing its cash flow statement, the Bank considers "Cash and cash equivalents" to be the total of the captions "Cash and balances in Central Banks" and "Balances in other credit institutions".

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**1.4. Comparability of information**

As mentioned in the Introduction, on April 1, 2011 the Bank carried out a merger by incorporation of Totta IFIC. For accounting purposes the operation was recorded as at that date. The Bank incorporated the assets and liabilities of Totta IFIC at their book value as at March 31, 2011. The difference between the accounting value and the acquisition cost was recorded in the shareholders' equity captions, share premium and reserves resulting from mergers. The impact of the merger on the shareholders' equity of the Bank can be shown as follows:

Shareholders' equity of Totta IFIC as of the merger date	175,019
Transfer of the fair value reserve	( 7,606 )
Other adjustments – incentive plan	( 32 )
	-----
Adjusted shareholders' equity	167,381
	-----
Acquisition cost of the participation in Totta IFIC on 31 March 2011	10,556
Increase of the Bank's share capital	36,618
Share premium	29,687
	-----
	76,861
	-----
Merger reserve	90,520
	=====

Consequently, the Bank's costs and income as at 30 June 2012 are not directly comparable with those on 30 June 2011.

**1.5. Retrospective application of changes in accounting policies**

As indicated in Note 1.3.k), in 2011, the Bank's Board of Directors decided to alter the accounting policy, ceasing the use of the corridor method and starting to recognize actuarial gains and losses in equity, as permitted by IAS 19.

In accordance with Law no. 64 – B/2011, of the State Budget for 2012, the impact of this change will be accepted for tax purposes over a period of 10 years. Consequently, the Bank recorded deferred tax assets of tEuros 159,238 (Note 16), resulting from the change of this accounting policy.

As required under IAS 8, the effects of the change in the accounting policy in the shareholders' equity as at 1 January 2011, in the net result of the first semester of 2011 and in shareholders' equity as at 30 June 2011:

	30-06-2011		01-01-2011	
	Equity without net income	Net income of the year	Total shareholder equity	Shareholder equity
<b>Balances before retrospective application</b>	2,353,600	57,451	2,411,051	2,633,112
<b>Impact of the retrospective application as at 1 January 2011</b>				
Accumulated actuarial differences as at 01 January 2011	(335,334)	-	(335,334)	(335,334)
Actuarial differences recognised in the first semester of 2011	(49,112)	-	(49,112)	-
Actuarial differences amortised in the first semester of 2011 (excess over the corridor)	-	4,299	4,299	-
Tax effect	111,445	-	111,445	97,247
	(273,001)	4,299	(268,702)	(238,087)
<b>Balances after retrospective application</b>	2,080,599	61,750	2,142,349	2,395,025

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2. PRINCIPAL ESTIMATES AND UNCERTAINTIES REGARDING THE APPLICATION OF THE ACCOUNTING POLICIES

The preparation of the financial statements requires estimates and assumptions to be made by the Bank's Board of Directors. These estimates are subjective by nature and may affect the value of the assets and liabilities, income and costs, and also of the contingent liabilities disclosed.

Employees' post-employment benefits

Retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Portuguese Securities and Exchange Commission (*Comissão dos Mercados de Valores Mobiliários* - CMVM). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, expected return on pension assets of the Fund, the mortality, disability, pension growth and wages, amongst others. Note that the expected return of the Pension Fund has an impact on the annual cost of pensions.

The assumptions adopted correspond to the best estimate of the Bank and of the actuaries of the future behaviour of these variables.

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in Note 1.3 e) and f) above, are used to value financial instruments not traded in active markets. Consequently, the valuations correspond to the best estimate of the fair value of these instruments as at the balance sheet date. As mentioned in Note 1.3. e) to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by an independent area of the trading function.

Determination of impairment losses on loans

Impairment losses on loans have been determined as explained in Note 1.3 c) above. Consequently, impairment assessment determined on an individual basis corresponds to the Bank's judgement as to the financial situation of the customers and its estimate of the value of the loan guarantees given, and the consequent impact on the expected future cash flows. Impairment losses determined on a collective basis are estimated based on historical parameters for comparable types of operations, considering estimates of overdue instalments, default and recoverability.

Determination of impairment losses on available-for-sale financial sale

As described in Note 1.3. e), the unrealised capital losses resulting from the valuation of these assets are recognised under the revaluation reserve (equity). Whenever there is objective evidence of impairment, the accumulated capital losses that have been recognised in equity are transferred to the year profit or loss.

In the case of equity instruments, the determination of impairment losses may involve a degree of subjectivity. The Bank determines whether or not impairment on these assets exists through specific analysis at each balance sheet date taking into account the existence of any of the events foreseen IAS 39 (see Note 1.3. e)).

In the case of debt instruments recorded in this caption, unrealised capital losses are transferred from the fair value reserve to profit or loss whenever there are indications that default might occur over overdue installments, namely, due to financial difficulties of the issuer, failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer.

Taxes

Deferred tax assets are recognised based on the assumption of the existence of future taxable income. Furthermore, deferred tax assets and liabilities have been determined based on the interpretation of the tax legislation currently in force. Therefore, changes in tax legislation or in its interpretation by the competent authorities may have an impact on the amount of deferred taxes.

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The Bank, as an entity subject to Bank of Portugal supervision, must present separate (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice 1/2005, dated February 21, and which form the basis for determining the taxable profit.

In order to adapt the Corporate Income Tax Code to International Accounting Standards as adopted by the European Union and to the new accounting system “*Sistema de Normalização Contabilística*” (SNC), approved by Decree Law No. 158/2009, dated July 13, the Decree Law No. 159/2009, dated July 13, was also approved.

This Decree Law no. 159/2009, of 13 July, amended some articles of the Corporate Income Tax Code and also revoked paragraph 2 of Article 57 of the State Budget Law of 2007. These changes came into force on 1 January, 2010.

In this regard, these new rules were observed to compute the taxable profit for 2011 and the first semester of 2012, in accordance with their interpretation by the Bank.

### 3. SEGMENT DISCLOSURES

In accordance with the requirements of IFRS 8, the disclosures of the Bank's operating segments are presented below in accordance with the information reviewed by the management:

#### **Global Banking & Markets:**

This area essentially includes the Bank's activity with financial markets and large companies, providing financial advisory services, namely Corporate and Project Finance, as well as intermediary, custody and settlement services.

#### **Retail banking:**

This essentially corresponds to credit granting operations and obtention of funds from private customers and businesses with a turnover of less than 5 million Euros through the branches network, telephone and internet banking services.

#### **Commercial banking:**

This is geared towards companies with a turnover ranging between 5 and 125 million Euros. This activity is backed by the branches network as well as by specialised services, and includes a variety of products such as loans, project funding, export financing and real estate.

#### **Asset management:**

This area results from the investment fund management activity, which includes the launching of funds, the objective of which is to create added value products for the Group's customers.

#### **Corporate activities:**

This area covers all the activities that provide support to the Group's main activities but which are not directly related to its core business, including also liquidity management, balance sheet hedging and Group funding.

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The income statement by segment as at 30 June 2012 and 2011 (Restated) is made up as follows:

	30-06-2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	36,264	165,232	80,837	-	(167)	282,166
Income from equity instruments	-	-	-	-	1,645	1,645
<b>Financial margin</b>	<b>36,264</b>	<b>165,232</b>	<b>80,837</b>	<b>-</b>	<b>1,478</b>	<b>283,811</b>
Net commissions	34,791	128,993	11,717	3,890	707	180,098
Other results from banking activity	-	2,525	-	(15)	(5,820)	(3,310)
<b>Commercial margin</b>	<b>71,055</b>	<b>296,750</b>	<b>92,554</b>	<b>3,875</b>	<b>(3,635)</b>	<b>460,599</b>
Income from financial operations	5,759	(85)	201	-	72,871	78,746
<b>Net income from banking activities</b>	<b>76,814</b>	<b>296,665</b>	<b>92,755</b>	<b>3,875</b>	<b>69,236</b>	<b>539,345</b>
Operating costs	(9,236)	(167,705)	(22,580)	(2,309)	-	(201,830)
Depreciation and amortization	(1,529)	(29,140)	(1,919)	(122)	-	(32,710)
<b>Net operating income</b>	<b>66,049</b>	<b>99,820</b>	<b>68,256</b>	<b>1,444</b>	<b>69,236</b>	<b>304,805</b>
Impairment and provisions, net of reversals	(7,008)	(143,392)	(37,176)	(1,354)	(56,525)	(245,455)
Result from associates	-	-	4,611	-	(8)	4,603
<b>Income before taxes and minority interest</b>	<b>59,041</b>	<b>(43,572)</b>	<b>35,691</b>	<b>90</b>	<b>12,703</b>	<b>63,953</b>
Tax expense	(17,122)	12,490	(9,013)	(27)	1,864	(11,808)
Income attributable to minority interests	-	-	-	-	3	3
<b>Net result of the period</b>	<b>41,919</b>	<b>(31,082)</b>	<b>26,678</b>	<b>63</b>	<b>14,570</b>	<b>52,148</b>

	30-06-2011 (Restated)					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	19,821	229,110	52,990	-	(9,300)	292,621
Income from equity instruments	-	-	-	-	1,239	1,239
<b>Financial margin</b>	<b>19,821</b>	<b>229,110</b>	<b>52,990</b>	<b>-</b>	<b>(8,061)</b>	<b>293,860</b>
Net commissions	44,585	131,555	11,081	5,197	(7,666)	184,752
Other results from banking activity	-	3,498	-	10	(8,945)	(5,437)
<b>Commercial margin</b>	<b>64,406</b>	<b>364,163</b>	<b>64,071</b>	<b>5,207</b>	<b>(24,672)</b>	<b>473,175</b>
Income from financial operations	10,158	(742)	283	-	(79,745)	(70,046)
<b>Net income from banking activities</b>	<b>74,564</b>	<b>363,421</b>	<b>64,354</b>	<b>5,207</b>	<b>(104,417)</b>	<b>403,129</b>
Operating costs	(10,814)	(185,307)	(21,600)	(2,608)	-	(220,329)
Depreciation and amortization	(1,297)	(27,425)	(1,731)	(178)	-	(30,631)
<b>Net operating income</b>	<b>62,453</b>	<b>150,689</b>	<b>41,023</b>	<b>2,421</b>	<b>(104,417)</b>	<b>152,169</b>
Impairment and provisions, net of reversals	(1,044)	(65,800)	(434)	(1)	(27,895)	(95,174)
Result from associates	-	-	3,731	-	2,728	6,459
<b>Income before taxes and minority interest</b>	<b>61,409</b>	<b>84,889</b>	<b>44,320</b>	<b>2,420</b>	<b>(129,584)</b>	<b>63,454</b>
Tax expense	(1,775)	(2,342)	(1,268)	(70)	3,745	(1,710)
Income attributable to minority interests	-	-	-	-	6	6
<b>Net result of the period</b>	<b>59,634</b>	<b>82,547</b>	<b>43,052</b>	<b>2,350</b>	<b>(125,833)</b>	<b>61,750</b>



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The assets and liabilities under management for each business segment as at 30 June 2012 and 31 December 2011, in accordance with the information used by the Group's management for decision making, are as follows:

	30-06-2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
<b>Assets</b>						
<b>Loans and advances to customers</b>						
Mortgage Loans	-	16,015,552	-	-	-	16,015,552
Consumer credit	-	1,507,366	-	-	-	1,507,366
Other loans	1,994,267	3,892,041	4,908,791	-	-	10,795,099
	<u>1,994,267</u>	<u>21,414,959</u>	<u>4,908,791</u>	<u>-</u>	<u>-</u>	<u>28,318,017</u>
Total allocated assets	1,994,267	21,414,959	4,908,791	-	-	28,318,017
Total non-allocated assets						11,904,791
<b>Total assets</b>						<u>40,222,808</u>
<b>Liabilities</b>						
<b>Resources in the balance sheet</b>						
Customers' accounts and other resources	395,623	16,813,080	2,994,343	-	-	20,203,046
Debt securities issued	-	426,209	410,316	-	4,926,922	5,763,447
	<u>395,623</u>	<u>17,239,289</u>	<u>3,404,659</u>	<u>-</u>	<u>4,926,922</u>	<u>25,966,493</u>
<b>Guarantees and other sureties given</b>	323,872	194,233	849,064	-	-	1,367,169
<b>Investment funds</b>	-	1,271,691	602,026	780,085	-	2,653,802
	31-12-2011					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
<b>Assets</b>						
<b>Loans and advances to customers</b>						
Mortgage Loans	-	16,033,835	-	-	-	16,033,835
Consumer credit	-	1,537,078	-	-	-	1,537,078
Other loans	1,674,615	3,816,266	5,310,233	-	-	10,801,114
	<u>1,674,615</u>	<u>21,387,179</u>	<u>5,310,233</u>	<u>-</u>	<u>-</u>	<u>28,372,027</u>
Total allocated assets	1,674,615	21,387,179	5,310,233	-	-	28,372,027
Total non-allocated assets						11,743,287
<b>Total assets</b>						<u>40,115,314</u>
<b>Liabilities</b>						
<b>Resources in the balance sheet</b>						
Customers' accounts and other resources	576,672	16,580,506	2,686,926	-	-	19,844,104
Debt securities issued	-	467,810	387,979	-	6,538,076	7,393,865
	<u>576,672</u>	<u>17,048,316</u>	<u>3,074,905</u>	<u>-</u>	<u>6,538,076</u>	<u>27,237,969</u>
<b>Guarantees and other sureties given</b>	336,364	198,533	953,558	-	-	1,488,455
<b>Investment funds</b>	-	1,448,516	580,001	778,619	-	2,807,136

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The information by geographic area of the consolidated activity, namely the balance sheet and the income statement, is presented below. At 30 June 2012, the balance sheet by geographic segments was as follows:

	Domestic operations		International operations				Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	Total
<b>Assets</b>							
Cash and deposits at central banks	279,429	-	-	-	-	-	279,429
Balances due from banks	183,287	22	-	49	486	557	183,844
Financial assets held for trading	2,058,267	-	-	5	-	5	2,058,272
Other financial assets designated at fair value through profit or loss	93,318	-	-	-	-	-	93,318
Available-for-sale financial assets	4,952,291	-	-	-	-	-	4,952,291
Loans and advances to banks	2,462,199	-	-	239	-	239	2,462,438
Loans and advances to customers	28,318,017	-	-	-	-	-	28,318,017
Hedging derivatives	196,633	-	-	-	-	-	196,633
Non-current assets held for sale	180,106	-	-	-	-	-	180,106
Other tangible assets	347,287	-	-	-	55	55	347,342
Intangible assets	81,677	-	-	-	-	-	81,677
Investments in associates	(29,929)	-	172,692	-	-	172,692	142,763
Current tax assets	25,000	428	-	-	-	428	25,428
Deferred tax assets	700,763	-	-	-	-	-	700,763
Other assets	199,390	-	-	4	1,093	1,097	200,487
<b>Total Net Assets</b>	<b>40,047,735</b>	<b>450</b>	<b>172,692</b>	<b>297</b>	<b>1,634</b>	<b>175,073</b>	<b>40,222,808</b>
<b>Liabilities</b>							
Resources of central banks	6,851,615	-	-	-	-	-	6,851,615
Financial liabilities held for trading	1,855,880	-	-	12	-	12	1,855,892
Resources of other financial institutions	2,632,474	-	-	-	-	-	2,632,474
Resources of customers and other loans	20,036,985	-	-	166,061	-	166,061	20,203,046
Debt securities issued	5,763,447	-	-	-	-	-	5,763,447
Hedging derivatives	314,018	-	-	9	-	9	314,027
Provisions	71,929	-	-	-	-	-	71,929
Current tax liabilities	2,995	-	-	-	-	-	2,995
Deferred tax liabilities	97,009	1,707	-	-	-	1,707	98,716
Subordinated liabilities	4,321	-	-	-	-	-	4,321
Other liabilities	315,828	118	-	130	214	462	316,290
<b>Total Liabilities</b>	<b>37,946,501</b>	<b>1,825</b>	<b>-</b>	<b>166,212</b>	<b>214</b>	<b>168,251</b>	<b>38,114,752</b>
<b>Total shareholders' equity</b>	<b>1,484,648</b>	<b>22,194</b>	<b>11,323</b>	<b>283,470</b>	<b>306,421</b>	<b>623,408</b>	<b>2,108,056</b>
<b>Total liabilities and shareholders' equity</b>	<b>39,431,149</b>	<b>24,019</b>	<b>11,323</b>	<b>449,682</b>	<b>306,635</b>	<b>791,659</b>	<b>40,222,808</b>

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On 31 December 2011, the balance sheet by geographic segments was as follows:

	Domestic operations	International operations					Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	Total
<b>Assets</b>							
Cash and deposits at central banks	387,837	-	-	-	-	-	387,837
Balances due from banks	356,249	24	-	79	610	713	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	1,995,784
Other financial assets designated at fair value through profit or	80,121	-	-	-	-	-	80,121
Available-for-sale financial assets	4,439,605	-	-	-	-	-	4,439,605
Loans and advances to banks	2,689,956	2,720	-	235	-	2,955	2,692,911
Loans and advances to customers	28,372,027	-	-	-	-	-	28,372,027
Hedging derivatives	167,302	-	-	-	-	-	167,302
Non-current assets held for sale	141,163	-	-	-	-	-	141,163
Other tangible assets	365,334	-	-	-	81	81	365,415
Intangible assets	74,230	-	-	-	-	-	74,230
Investments in associates	(25,918)	-	158,970	-	-	158,970	133,052
Current tax assets	17,632	-	-	-	-	-	17,632
Deferred tax assets	714,817	-	-	-	-	-	714,817
Other assets	175,326	2	-	4	1,124	1,130	176,456
<b>Total net Assets</b>	<b>39,951,465</b>	<b>2,746</b>	<b>158,970</b>	<b>318</b>	<b>1,815</b>	<b>163,849</b>	<b>40,115,314</b>
<b>Liabilities</b>							
Resources of central banks	4,913,234	-	-	-	-	-	4,913,234
Financial liabilities held for trading	1,663,246	-	-	53	-	53	1,663,299
Resources of other financial institutions	3,455,964	155,568	-	-	-	155,568	3,611,532
Resources of customers and other loans	19,706,992	-	-	137,112	-	137,112	19,844,104
Debt securities issued	7,393,865	-	-	-	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	-	-	282,889
Provisions	75,482	-	-	-	-	-	75,482
Current tax liabilities	4,673	957	-	915	-	1,872	6,545
Deferred tax liabilities	64,037	2,935	-	-	-	2,935	66,972
Subordinated liabilities	4,328	-	-	-	-	-	4,328
Other liabilities	289,116	98	-	133	242	473	289,589
<b>Total Liabilities</b>	<b>37,853,826</b>	<b>159,558</b>	<b>-</b>	<b>138,213</b>	<b>242</b>	<b>298,013</b>	<b>38,151,839</b>
<b>Total shareholders' equity</b>	<b>1,387,319</b>	<b>(11,441)</b>	<b>6,883</b>	<b>275,595</b>	<b>305,119</b>	<b>576,156</b>	<b>1,963,475</b>
<b>Total liabilities and shareholders' equity</b>	<b>39,241,145</b>	<b>148,117</b>	<b>6,883</b>	<b>413,808</b>	<b>305,361</b>	<b>874,169</b>	<b>40,115,314</b>

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

On 30 June 2012, the income statement by geographic segments was as follows:

	Domestic operations		International operations				Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	Total
Interest and similar income	904,417	3	-	15	-	18	904,435
Interest and similar charges	(619,156)	(460)	-	(2,653)	-	(3,113)	(622,269)
<b>Financial margin</b>	<b>285,261</b>	<b>(457)</b>	<b>-</b>	<b>(2,638)</b>	<b>-</b>	<b>(3,095)</b>	<b>282,166</b>
Income from equity instruments	1,645	-	-	-	-	-	1,645
Income from services and commission	203,141	-	-	-	8	8	203,149
Charges with services and commission	(22,929)	-	-	-	(122)	(122)	(23,051)
Result of assets and liabilities designated at fair value through profit or loss	(3,552)	-	-	8	-	8	(3,544)
Result of available-for-sale financial assets	(3,815)	-	-	-	-	-	(3,815)
Result of foreign exchange revaluation	2,609	-	-	1	-	1	2,610
Result from sale of other assets	83,497	-	-	-	(2)	(2)	83,495
Other operating results	(3,268)	-	-	(2)	(40)	(42)	(3,310)
<b>Net income from banking activities</b>	<b>542,589</b>	<b>(457)</b>	<b>-</b>	<b>(2,631)</b>	<b>(156)</b>	<b>(3,244)</b>	<b>539,345</b>
Staff costs	(132,564)	(95)	-	(105)	(336)	(536)	(133,100)
General administrative costs	(68,322)	(199)	-	(54)	(155)	(408)	(68,730)
Depreciation and amortization	(32,703)	-	-	-	(7)	(7)	(32,710)
Provisions net of cancellations	(4,107)	-	-	-	-	-	(4,107)
Loan impairment net of reversals and recoveries	(214,881)	-	-	-	-	-	(214,881)
Impairment of other financial assets net of reversals and recoveries	(20)	-	-	-	-	-	(20)
Impairment of other assets net of reversals and recoveries	(26,447)	-	-	-	-	-	(26,447)
Result from associates	639	-	3,964	-	-	3,964	4,603
<b>Income before taxes and minority interests</b>	<b>64,184</b>	<b>(751)</b>	<b>3,964</b>	<b>(2,790)</b>	<b>(654)</b>	<b>(231)</b>	<b>63,953</b>
Current taxes	(15,497)	(5,523)	-	-	-	(5,523)	(21,020)
Deferred taxes	7,992	1,220	-	-	-	1,220	9,212
<b>Income after taxes and before minority interests</b>	<b>56,679</b>	<b>(5,054)</b>	<b>3,964</b>	<b>(2,790)</b>	<b>(654)</b>	<b>(4,534)</b>	<b>52,145</b>
Minority interests	3	-	-	-	-	-	3
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>56,676</b>	<b>(5,054)</b>	<b>3,964</b>	<b>(2,790)</b>	<b>(654)</b>	<b>(4,534)</b>	<b>52,148</b>

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(Translation of notes originally issued in Portuguese – Note 48)

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

On 30 June 2011 (Restated), the income statement by geographic segments was as follows:

	Domestic operations		International operations				Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	Total
Interest and similar income	866,181	234	-	197	-	431	866,612
Interest and similar charges	(570,332)	(1,962)	-	(1,697)	-	(3,659)	(573,991)
<b>Financial margin</b>	<b>295,849</b>	<b>(1,728)</b>	<b>-</b>	<b>(1,500)</b>	<b>-</b>	<b>(3,228)</b>	<b>292,621</b>
Income from equity instruments	1,239	-	-	-	-	-	1,239
Income from services and commission	210,274	-	-	-	-	-	210,274
Charges with services and commission	(25,401)	-	-	-	(121)	(121)	(25,522)
Result of assets and liabilities designated at fair value through profit or loss	5,542	-	-	(13)	-	(13)	5,529
Result of available-for-sale financial assets	(77,011)	-	-	-	-	-	(77,011)
Result of foreign exchange revaluation	1,798	-	-	(4)	-	(4)	1,794
Result from sale of other assets	(364)	-	-	-	6	6	(358)
Other operating results	(5,388)	-	-	(2)	(47)	(49)	(5,437)
<b>Net income from banking activities</b>	<b>406,538</b>	<b>(1,728)</b>	<b>-</b>	<b>(1,519)</b>	<b>(162)</b>	<b>(3,409)</b>	<b>403,129</b>
Staff costs	(147,897)	(80)	-	(98)	(344)	(522)	(148,419)
General administrative costs	(71,490)	(201)	-	(56)	(163)	(420)	(71,910)
Depreciation and amortization	(30,616)	-	-	-	(15)	(15)	(30,631)
Provisions net of cancellations	243	-	-	-	-	-	243
Loan impairment net of reversals and recoveries	(73,249)	-	-	-	-	-	(73,249)
Impairment of other financial assets net of reversals and recoveries	(3,305)	-	-	-	-	-	(3,305)
Impairment of other assets net of reversals and recoveries	(18,863)	-	-	-	-	-	(18,863)
Result from associates	2,729	-	3,730	-	-	3,730	6,459
<b>Income before taxes and minority interests</b>	<b>64,090</b>	<b>(2,009)</b>	<b>3,730</b>	<b>(1,673)</b>	<b>(684)</b>	<b>(636)</b>	<b>63,454</b>
Current taxes	(7,429)	(7,231)	-	(427)	(16)	(7,674)	(15,103)
Deferred taxes	14,488	(1,087)	-	(1)	(7)	(1,095)	13,393
<b>Income after taxes and before minority interests</b>	<b>71,149</b>	<b>(10,327)</b>	<b>3,730</b>	<b>(2,101)</b>	<b>(707)</b>	<b>(9,405)</b>	<b>61,744</b>
Minority interests	(6)	-	-	-	-	-	(6)
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>71,155</b>	<b>(10,327)</b>	<b>3,730</b>	<b>(2,101)</b>	<b>(707)</b>	<b>(9,405)</b>	<b>61,750</b>

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## 4. GROUP COMPANIES AND TRANSACTIONS DURING THE YEAR

As at 30 June 2012 and 31 December 2011, the subsidiaries and associated companies and their more significant financial data, taken from their respective individual financial statements, excluding of conversion adjustments to the IAS/IFRS, may be summarised as follows:

Company	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income of the period	
	30-06-2012	31-12-2011	30-06-2012	31-12-2011	30-06-2012	31-12-2011	30-06-2012	31-12-2011	30-06-2012	30-06-2011
BANCO SANTANDER TOTTA, S.A.	-	-	100.00	100.00	41,350,511	45,639,291	1,186,688	746,961	2,791	15,473
BANCO CAIXA GERAL TOTTA DE ANGOLA <sup>(3)</sup>	-	-	24.99	24.99	1,129,298	1,507,229	199,565	159,186	19,261	14,121
TOTTA & AÇORES FINANCING <sup>(1) (5)</sup>	100.00	100.00	100.00	100.00	305,611	311,790	305,611	299,430	6,180	6,180
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	35,142	33,994	35,126	33,973	212	80
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,321	1,344	1,120	1,121	(31)	56
TOTTA IRELAND, PLC <sup>(4)</sup>	100.00	100.00	100.00	100.00	879,723	625,866	426,929	463,700	43,137	55,255
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	103,806	102,948	75,932	75,827	104	(53)
TOTTA URBE - Emp.Admin. e Construções, S.A. (2)	100.00	100.00	100.00	100.00	124,449	121,003	119,794	117,281	862	1,043
BENIM, S.A. <sup>(3)</sup>	-	-	25.81	25.81	-	n.d.	-	n.d.	-	n.d.
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	100.00	100.00	100.00	100.00	51,532	50,308	42,049	49,732	1,771	14,522
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1) (6)</sup>	100.00	100.00	100.00	100.00	484,612	440,831	298,617	300,596	8,206	8,145
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	-	-	100.00	100.00	25,635	25,258	22,889	22,294	625	1,506
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	59,940	55,004	54,934	55,000	(66)	(625)
PARTANG, SGPS <sup>(3)</sup>	0.49	0.49	49.00	49.00	135,467	113,535	134,948	112,384	9,936	2
SANTANDER PENSÕES	-	-	100.00	100.00	4,547	4,064	3,269	3,862	430	625
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. <sup>(3)</sup>	21.50	21.50	21.50	21.50	292,809	307,856	73,400	73,375	3,549	4,945
HIPOTOTTA no. 1 PLC	-	-	-	-	226,870	238,832	(3,218)	(2,923)	(1,856)	(1,573)
HIPOTOTTA no. 4 PLC	-	-	-	-	1,258,319	1,299,458	(21,723)	(17,616)	(9,956)	(4,869)
HIPOTOTTA no. 5 PLC	-	-	-	-	1,046,024	1,076,745	(12,504)	(8,857)	(5,370)	(4,515)
HIPOTOTTA no. 7 Ltd	-	-	-	-	1,284,695	1,319,559	(18,748)	(12,110)	(6,693)	(3,674)
HIPOTOTTA no. 8 Ltd (7)	-	-	-	-	-	-	-	-	-	(1,430)
LEASETOTTA no. 1 Ltd	-	-	-	-	673,776	917,043	(9,601)	(6,050)	(1,751)	(2,648)
HIPOTOTTA no. 1 FTC	-	-	-	-	215,093	228,332	213,319	226,181	(1,939)	(1,861)
HIPOTOTTA no. 4 FTC	-	-	-	-	1,222,840	1,276,937	1,217,433	1,263,330	(10,782)	(6,635)
HIPOTOTTA no. 5 FTC	-	-	-	-	1,031,462	1,068,126	1,026,121	1,059,767	(6,524)	(3,689)
HIPOTOTTA no. 7 FTC	-	-	-	-	1,255,045	1,303,213	1,251,799	1,291,479	(8,417)	(4,865)
HIPOTOTTA no. 8 FTC (7)	-	-	-	-	-	-	-	-	-	(2,397)
LEASETOTTA no. 1 FTC	-	-	-	-	583,276	724,957	596,455	709,099	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA no. 11) (7)	-	-	-	-	-	1,881,452	-	100,452	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA no. 12) (7)	-	-	-	-	921	1,253,838	55,314	75,254	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME no. 1) (7)	-	-	-	-	-	2,028,717	-	98,179	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER no. 1)	-	-	-	-	169,603	962,218	71,155	111,278	-	-

Company	Business	Head office	Consolidation method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Parent company
BANCO CAIXA GERAL TOTTA DE ANGOLA <sup>(3)</sup>	Banking	Angola	Excluded from consolidation
TOTTA & AÇORES FINANCING <sup>(1) (5)</sup>	Banking	Cayman Islands	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Islands	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS	Holding company	Madeira	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (2)	Real estate management	Portugal	Full
BENIM, S.A. <sup>(3)</sup>	Real estate	Portugal	Excluded from consolidation
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1) (6)</sup>	Banking	Puerto Rico	Full
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	Fund management	Portugal	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
SANTANDER PENSÕES - SOCIEDADE GESTORES DE FUNDOS DE PENSÕES, S.A.	Pension fund management	Portugal	Full
PARTANG, SGPS <sup>(3)</sup>	Holding company	Portugal	Excluded from consolidation
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. <sup>(3)</sup>	Credit Card Management	Portugal	Excluded from consolidation
HIPOTOTTA no. 1 PLC	Investment management	Ireland	Full
HIPOTOTTA no. 4 PLC	Investment management	Ireland	Full
HIPOTOTTA no. 5 PLC	Investment management	Ireland	Full
HIPOTOTTA no. 7 Ltd	Investment management	Ireland	Full
HIPOTOTTA no. 8 Ltd (7)	Investment management	Ireland	Full
HIPOTOTTA no. 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA no. 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA no. 5 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA no. 7 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA no. 8 FTC (7)	Securitized loans fund	Portugal	Full
LEASETOTTA no. 1 FTC	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA no. 11) (7)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA no. 12) (7)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME no. 1) (7)	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER no. 1)	Securitized loans company	Portugal	Full

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- (1) The shareholders' equity of these companies includes preference shares subscribed by Santander Group companies (Note 27).
- (2) The shareholders' equity of this company includes supplementary capital contributions totalling tEuros 99.760.
- (3) Valued by the equity method.
- (4) The amounts reflected in the columns "Net income" correspond to net income determined in the period between 1 December 2011 and 2010 and 30 June 2012 and 2011, as this entity closes its financial year on 30 November. In the period between 1 January and 30 June 2012, the net result of Totta Ireland, Plc. was tEuros 36,437.
- (5) The share capital is made up of 50,000 ordinary shares with a nominal value of 1 United States Dollar each and 300,000 non-voting preference shares with a nominal value of 1,000 Euros each. Considering preference shares, the Bank's effective participation in this entity is 0.01%.
- (6) The share capital is made up of 5,000,000 ordinary shares with a nominal value of 1 United States Dollar each and 3,600 non-voting preference shares with a nominal value of 100,000 United States Dollars each. Considering preference shares, the Bank's effective participation in this entity is 1.37%.
- (7) Emissions settled during 2011 and in the first semester of 2012.

In compliance with IAS 27 and SIC 12, the Group's consolidated financial statements include special purpose entities (SPE) created for securitization operations, given that the Bank retains most of the risks and benefits of their activity. This situation results from the fact that its portfolio includes bonds issued with a higher degree of subordination (Note 44). These entities are referred to above as Leasetotta Ltd, Hipototta FTC, (securitised loans funds) and Hipototta PLC or Ltd (entities which acquired the participating units issued by the securitised loan funds). Regarding Hipototta 11 and 12, BST SME No. 1 and Totta Consumer No. 1, the Group includes in its consolidated accounts the corresponding portion of the financial statements of Tagus - Sociedade de Titularização de Créditos, S.A., since for the same reason it also holds most of the risks and benefits associated to this securitization operation.

Under the agreement signed between the BST and CGD on July 5, 2010, the CGD used its purchase option of 1% of the share capital of Partang, which owns 51% of the share capital of BCGTA. Following this operation, the BST Group now holds 49% of the share capital of Partang, having lost joint control over the BCGTA. In accordance with IAS 27, the Bank valued the shareholding at fair value on the date that joint control was lost, having recorded a gain in its consolidated accounts of tEuros 54,045 (Notes 26, 36 and 37). Following this operation, the participation was recognised by the equity method.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Cash	176,542	186,707
Demand deposits in Central Banks:		
European Central Bank	102,887	201,130
	-----	-----
	279,429	387,837
	=====	=====

In accordance with European Central Bank Regulation 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves is all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of clients repayable in less than two years time, to which 2% is applied and tEuros 100 is deducted from the amount calculated. The minimum cash reserve requirements earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

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6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Balances due from domestic banks		
Demand deposits	429	332
Cheques for collection	64,480	80,789
Interest receivable	-	3
Balances due from foreign banks		
Demand deposits	117,134	273,985
Cheques for collection	1,801	1,853
	<u>183,844</u>	<u>356,962</u>
	=====	=====

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
<u>Financial assets held for trading</u>		
Securities		
Participating units	227,193	287,032
Derivatives		
Derivative with positive fair value	1,831,079	1,708,752
	<u>2,058,272</u>	<u>1,995,784</u>
	-----	-----
<u>Financial liabilities held for trading</u>		
Derivatives		
Derivative with negative fair value	(1,855,892 )	(1,663,299 )
	<u>( 24,813 )</u>	<u>45,453</u>
	=====	=====
Net balance of the fair value of derivative financial instruments		

As at 30 June 2012 and 31 December 2011, the caption "Participating units" refers essentially to security and real estate investment funds managed by Santander Group entities.

	<u>30-06-2012</u>	<u>31-12-2011</u>
Securities investment funds	227,168	221,036
Special investment funds	25	23
Real estate investment funds	-	65,973
	<u>227,193</u>	<u>287,032</u>
	=====	=====

On 31 December 2011, the caption "Real estate investment funds" refers to the market value of the participating units held in the real estate investment funds "Novimovest" and "Lusimovest". During the first semester of 2012, under the provisions of IAS 39, the Bank reclassified these participating units to the caption "Assets available for sale" (Note 9).



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The caption of derivative financial instruments is made up as follows:

	30/06/2012			31/12/2011		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
FRA's	248	19	229	109	-	109
Forwards	1,224	668	556	544	9	535
Swaps						
Currency swaps	-	2,040	(2,040)	28,998	-	28,998
Interest rate swaps	687,698	711,249	(23,551)	722,934	703,704	19,230
Equity swaps	22,305	22,349	(44)	1,232	3,836	(2,604)
Options	82,193	82,186	7	80,637	80,644	(7)
Caps & Floors	1,037,411	1,037,381	30	874,298	875,106	(808)
	<u>1,831,079</u>	<u>1,855,892</u>	<u>(24,813)</u>	<u>1,708,752</u>	<u>1,663,299</u>	<u>45,453</u>

8. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

On 30 June 2012 and 31 December 2011 the balance of this caption corresponds exclusively to Portuguese Treasury Bonds that fall due in September 2013.

Interest and revaluation results arising out from these financial assets are recorded in the caption "Result of assets and liabilities valued at fair value through profit or loss" (Note 34).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	30-06-2012						
	Acquisition Cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Book Value
				Positive	Negative	Total	
							Impairment (Note 22)
Debt instruments							
Issued by residents							
Treasury Bonds	3,013,852	26,544	136,099	6,216	(429,854)	(423,638)	(346)
Other Portuguese Government entities	132,004	987	-	-	(13,199)	(13,199)	-
Other residents							
Acquired in securitization operations	131,062	129	-	-	(45,465)	(45,465)	-
Unsubordinated debt	327,332	5,759	-	-	(38,555)	(38,555)	(231)
Subordinated debt	16,795	5	-	-	(12,108)	(12,108)	-
Issued by non-residents							
Foreign government entities	1,629,189	22,220	130,869	384	(272,325)	(271,941)	-
Equity instruments							
Issued by residents							
Valued at fair value	220,128	-	-	2,337	(66)	2,271	(54,766)
Valued at historical cost	21,399	-	-	-	-	-	(5,947)
Issued by non-residents							
Valued at fair value	1,044	-	-	338	-	338	-
Valued at historical cost	1,206	-	-	-	-	-	(745)
	<u>5,494,011</u>	<u>55,644</u>	<u>266,968</u>	<u>9,275</u>	<u>(811,572)</u>	<u>(802,297)</u>	<u>(62,035)</u>
							<u>4,952,291</u>

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	31-12-2011							
	Acquisition	Interest	Value	Fair Value Reserve			Impairment	Book
	Cost	receivable	adjustments	Positive	Negative	Total	(Note 22)	Value
			resulting from					
			hedging operations					
Debt instruments								
Issued by residents								
Treasury Bonds	2,131,053	25,352	110,949	-	(688,358)	(688,358)	(373)	1,578,623
Other Portuguese Government entities	132,004	988	-	-	(9,366)	(9,366)	-	123,626
Other residents								
Acquired in securitization operations	134,096	197	-	-	(22,798)	(22,798)	-	111,495
Unsubordinated debt	949,321	9,650	-	1,495	(62,587)	(61,092)	(231)	897,648
Subordinated debt	16,759	8	-	-	(2,108)	(2,108)	-	14,659
Issued by non-residents								
Foreign government entities	1,638,666	47,306	99,192	523	(157,187)	(156,664)	-	1,628,500
Other non-residents								
Other	16,500	130	-	102	-	102	-	16,732
Equity instruments								
Issued by residents								
Valued at fair value	108,246	-	-	-	-	-	(57,373)	50,873
Valued at historical cost	21,648	-	-	-	-	-	(5,947)	15,701
Issued by non-residents								
Valued at fair value	1,016	-	-	328	-	328	-	1,344
Valued at historical cost	1,150	-	-	-	-	-	(746)	404
	5,150,459	83,631	210,141	2,448	(942,404)	(939,956)	(64,670)	4,439,605

As at 30 June 2012 and 31 December 2011, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 266,968 and tEuros 210,141, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following Characteristics:

Description	30/06/2012						31/12/2011					
	Acquisition Cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book Value	Acquisition Cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book Value
Treasury bonds - Portugal												
. Maturity in one year	-	-	-	-	-	-	5,617	24	-	(2)	-	5,639
. Maturity between one and three years	824,135	21,715	32,767	(100,580)	-	778,037	825,852	6,635	28,427	(244,873)	-	616,041
. Maturity between five and ten years	790,171	4,825	103,332	(329,139)	-	569,189	790,657	18,687	82,522	(443,167)	-	448,699
Treasury bills - Portugal	1,399,060	-	-	6,044	-	1,405,104	508,440	-	-	(316)	-	508,124
Other	486	4	-	37	(346)	181	487	6	-	-	(373)	120
	<u>3,013,852</u>	<u>26,544</u>	<u>136,099</u>	<u>(423,638)</u>	<u>(346)</u>	<u>2,752,511</u>	<u>2,131,053</u>	<u>25,352</u>	<u>110,949</u>	<u>(688,358)</u>	<u>(373)</u>	<u>1,578,623</u>
Treasury bonds - Spain												
. Maturity in one year	-	-	-	-	-	-	5,596	23	-	62	-	5,681
. Maturity between one and three years	621,256	10,964	-	(24,016)	-	608,204	-	-	-	-	-	-
. Maturity between three and five years	-	-	-	-	-	-	625,354	24,231	-	(10,774)	-	638,811
. Maturity between five and ten years	1,000,000	11,169	130,869	(248,309)	-	893,729	1,000,000	22,966	99,192	(146,412)	-	975,746
Other	7,933	87	-	384	-	8,404	7,716	86	-	460	-	8,262
	<u>1,629,189</u>	<u>22,220</u>	<u>130,869</u>	<u>(271,941)</u>	<u>-</u>	<u>1,510,337</u>	<u>1,638,666</u>	<u>47,306</u>	<u>99,192</u>	<u>(156,664)</u>	<u>-</u>	<u>1,628,500</u>
	<u>4,643,041</u>	<u>48,764</u>	<u>266,968</u>	<u>(695,579)</u>	<u>(346)</u>	<u>4,262,848</u>	<u>3,769,719</u>	<u>72,658</u>	<u>210,141</u>	<u>(845,022)</u>	<u>(373)</u>	<u>3,207,123</u>

As at 30 June 2012 and 31 December 2011, the Group held in its portfolio Treasury Bonds of Portugal and Spain in the amount of tEuros tEuros 1,438,878 and tEuros 1,874,532, respectively, used as collateral in financing operations (Notes 19).

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As at 30 June 2012 and 31 December 2011, the caption Debt instruments – other residents includes, among others, the following securities:

Description	30-06-2012					31-12-2011				
	Acquisition Cost	Interest receivable	Fair value reserve	Impairment	Book Value	Acquisition Cost	Interest receivable	Fair value reserve	Impairment	Book Value
<u>Acquired within securitization operations</u>										
ENERGY ON NO.2 CLASS A NOTES MAY	96,043	101	(38,477)	-	57,667	99,111	154	(22,227)	-	77,038
TAGUS ROSE-07 1 SEC NOTES DEC'12	34,968	28	(6,968)	-	28,028	34,936	42	(571)	-	34,407
Other	51	-	(20)	-	31	49	1	-	-	50
	<u>131,062</u>	<u>129</u>	<u>(45,465)</u>	<u>-</u>	<u>85,726</u>	<u>134,096</u>	<u>197</u>	<u>(22,798)</u>	<u>-</u>	<u>111,495</u>
<u>Unsubordinated debt</u>										
PARPUBLICA 3.5 07-2013	139,908	4,806	(7,491)	-	137,223	139,863	2,370	(37,663)	-	104,570
SONAE DISTRIBUICAO SET 2007/2015	70,000	387	(12,113)	-	58,274	70,000	501	(10,701)	-	59,800
IBERWIND II P- CONSULTORIA SENIOR A	33,091	43	(4,943)	-	28,191	33,967	59	170	-	34,196
OBRIGAÇÕES ZON MULTIMEDIA 2010/2	24,300	53	(1,281)	-	23,072	24,300	63	(1,195)	-	23,168
MODELO CONTINENTE - 2005/2012	15,830	150	(51)	-	15,929	-	-	-	-	-
AUTO SUECO 2009/2014	15,000	3	(1,494)	-	13,509	15,000	5	(1,552)	-	13,453
EDIA 2010/2030	19,250	299	(11,035)	-	8,514	19,250	336	(8,627)	-	10,959
BANCO ESPÍRITO SANTO 3.75% 01/12	-	-	-	-	-	77,171	2,750	(480)	-	79,441
BANCO INTL DO FUNCHAL SA 3.25	-	-	-	-	-	59,994	1,288	(1,713)	-	59,549
BANCO COMERC PORTUGUES 3.625% 01	-	-	-	-	-	23,605	813	(142)	-	24,276
Commercial Paper	-	-	-	-	-	475,962	1,459	769	-	478,190
Other	9,953	18	(147)	(231)	9,593	10,209	26	42	(231)	10,046
	<u>327,332</u>	<u>5,759</u>	<u>(38,555)</u>	<u>(231)</u>	<u>294,305</u>	<u>949,321</u>	<u>9,650</u>	<u>(61,092)</u>	<u>(231)</u>	<u>897,648</u>
<u>Subordinated debt</u>										
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	2	(9,780)	-	4,222	14,000	2	(784)	-	13,218
BPSM97- TOPS-OB.PERP SUB.-1/2.	2,795	3	(2,328)	-	470	2,759	6	(1,324)	-	1,441
	<u>16,795</u>	<u>5</u>	<u>(12,108)</u>	<u>-</u>	<u>4,692</u>	<u>16,759</u>	<u>8</u>	<u>(2,108)</u>	<u>-</u>	<u>14,659</u>

The operations of commercial paper held on 31 December 2011 fell due in the first semester of 2012. The issues subscribed in 2012 were recorded under the caption of “Loans and advances to customers”.

With reference to 30 June 2012 and 31 December 2011, the caption of Financial assets available for sale – equity instruments includes the following securities:

Description	30/06/2012				31/12/2011			
	Acquisition Cost	Fair value reserve	Impairment	Book Value	Acquisition Cost	Fair value reserve	Impairment	Book Value
<u>Valued at fair value</u>								
NOVIMOVEST - F.I. IMOBILIÁRIO	75,910	234	-	76,144	-	-	-	-
LUSIMOVEST - F.I. IMOBILIÁRIO	42,269	1,436	-	43,705	-	-	-	-
FUNDO RECUPERAÇÃO FOR	20,201	-	-	20,201	18,356	-	-	18,356
FUNDO SOLUÇÃO ARRENDAMENTO	14,000	-	-	14,000	-	-	-	-
BANCO BPI SA	24,433	599	(19,376)	5,656	27,782	-	(22,031)	5,751
GARVAL - SOC.DE GARANTIA MUTUA	2,416	-	-	2,416	2,506	-	-	2,506
F.I.I. FECHADO IMOBENDIMENTO II	-	-	-	-	18,663	-	-	18,663
Other	9,893	340	(3,340)	6,893	9,905	328	(3,292)	6,941
Securities w ith 100% impairment losses	32,050	-	(32,050)	-	32,050	-	(32,050)	-
	<u>221,172</u>	<u>2,609</u>	<u>(54,766)</u>	<u>169,015</u>	<u>109,262</u>	<u>328</u>	<u>(57,373)</u>	<u>52,217</u>
<u>Valued at historical cost</u>								
ASCENDI NORTE - AUTO ESTRADAS DO NORTE (Supplementary capital contributions) (ex-AENOR)	3,749	-	-	3,749	3,749	-	-	3,749
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS SARL	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE (ex-AENOR)	3,749	-	(404)	3,345	3,749	-	(404)	3,345
NORGARANTE - SOC. GARANTIA MUTUA S.A.	851	-	(5)	846	1,012	-	(5)	1,007
Other	5,768	-	(1,256)	4,512	5,800	-	(1,257)	4,543
Securities w ith 100% impairment losses	5,927	-	(5,927)	-	5,027	-	(5,027)	-
	<u>22,605</u>	<u>-</u>	<u>(6,662)</u>	<u>15,943</u>	<u>22,798</u>	<u>-</u>	<u>(6,693)</u>	<u>16,105</u>

During the semester ended on 30 June 2012 the Bank subscribed 2,800,000 participating units in the “Solução Arrendamento” closed-end real estate fund for housing rental worth tEuros 14,000. The share capital was paid up in cash for the amount of tEuros 13,861 and the remainder was covered by buildings.

During the semesters ended on 30 June 2012 and 2011 the Bank sold 1,441,158 shares and 2,360,640 shares of the Bank BPI for the amounts of tEuros 744 and tEuros 2,870, respectively, having recorded capital gains of tEuros 50 and of tEuros 26, respectively, and use the corresponding recorded impairment (Note 22).

On 17 May 2011 the Group received 1,177,461 shares of the Bank BPI, arising from the capital increase of this Bank by incorporation of reserves.

As at 30 June 2012 and 31 December 2011, BST held 10,515,276 shares and 11,956,434 shares of the Bank BPI, S.A. with an acquisition cost of tEuros 24,433 and tEuros 27,782, respectively. As at 30 June 2012 the impairment carried for these securities amounted to tEuros 19,376.

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During 2011 and in the first semester of 2012 the Bank responded to the capital calls of the Recovery Fund, FCR, with a total amount of tEuros 8,385. In this regard and up to 30 June 2012, the Bank subscribed 30.000 participating units of this Fund, having paid around 67.3%.

As mentioned in Note 7, during the first semester of 2012 the Bank reclassified the participating units held in the real estate investment funds “Novimovest” and “Lusimovest” from the caption “Financial assets held for trading” to the caption “Available-for-sale financial assets”.

The impact of the reclassification of these participating units on results and in the fair value reserve was the following:

Book value on the date of reclassification	66,179
	-----
Book value on 30 June 2012	67,691
	-----
Fair value of the participating units reclassified as at 30 June 2012	67,691
	-----
Fair value reserve of the participating units reclassified as at 30 June 2012	1,512
	-----
Gains/(losses) associated to the variation in fair value of the participating units between the date of reclassification and 30 June 2012	1,512
	-----

In the first semester of 2012, the Bank reclassified to the caption “Non-current assets held for sale” (Note 13) the 2,748,238 participating units for the value of tEuros 18,663 of the closed-end real estate investment fund – Imorendimento II received in 2011, following a settlement agreement of a debt receivable on a loan granted. This Fund is in the process of liquidation.

As at 30 June 2012 and 31 December 2011, the negative fair value reserve resulting from the fair value valuation had the following percentages in relation to cost:

	30-06-2012					31-12-2011				
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
Debt Instruments										
. between 0% and 25%	3,231,438	50,324	163,636	(416,353)	3,029,045	2,940,006	54,486	99,192	(214,661)	2,879,023
. between 25% and 50%	898,268	4,926	103,332	(372,011)	634,515	1,051,519	9,603	28,427	(335,379)	754,170
. over 50%	36,045	304	-	(23,146)	13,203	675,000	17,680	82,522	(392,364)	382,838
	<u>4,165,751</u>	<u>55,554</u>	<u>266,968</u>	<u>(811,510)</u>	<u>3,676,763</u>	<u>4,666,525</u>	<u>81,769</u>	<u>210,141</u>	<u>(942,404)</u>	<u>4,016,031</u>
Equity Instruments										
. between 0% and 25%	26,379	-	-	(66)	26,313	-	-	-	-	-
	<u>26,379</u>	<u>-</u>	<u>-</u>	<u>(66)</u>	<u>26,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,192,130</u>	<u>55,554</u>	<u>266,968</u>	<u>(811,576)</u>	<u>3,703,076</u>	<u>4,666,525</u>	<u>81,769</u>	<u>210,141</u>	<u>(942,404)</u>	<u>4,016,031</u>

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10. LOANS AND ADVANCES TO BANKS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Loans and advances - Bank of Portugal	900,000 -----	1,150,000 -----
Loans and advances to other Portuguese banks		
Loans	48,360	57,428
Purchase operations with resale agreements	289,375	368,711
Deferred income	( 148 )	( 150 )
Interest receivable	261	953
	-----	-----
	337,848	426,942
	-----	-----
Loans and advances to foreign banks		
Very short term loans and advances	89,334	65,215
Deposits	765,344	918,705
Other applications	354,608	102,345
Interest receivable	15,304	29,704
	-----	-----
	1,224,590	1,115,969
	-----	-----
	2,462,438	2,692,911
	=====	=====

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11. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Unsecuritised credit		
Domestic loans		
To corporate clients		
Credit on current account	1,361,840	1,334,775
Loans	4,472,820	3,325,033
Finance leasing	493,761	526,117
Discount and credit securities	147,521	184,867
Overdrafts	365,962	438,299
Factoring	1,138,170	1,231,264
Other credits	36,950	39,165
To individuals		
Mortgage loans	11,893,004	9,141,345
Consumer credit and others	1,326,168	1,255,346
Foreign loans		
To corporate clients		
Credit on current account	12,257	12,240
Loans	115,847	82,077
Finance leasing	3,843	4,239
Discount and credit securities	-	49
Overdrafts	7,037	5,294
Factoring	34,392	91,558
Other credits	3,202	3,432
To individuals		
Mortgage loans	397,532	397,570
Consumer credit and others	25,655	22,035
	<u>21,835,961</u>	<u>18,094,805</u>
Loans represented by securities		
Non-subordinated debt securities		
Commercial paper	<u>1,481,295</u>	<u>40,000</u>

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	<u>30-06-2012</u>	<u>31-12-2011</u>
Non-derecognised securitised assets		
Companies		
Finance leasing		
. Leasetotta no. 1	550,073	652,910
Loans		
. BST SME no. 1	-	1,327,390
. Totta Consumer no. 1	30,245	36,331
Loans represented by securities - Commercial paper		
. BST SME no. 1	-	615,200
To individuals		
Mortgage loans		
. Hipototta no. 1	213,554	225,469
. Hipototta no. 4	1,217,172	1,255,543
. Hipototta no. 5	1,022,097	1,049,819
. Hipototta no. 7	1,244,106	1,275,981
. Hipototta no. 11	-	1,736,471
. Hipototta no. 12	-	1,216,021
Consumer credit		
. Totta Consumer no. 1	601,348	747,758
Finance leasing		
. Leasetotta no. 1	1,137	1,803
	<u>4,879,732</u>	<u>10,140,696</u>
Overdue loans and interest		
Up to 90 days	48,764	47,748
More than of 90 days	745,219	539,251
Non-derecognised securitised assets	90,293	94,737
	<u>884,276</u>	<u>681,736</u>
	<u>29,081,264</u>	<u>28,957,237</u>
Interest receivable		
Unsecuritised credit	64,065	58,914
Loans represented by securities	3,564	1,541
Non-derecognised securitised assets	11,724	31,981
Deferred expenses:		
Unsecuritised credit	94,114	99,922
Loans represented by securities	227	305
Fees and commissions relating to amortised cost (net)	( 104,831 )	( 111,287 )
Value adjustment of hedged assets	5,841	5,327
	<u>74,704</u>	<u>86,703</u>
	<u>29,155,968</u>	<u>29,043,940</u>
Impairment on loans and advances to customers (Note 22)	( 837,951 )	( 671,913 )
	<u>28,318,017</u>	<u>28,372,027</u>
	<u>=====</u>	<u>=====</u>

In the first semester of 2012 and 2011 some mortgage loans and company loans portfolios were sold off. As a result of these operations, the Bank has recorded net realised capital gains of tEuros 3,825 tEuros and net losses of tEuros 2,373, respectively (Note 37).

As at 30 June 2012 and 31 December 2011, the caption "Domestic loans – Mortgage loans" includes loans allocated to the autonomous property of the mortgage bonds issued by the Bank totalling tEuros 7,305,448 and tEuros 7,567,003, respectively (Note 21).

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The changes in impairment of loans and advances to customers during 2011 and 2010 is presented in Note 22.

As at 30 June 2012 and 31 December 2011, overdue loans and interest are made up as follows:

	30-06-2012	31-12-2011
Up to three months	52,549	54,267
Between three and six months	119,656	97,880
Between six months and one year	267,150	176,115
Between one year and three years	340,552	258,491
More than three years	104,369	94,983
	-----	-----
	884,276	681,736
	=====	=====

The portfolio of loans to customers as at 30 June 2012 and 31 December 2011, broken down by business sector of is as follows:

	30-06-2012			
	Performing	Overdue	Total	%
Agriculture and forestry	235,904	8,863	244,767	0.84%
Fishing	25,243	813	26,056	0.09%
Mining	184,002	2,944	186,946	0.64%
Manufacturing:				
Food, beverage and tobacco	399,630	8,903	408,533	1.40%
Textiles, leather and clothing	405,532	15,914	421,446	1.45%
Wood and cork	98,089	4,426	102,515	0.35%
Paper and publishing	144,161	3,765	147,926	0.51%
Chemical industry	145,945	754	146,699	0.50%
Ceramics, glass and cement	224,641	3,004	227,645	0.78%
Metal-working	154,082	5,429	159,511	0.55%
Machines and vehicles	228,996	9,390	238,386	0.82%
Electricity, water and gas	274,932	3,928	278,860	0.96%
Construction and public works	1,812,114	178,763	1,990,877	6.85%
Commerce and hotels				
Wholesale trade	679,907	28,612	708,519	2.44%
Retail sale	749,094	34,257	783,351	2.69%
Restaurants and hotels	438,639	13,770	452,409	1.56%
Transport and communications	630,295	10,848	641,143	2.20%
Non-monetary financial institutions	441,529	4,152	445,681	1.53%
Government administration	916,634	7,245	923,879	3.18%
Other service companies	1,611,849	85,099	1,696,948	5.84%
Loans to individuals	17,154,725	416,254	17,570,979	60.42%
Foreign loans	356,982	4,075	361,057	1.24%
Other Loans	884,063	33,068	917,131	3.16%
	<u>28,196,988</u>	<u>884,276</u>	<u>29,081,264</u>	<u>99.99%</u>



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	31/12/2011			
	Performing	Overdue	Total	%
Agriculture and forestry	246,502	6,808	253,310	0.87%
Fishing	29,425	425	29,850	0.10%
Mining	94,724	1,842	96,566	0.33%
Manufacturing:				
Food, beverage and tobacco	378,800	5,074	383,874	1.33%
Textiles, leather and clothing	442,721	8,796	451,517	1.56%
Wood and cork	109,911	3,446	113,357	0.39%
Paper and publishing	157,400	2,890	160,290	0.55%
Chemical industry	107,122	582	107,704	0.37%
Ceramics, glass and cement	185,302	2,174	187,476	0.65%
Metal-working	150,166	4,006	154,172	0.53%
Machines and vehicles	221,242	6,774	228,016	0.79%
Electricity, water and gas	289,613	1,665	291,278	1.01%
Construction and public works	2,000,621	119,107	2,119,728	7.32%
Commerce and hotels				
Wholesale trade	720,013	23,497	743,510	2.57%
Retail sale	780,496	27,081	807,577	2.79%
Restaurants and hotels	435,822	11,809	447,631	1.55%
Transport and communications	575,057	7,031	582,088	2.01%
Non-monetary financial institutions	265,207	12	265,219	0.92%
Government administration	858,269	3,977	862,246	2.98%
Other service companies	1,631,742	71,580	1,703,322	5.88%
Loans to individuals	17,648,536	363,747	18,012,283	62.20%
Foreign loans	378,485	2,592	381,077	1.32%
Other Loans	568,325	6,821	575,146	1.98%
	<u>28,275,501</u>	<u>681,736</u>	<u>28,957,237</u>	<u>100.00%</u>

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As at 30 June 2012, the overdue and performing loans, with and without evidence of impairment, considering the segmentation for the purpose of calculating impairment losses, are made up as follows:

	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>
Loans to companies			
. Without evidence of impairment	-	10,010,026	10,010,026
. With evidence of impairment	449,193	405,593	854,786
	-----	-----	-----
	449,193	10,415,619	10,864,812
	-----	-----	-----
Mortgage loans			
. Without evidence of impairment	-	15,106,173	15,106,173
. With evidence of impairment	289,952	750,306	1,040,258
	-----	-----	-----
	289,952	15,856,479	16,146,431
	-----	-----	-----
Consumer credit			
. Without evidence of impairment	-	1,054,046	1,054,046
. With evidence of impairment	27,657	73,557	101,214
	-----	-----	-----
	27,657	1,127,603	1,155,260
	-----	-----	-----
Loans granted through credit cards			
. Without evidence of impairment	-	254,020	254,020
. With evidence of impairment	28,734	12,332	41,066
	-----	-----	-----
	28,734	266,352	295,086
	-----	-----	-----
Other loans to individuals			
. Without evidence of impairment	-	444,861	444,861
. With evidence of impairment	88,740	86,074	174,814
	-----	-----	-----
	88,740	530,935	619,675
	-----	-----	-----
	884,276	28,196,988	29,081,264
	=====	=====	=====

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On 31 December 2011, the overdue and performing loans, with and without evidence of impairment, considering the segmentation for the purpose of calculating impairment losses, are made up as follows:

	Overdue loans	Performing loans	Total loans
Loans granted to companies			
. Without evidence of impairment	-	9,670,386	9,670,386
. With evidence of impairment	302,396	409,940	712,336
	302,396	10,080,326	10,382,722
Mortgage loans			
. Without evidence of impairment	-	15,384,875	15,384,875
. With evidence of impairment	249,306	779,278	1,028,584
	249,306	16,164,153	16,413,459
Consumer credit			
. Without evidence of impairment	-	1,111,840	1,111,840
. With evidence of impairment	31,771	88,956	120,727
	31,771	1,200,796	1,232,567
Loans granted through credit cards			
. Without evidence of impairment	-	262,819	262,819
. With evidence of impairment	25,535	11,696	37,231
	25,535	274,515	300,050
Other loans to individuals			
. Without evidence of impairment	-	435,914	435,914
. With evidence of impairment	72,728	119,797	192,525
	72,728	555,711	628,439
	681,736	28,275,501	28,957,237
	=====	=====	=====

12. HEDGING DERIVATIVES

This caption is made up as follows:

	30/06/2012			31/12/2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
<u>Fair value hedges</u>						
Interest rate swaps	69,482	284,075	(214,593)	63,427	253,052	(189,625)
Equity swaps	27,539	21,667	5,872	13,286	21,039	(7,753)
AutoCallable options	4,411	8,285	(3,874)	3,897	8,798	(4,901)
<u>Cash flow hedges</u>						
Interest rate swaps	95,201	-	95,201	86,692	-	86,692
	196,633	314,027	(117,394)	167,302	282,889	(115,587)
	=====	=====	=====	=====	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011  
(RESTATED)

(Translation of notes originally issued in Portuguese – Note 48)

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

As at 30 June 2012 and in 31 December 2011, derivative financial instruments were broken down as follows:

Type of financial Instruments	Book Value	30-06-2012						Notional amounts	
		Notional amounts						Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 12 months and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	556	24,961	9,818	2,380	666	-	37,825	10,349	27,476
. Sold		24,395	9,769	2,372	664	-	37,200	25,623	11,577
Currency swaps									
. Purchased	(2,040)	1,258,213	-	-	-	-	1,258,213	-	1,258,213
. Sold		1,259,714	-	-	-	-	1,259,714	1,259,714	-
Interest rate swaps									
Other	(23,551)	575,624	834,879	958,232	3,894,075	4,085,648	10,348,458	10,288,811	59,647
Equity swaps	(44)	116,047	93,045	897,986	1,296,182	1,196,420	3,599,680	3,576,728	22,952
FRA's	229	275,000	360,000	139,800	20,000	-	794,800	794,800	-
Currency options									
. Purchased	1	52,390	18,752	12,287	-	-	83,429	155	83,274
. Sold		52,390	18,752	12,287	-	-	83,429	155	83,274
Equity options									
. Purchased	11	-	-	8,667	-	-	8,667	8,667	-
. Sold		-	-	8,667	-	-	8,667	8,667	-
Interest rate options									
. Purchased	(5)	1,396	948	1,497	1,232	845,442	850,515	845,973	4,542
. Sold		1,098	948	1,447	1,048	-	4,541	-	4,541
Caps	162	15,566	5,555	15,969	257,952	1,474,830	1,769,872	1,769,872	-
Floors	(132)	-	2,500	-	90,133	545,361	637,994	602,861	35,133
	(24,813)	3,656,794	1,354,966	2,061,591	5,561,952	8,147,701	20,783,004	19,192,375	1,590,629
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	62,400	196,350	92,830	1,042,658	1,232,922	375,993	2,938,777	2,905,073	33,704
. Financial assets available for sale	(276,993)	-	-	-	400,000	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(3,861)	117,177	112,385	85,483	160,533	-	475,577	475,577	-
Equity swaps	5,859	79,116	34,043	423,577	2,049,122	239,277	2,825,136	2,668,105	157,031
Cash flow hedges									
Interest rate swaps									
. Cash flow	95,201	-	-	550,000	1,200,000	1,200,000	2,950,000	2,950,000	-
	(117,394)	392,643	239,258	2,101,718	5,042,577	3,490,270	11,264,490	11,073,755	190,735

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

Type of financial Instruments	Book Value	31-12-2011						Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts	
								EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased		24,970	13,224	65,692	-	-	103,886	41,739	62,147
. Sold	535	24,771	13,095	65,429	-	-	103,295	58,873	44,422
Currency swaps									
. Purchased		1,299,485	-	-	-	-	1,299,485	-	1,299,485
. Sold	28,998	1,270,008	-	-	-	-	1,270,008	1,270,008	-
Interest rate swaps									
Other	19,230	807,700	328,943	1,588,220	4,284,187	4,544,329	11,553,379	11,306,226	247,153
Equity swaps	(2,604)	171,581	205,402	246,615	2,526,267	1,782,833	4,932,698	4,924,443	8,255
FRA's	109	130,000	120,000	60,000	25,000	-	335,000	335,000	-
Currency options									
. Purchased		26,929	46,255	60,430	10,796	-	144,410	155	144,255
. Sold	34	26,929	46,255	60,430	10,796	-	144,410	155	144,255
Equity options									
. Purchased		100	9,409	-	-	-	9,509	9,509	-
. Sold	(34)	100	9,409	-	-	-	9,509	9,509	-
Interest rate options									
. Purchased		1,522	1,657	2,289	2,662	885,631	893,761	887,684	6,077
. Sold	(7)	1,522	1,657	1,991	2,428	-	7,598	1,522	6,076
Caps	148	155,791	241,410	180,691	410,265	1,540,644	2,528,801	2,528,801	-
Floors	(956)	-	-	2,500	161,878	548,237	712,615	677,373	35,242
	45,453	3,941,408	1,036,716	2,334,287	7,434,279	9,301,674	24,048,364	22,050,997	1,997,367
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	56,347	3,200	38,550	305,230	2,218,571	435,287	3,000,838	2,993,032	7,806
. Financial assets available for sale	(245,972)	-	-	-	400,000	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(4,901)	5,690	16,204	229,792	250,940	-	502,626	502,626	-
Equity swaps	(7,753)	50,856	45,809	120,943	1,370,021	526,245	2,113,874	1,969,989	143,885
Cash flow hedges									
Interest rate swaps									
. Cash flow	86,692	-	-	-	1,550,000	1,050,000	2,600,000	2,600,000	-
	(115,587)	59,746	100,563	655,965	5,789,532	3,686,532	10,292,338	10,140,647	151,691

**13. NON-CURRENT ASSETS HELD FOR SALE**

This caption is made up as follows:

	30-06-2012	31-12-2011
Property received as settlement of defaulting loans	207,921	177,737
Own property for sale	31,313	26,525
Participating units	18,663	-
Equipment	5,157	3,982
Other	100	100
	<b>263,154</b>	<b>208,344</b>
Accumulated impairment (Note 22)	<b>( 83,048 )</b>	<b>( 67,181 )</b>
	<b>180,106</b>	<b>141,163</b>

In 2011 the Bank acquired 2,748,238 participating units of the closed-end real estate investment fund - Imorendimento II for an amount of tEuros 18,663, following a debt settlement agreement receivable referring to loans granted and this asset was stated in financial assets available for sale. In the first semester of 2012, the Bank reclassified these participating units to this caption as it considers that these are available for immediate sale in their present condition and that the sale is probable within the period of one year (Note 9).

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(Translation of notes originally issued in Portuguese – Note 48)

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

Changes in these captions during the periods of six months ended on 30 June 2012 and 2011, may be presented as follows:

	31 December 2011				Transfers (Notes 9 and 14)	Impairment (Note 22)			30 June 2012		
	Gross amount	Accumulated impairment	Increases	Sales		Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property received as settlement of defaulting loans	177,737	(53,639)	71,705	(41,521)	-	(15,715)	672	6,006	207,921	(62,676)	145,245
Own property for sale	26,625	(10,757)	46	(265)	5,007	(4,092)	90	18	31,413	(14,741)	16,672
Equipment	3,982	(2,785)	1,627	(452)	-	(990)	112	32	5,157	(3,631)	1,526
Fund units	-	-	-	-	18,663	(2,000)	-	-	18,663	(2,000)	16,663
	<u>208,344</u>	<u>(67,181)</u>	<u>73,378</u>	<u>(42,238)</u>	<u>23,670</u>	<u>(22,797)</u>	<u>874</u>	<u>6,056</u>	<u>263,154</u>	<u>(83,048)</u>	<u>180,106</u>

	31 December 2010		Totta IFIC Merger		Increases	Sales	Transfers from tangible fixed assets (Note 14)	Impairment (Note 22)			30 June 2011		
	Gross amount	Accumulated impairment	Gross amount	Accumulated impairment				Increases (Note 22)	Reversals (Note 22)	Utilization (Note 22)	Gross amount	Accumulated impairment	Net amount
Property received as settlement of defaulting loans	114,013	(36,052)	16,866	(4,424)	64,318	(42,599)	-	(13,514)	169	6,420	152,598	(47,401)	105,197
Equipment	-	-	2,564	(1,670)	986	(353)	-	(521)	9	38	3,197	(2,144)	1,053
Own property for sale	20,788	(9,626)	-	-	22	(721)	5,216	(4,400)	3,557	299	25,305	(10,170)	15,135
	<u>134,801</u>	<u>(45,678)</u>	<u>19,430</u>	<u>(6,094)</u>	<u>65,326</u>	<u>(43,673)</u>	<u>5,216</u>	<u>(18,435)</u>	<u>3,735</u>	<u>6,757</u>	<u>181,100</u>	<u>(59,715)</u>	<u>121,385</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011 (RESTATED)  
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#### 14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions during the period of six months ended on 30 June 2012 may be presented in the following manner:

	Transfers																
	31/12/2011			Write offs		From/to assets held for sale (Note 13)		Between fixed assets		Amortization of the year	Impairment (Note 22)	Foreign exchange differences		30/06/2012			Net amount
	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation and amortization	Gross amount	Accumulated depreciation and amortization	Gross amount			Gross amount	Accumulated depreciation and amortization	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	
<b>Tangible assets</b>																	
Property																	
. Property for own use	45,472	120,714	2,486	176	-	-	(6,526)	(1,560)	(846)	4,071	1,227	-	-	408,276	123,061	3,713	281,502
. Leasehold expenditure	134,231	105,217	-	373	-	-	-	-	832	3,388	-	5	5	135,441	108,773	-	26,668
. Other property	347	1	43	-	-	-	-	-	-	1	122	-	-	347	2	165	180
Tangible assets in progress																	
. Property for own use	240	-	-	208	-	-	-	-	-	-	-	-	-	448	-	-	448
	550,290	225,932	2,529	757	-	-	(6,526)	(1,560)	(14)	7,460	1,349	5	5	544,512	231,836	3,878	308,798
<b>Equipment</b>																	
. Furniture and fixtures	23,160	17,689	-	120	-	-	-	-	-	962	-	1	1	23,281	18,652	-	4,629
. Machinery and tools	3,922	3,817	-	9	-	-	-	-	-	30	-	1	1	3,932	3,848	-	84
. Computer hardware	124,015	107,115	-	689	237	130	-	-	-	3,534	-	-	-	124,467	110,519	-	13,948
. Interior installations	91,268	82,545	-	980	-	-	(57)	(16)	14	1,386	-	-	-	92,205	83,916	-	8,289
. Vehicles	18,482	11,002	-	1,750	1,277	1,097	-	-	-	1,851	-	4	2	18,959	11,758	-	7,201
. Security equipment	27,805	26,737	-	23	-	-	-	-	-	240	-	-	-	27,828	26,977	-	851
. Other equipment	5,663	3,359	-	76	-	-	-	-	-	373	-	-	-	5,739	3,732	-	2,007
	294,316	252,264	-	3,647	1514	1,227	(57)	(16)	14	8,376	-	6	4	296,411	259,402	-	37,009
<b>Other tangible assets</b>																	
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Other	1,535	-	-	-	-	-	-	-	-	-	-	-	-	1,535	-	-	1,535
	1,816	281	-	-	-	-	-	-	-	-	-	-	-	1,816	281	-	1,535
	846,421	478,477	2,529	4,404	1,514	1,227	(6,583)	(1,576)	-	6,836	1,349	11	9	842,739	491,515	3,878	347,342
<b>Intangible assets</b>																	
Software purchased	317,482	243,252	-	12,744	-	-	-	-	-	16,874	-	-	-	330,226	260,126	-	70,100
Intangible assets in progress	-	-	-	11,577	-	-	-	-	-	-	-	-	-	11,577	-	-	11,577
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	321,096	246,866	-	24,321	-	-	-	-	-	16,874	-	-	-	345,417	263,740	-	81,677

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Changes in these captions during the period of six months ended on 30 June 2011 may be presented in the following manner:

	Entry and/or exit of entities in the consolidation perimeter										Transfers		Amortization of the year	Reversals of Impairment (Note 22)	Foreign exchange differences		30-06-2011				
	31-12-2010			Write offs			From/to assets held for sale (Note 13)		Between fixed assets		Gross amount	Accumulated depreciation and amortization			Gross amount	Accumulated depreciation and amortization	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Net amount	
	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount	Accumulated depreciation and amortization	Acquisitions	Gross amount	Accumulated depreciation and amortization	Impairment (Note 22)	Gross amount											Accumulated depreciation and amortization
Tangible assets																					
Property																					
Property for own use	423,263	15,791	2,486	4,076	476	615	-	-	-	(6,778)	(1677)	3,873	-	-	-	42,1558	18,463	2,486	300,609		
Leasehold expenditure	133,393	99,187	-	-	-	846	-	-	-	(549)	(549)	3,218	-	-	(18)	133,677	101,840	-	31,837		
Other property	1542	295	697	-	-	-	655	-	654	(355)	(255)	(227)	(39)	-	-	305	1	43	261		
Tangible assets in progress																					
Property for own use	3	-	-	-	-	362	-	-	-	-	(65)	-	-	-	-	210	-	-	210		
Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1		
	558,202	26,273	3,183	4,076	476	1823	655	-	654	(7,682)	(2,481)	-	7,047	-	-	(18)	(18)	555,751	220,304	2,529	332,918
Equipment																					
Furniture and fixtures	22,908	15,617	-	107	107	197	237	237	-	-	-	-	1,140	-	-	(3)	(3)	22,972	16,624	-	6,348
Machinery and tools	4,028	3,864	-	18	18	12	152	152	-	-	-	-	49	-	-	(3)	(3)	3,903	3,776	-	127
Computer hardware	119,884	99,703	-	371	350	3,141	511	446	-	-	-	(40)	4,035	-	-	(1)	(1)	122,844	103,641	-	19,203
Interior installations	89,482	79,619	-	115	114	1088	35	35	-	(176)	(161)	-	1510	-	-	-	-	90,474	81,047	-	9,427
Vehicles	18,389	10,139	-	428	334	1660	1956	1904	-	-	-	-	1914	-	-	(8)	(5)	18,513	10,478	-	8,035
Security equipment	27,777	26,343	-	2	2	119	4	4	-	-	-	-	288	-	-	-	-	27,894	26,629	-	1,265
Other equipment	5,486	2,617	-	-	-	93	2	2	-	-	-	-	368	-	-	-	-	5,577	2,983	-	2,594
	287,954	237,902	-	1,041	925	6,310	2,897	2,780	-	(176)	(161)	(40)	9,304	-	-	(18)	(12)	292,977	245,778	-	46,999
Other tangible assets																					
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Other	1564	39	-	10	-	-	38	38	-	-	-	-	-	-	-	-	-	1536	1	-	1535
	1845	320	-	10	-	-	38	38	-	-	-	-	-	-	-	-	-	1817	282	-	1535
	848,001	453,495	3,183	5,127	1,401	8,133	3,590	2,818	654	(7,858)	(2,642)	(40)	16,351	-	-	(28)	(23)	849,745	465,764	2,529	381,452
Intangible assets																					
Software purchased	286,849	213,918	-	2,154	1,696	13,094	1,280	1,280	-	-	-	40	14,280	-	-	-	-	300,857	228,614	-	72,243
Intangible assets in progress	1,444	-	-	-	-	1,289	-	-	-	-	-	-	-	-	-	-	-	2,733	-	-	2,733
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	291,907	217,532	-	2,154	1,696	14,383	1,280	1,280	-	-	-	40	14,280	-	-	-	-	307,204	232,228	-	74,976

As at 30 June 2012 and 31 December 2011, software (including intangible assets in progress) net of depreciation included, tEuros 79,928 and tEuros 72,054, respectively, acquired from Santander Tecnologia y Operaciones A.E.I.E., a European Economic Interest Group, belonging to the Santander Group.



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15. INVESTMENTS IN ASSOCIATES

As at 30 June 2012 and 31 December 2011, this caption is made up as follows:

	<u>30 June 2012</u>		<u>31 December 2011</u>	
	<u>Effective</u>	<u>Book</u>	<u>Effective</u>	<u>Book</u>
	<u>(%) participation</u>	<u>value</u>	<u>(%) participation</u>	<u>value</u>
Investments in associates				
Domestic				
. Benim - Sociedade Imobiliária, S.A	25.81	2,202	25.81	2,326
. Partang, SGPS, S.A.	49.00	113,300	49.00	103,470
. Unicre - Instituição Financeira de Crédito, S.A.	21.50	27,761	21.50	27,756
		-----		-----
		143,263		133,552
		-----		-----
Impairment of investments in associates (Note 22)				
. Benim – Sociedade Imobiliária, S.A.		( 500 )		( 500 )
		-----		-----
		142,763		133,052
		=====		=====

The participation in Benim – Sociedade Imobiliária, S.A. is held indirectly by the Bank through Totta Urbe – Empresa de Administração e Construções, S.A. (Totta Urbe).

As described in Note 4, Partang, SGPS, S.A. holds 51% of the Bank Caixa Geral Totta of Angola. The Group has a put option to Caixa Geral de Depósitos, S.A. of their participation in Partang exercisable within four years time as from July 2, 2011. In addition, CGD also has a call option over the Group's share in Partang, with a cap of 80% of the share capital and voting rights, exercisable in the first month of the fifth anniversary of the date of the share capital increase of Partang (July 2, 2009).

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16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

As at 30 June 2012 and 31 December 2011, these captions were made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Current tax assets:		
. Corporate income tax receivable	24,918	17,613
. Other	510	19
	-----	-----
	25,428	17,632
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	848	1,501
. Other	2,147	5,044
	-----	-----
	2,995	6,545
	=====	=====
Deferred tax assets		
. Relating to temporary differences	687,523	701,127
. Tax losses reportable	13,239	13,690
	-----	-----
	700,763	714,817
	=====	=====
Deferred tax liabilities		
. Relating to temporary differences	94,771	62,862
. Relating to tax credits	3,945	4,110
	-----	-----
	98,716	66,972
	=====	=====

As at 30 June 2012 and 2011, the taxation in the income statement was made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Current tax		
. Of the period	( 4,184 )	( 17,203 )
. Consortiums (ACE's)	(741 )	( 766 )
. Taxation relating to previous years	(4,253 )	8,366
. Special contribution for the banking sector	( 11,842 )	( 5,500 )
	-----	-----
	( 21,020 )	( 15,103 )
	-----	-----
Deferred tax		
. Increases and reversals of temporary differences, net	9,212	13,393
	-----	-----
	( 11,808 )	( 1,710 )
	=====	=====

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Following the change in the accounting policy mentioned in Note 1.5, the Bank recorded, in 2011, deferred tax assets amounting to tEuros 61,992, relating to the impact of the said change in policy.

Changes in deferred tax assets and liabilities during the years ended on 30 June 2012 and 2011 may be presented in the following manner:

	Balances on 12/31/2011	Shareholders' equity	Income Statement	Other	Balances on 6/30/2012
Retirement pensions	34,614	-	(7,730)	-	26,884
Transfers of pension liabilities to the social security	6,047	-	(302)	-	5,745
Change in accounting policy on pensions (Note 1.5.)	159,238	(7,962)	-	-	151,276
Tangible assets	85	-	(27)	-	58
Deferred commission	2,663	-	(124)	-	2,539
Long service bonus	7,471	-	93	-	7,564
Early retirements	19,543	-	(1,872)	-	17,671
Other Deferred tax assets resulting from temporary differences	182,499	-	40,699	-	223,198
Other Deferred tax liabilities resulting from temporary differences	(8,324)	-	1,753	-	(6,571)
Tax losses carried forward	12,503	-	(451)	-	12,052
Tax gains that are not accounting gains	(1,854)	-	19	-	(1,835)
Revaluation of tangible fixed assets	(4,110)	-	165	-	(3,945)
Valuation of associated companies					
in accordance with the equity method	(402)	-	7	-	(395)
Pension Fund - London Branch	193	-	(97)	-	96
Long term incentives	3,098	-	64	1	3,163
Securitization operations:					
. Premium/discount on debt issued	(439)	-	136	-	(303)
. Recognition of accrual of interest from notes with greater subordination	(8,622)	-	128	-	(8,494)
. Results on securities purchases	(17,130)	-	(22,901)	-	(40,031)
Investments in subsidiaries, associates and joint ventures	5,809	-	(348)	-	5,461
Hedging derivatives - Cash flow	(16,978)	(7,170)	-	-	(24,148)
Financial assets available for sale:					
. Deferred tax assets	281,054	(35,998)	-	-	245,056
. Deferred tax liabilities	(9,113)	(3,881)	-	-	(12,994)
	<u>647,845</u>	<u>(55,011)</u>	<u>9,212</u>	<u>1</u>	<u>602,047</u>
Deferred tax assets	714,817				700,763
Deferred tax liabilities	(66,972)				(98,716)
	<u>647,845</u>				<u>602,047</u>

	Balances on 12/31/2010	Totta IFIC Merger	Shareholders' equity	Income Statement	Other	Balances on 6/30/2011
Retirement pensions	44,427	-	-	(1,666)	-	42,761
Change in accounting policy on pensions (Note 1.5.)	97,247	-	14,198	-	-	111,445
Tangible assets	153	-	-	(35)	-	118
Intangible assets	562	-	-	(187)	(1)	374
Deferred commission	5,855	-	-	(2,672)	(1)	3,182
Long service bonus	7,894	-	-	327	-	8,221
Early retirements	19,841	-	-	488	-	20,329
Provisions temporarily not tax deductible	143,243	7,235	388	2,513	(646)	152,733
Revaluation of tangible fixed assets	(4,339)	-	-	117	-	(4,222)
Valuation of associated companies in accordance						
with the equity method	(401)	-	-	(2)	-	(403)
Pension Fund - London Branch	386	-	-	(96)	-	290
Long term incentives	2,316	-	-	406	-	2,722
Investments in subsidiaries, associates and joint ventures	5,809	-	-	-	-	5,809
Hedging derivatives:						
. Cash flow	(1,874)	-	3,619	-	-	1,745
Financial assets available for sale:						
. Deferred tax liabilities	(1,580)	-	(9,857)	-	1	(11,436)
. Deferred tax assets	149,957	-	82,608	-	646	233,211
Securitization operations:						
. Premium/discount on debt issued	(495)	-	-	28	-	(467)
. Results of intragroup securities purchases	(32,298)	-	-	13,086	-	(19,212)
. Recognition of accrual of interest from notes						
with greater subordination	(6,897)	(717)	-	1,086	-	(6,528)
	<u>429,806</u>	<u>6,518</u>	<u>90,956</u>	<u>13,393</u>	<u>(1)</u>	<u>540,672</u>
Deferred tax assets	477,690					582,940
Deferred tax liabilities	(47,884)					(42,268)
	<u>429,806</u>					<u>540,672</u>

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Tax Authorities may review the Bank's tax situation during a period of four years, except when tax losses carried forward have been used, in which case the right to corrections expires in six years. This may result in possible additional tax assessments for the years subject to review, due to different interpretations of fiscal legislation.

The Bank was subject to tax inspections for the years up to 2009 inclusive, excluding the year 2006, and is, on the date that this report is issued, undergoing a tax inspection fiscal for 2010.

As a result of these inspections, the Bank received additional tax assessments, mainly related to corporate income tax. The corrections made relate to several matters, including, amongst others, early retirement costs, provisions in excess of the minimum limits set out in the Bank of Portugal's Notice 3/95, questions regarding exemption of income of the offshore financial branch in the Autonomous Region of Madeira, taxes of other branches, increases in shareholders' equity, and the sale value of properties, amongst others. Some of these corrections are only temporary, namely those relating to early retirement costs and provisions in excess of the minimum limits required by the supervisory authority.

The Bank paid the additional tax assessments in full or in part or, when applicable, gave a bank guarantee. However, the Bank has challenged against the majority of the additional tax assessments.

The Bank records in the liability caption "Provisions", the amount considered to be necessary to cover the risks of the additional tax assessments received which were not paid out and contingencies relating to prior years not yet reviewed by the Tax Administration (Note 22).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

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17. OTHER ASSETS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Income receivable:		
· from commission on the management of securities investment funds	2,238	2,113
· from other services rendered	23,444	23,816
· from other interest and similar income	14,916	18,523
· from deposit and custodial services	881	808
· other	1,604	7,066
Expenses with deferred costs	23,686	5,760
Other receivables	24,906	25,081
Promises and other assets received as settlement of defaulting loans	101,569	89,888
Gold, other precious metals and coin collections	2,421	2,459
Loan interest subsidy receivable from the Portuguese State	9,675	8,345
Debtors resulting from operations with futures	3,894	2,580
Other funds	339	353
Liability with pensions and other benefits (Note 43)	6,674	3,297
Shareholders' loans:		
· Propaço – Sociedade Imobiliária de Paço de Arcos, Lda, (Propaço)	2,443	2,443
· Fafer – Empreendimentos Urbanísticos Construção, S.A. (Fafer)	364	364
· Gestinsua – Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Other equity investments:		
· Nortrem – Aluguer de Material Ferroviário, A.C.E. (Nortrem)	3,342	2,281
· Trem II – Aluguer de Material Circulante (Trem II)	563	682
· Trem I – Aluguer de Material Circulante, A.C.E. (Trem I)	179	220
Other	2,057	1,904
	-----	-----
	225,315	198,109
	-----	-----
Impairment (Note 22):		
· Shareholders' loans	( 2,042 )	( 2,042 )
· Payments in Kind	( 21,707 )	( 18,456 )
· Other	( 1,079 )	( 1,155 )
	-----	-----
	( 24,828 )	( 21,653 )
	-----	-----
	200,487	176,456
	=====	=====

As at 30 June 2012 and 31 December 2011 the caption "Income receivable – from other services rendered" essentially includes commission receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. for the sale of its products.

As at 30 June 2012 and 31 December 2011 the caption "Income receivable – other interest and similar income" refers to the amount receivable from "Swap Agreements" established between the Bank and the Santander Group and between the Santander Group and the securitization companies. The amount payable relating to these operations is entered in the caption "Other liabilities – other interest and charges payable" (Note 24).

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(Amounts in thousands of Euros - tEuros, except when expressly indicated)

The caption "Debtors resulting from operations with futures" refers to the current accounts maintained by the Bank in international financial institutions relating to the trading of futures. Futures margin accounts are recorded under the caption "Other liabilities - Creditors resulting from operations with futures" (Note 24).

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Resources of the European Central Bank		
Sales with repurchase agreement	6,821,811	4,913,227
Term deposits	29,786	-
Resources of other Central Banks		
Demand deposits	17	7
Interest payable	1	-
	<u>6,851,615</u>	<u>4,913,234</u>
	=====	=====

As at 30 June 2012 and 31 December 2011, the caption of "Resources of the European Central Bank" corresponds funding operations from the Euro System using BST a part of its eligible assets portfolio. On these dates, the total amount of eligible assets portfolio backing funding obtained from the European Central Bank was as follows:

30-06-2012					
Type of asset	Principal	Total interest	Deferred costs	Total	Maturity
Treasury Bills and other assets	1,800,000	350	(150)	1,800,200	July 2012
Bonds issued in securitization operations	2,400,000	27,000	(14,200)	2,412,800	January 2013
Bonds issued in securitization operations	2,600,000	78,867	(70,056)	2,608,811	February 2015
	<u>6,800,000</u>	<u>106,217</u>	<u>(84,406)</u>	<u>6,821,811</u>	

31-12-2011					
Type of asset	Principal	Total interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations	2,500,000	17,830	(5,270)	2,512,560	March 2012
Bonds issued in securitization operations	2,400,000	27,000	(26,333)	2,400,667	January 2013
	<u>4,900,000</u>	<u>44,830</u>	<u>(31,603)</u>	<u>4,913,227</u>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

19. RESOURCES OF OTHER FINANCIAL INSTITUTIONS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Resources of domestic financial institutions		
Sale operations with repurchase agreements	280,691	368,649
Deposits	59,444	191,740
Other resources	-	2,762
Interest payable	82	999
	<u>340,217</u>	<u>564,150</u>
Resources of foreign financial institutions		
Sale operations with repurchase agreements	1,439,400	1,880,953
Deposits	733,555	777,401
Consigned resources	100,000	339,000
Very short term resources	16,690	41,168
Other resources	2,411	8,402
Interest payable	201	458
	<u>2,292,257</u>	<u>3,047,382</u>
	<u>2,632,474</u>	<u>3,611,532</u>
	<u>=====</u>	<u>=====</u>

As at 30 June 2012 and 31 December 2011, the caption "Consigned resources" refers to loans obtained from the European Investment Bank (EIB), to be used exclusively to finance small and medium size projects previously submitted to the EIB for approval.

As at 30 June 2012 and 31 December 2011, the breakdown of consigned resources by residual maturity period is as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Repayment between one and three years	100,000	-
Repayment between three and five years	-	250,000
Repayment between five and ten years	-	29,000
Repayment in over ten years	-	60,000
	<u>100,000</u>	<u>339,000</u>

As at 30 June 2012, the caption of "Resources of domestic credit institutions – Sale operations with repurchase agreements", has bonds issued under securitization operations of the Bank as underlying assets in its portfolio.

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As at 30 June 2012 and 31 December 2011, the caption of “Resources of foreign financial institutions – Sale operations with repurchase agreements” has a residual term up to 3 months and the following composition by type of underlying asset:

Assets	30-06-2012			
	Principal	Interest	Deferred costs	Total
Treasury bonds - Spain	1,438,878	1,017	(495)	1,439,400

Assets	31-12-2011			
	Principal	Interest	Deferred costs	Total
Treasury bonds - Portugal	88,026	76	(39)	88,063
Treasury bonds - Spain	1,470,289	8,857	(3,220)	1,475,926
Bonds issued by the BST Group	316,217	858	(111)	316,964
	1,874,532	9,791	(3,370)	1,880,953

20. RESOURCES OF CUSTOMERS AND OTHER LOANS

This caption is made up as follows:

	30-06-2012	31-12-2011
Term deposits	13,645,869	12,758,347
Demand deposits	4,729,386	5,034,181
Structured deposits	1,495,026	1,668,085
Savings deposits	74,243	116,103
Advance notice deposits	24,997	25,609
Cheques and orders payable	93,371	99,636
Interest payable	143,232	141,682
Value adjustments of hedging operations	( 3,078 )	461
	-----	-----
	20,203,046	19,844,104
	=====	=====



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(RESTATED)

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21. DEBT SECURITIES ISSUED

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Bonds in circulation		
Covered bonds		
Issued	5,630,000	5,630,000
Repurchased	( 3,580,750 )	( 3,580,750 )
Interest from covered bonds	22,934	21,666
Bonds issued within securitization operations		
Issued	2,713,697	2,942,534
Repurchased	( 995,547 )	( 717,679 )
Interest payable	1,124	2,882
Cash bonds		
Issued	731,357	740,376
Repurchased	( 40,860 )	( 10,691 )
Interest payable	7,819	4,348
	<u>4,489,774</u>	<u>5,032,685</u>
Other		
EMTN Programme		
Issued	1,226,550	2,289,570
Repurchased	( 45,710 )	( 22,920 )
Interest payable	10,460	31,661
	<u>1,191,300</u>	<u>2,298,311</u>
Value adjustments of hedging operations	<u>82,373</u>	<u>62,868</u>
	<u>5,763,447</u>	<u>7,393,865</u>
	=====	=====

The conditions of the covered bonds and cash bonds are described in Annex I.

In the first semester of 2012 and 2011, the Group repurchased bonds issued within securitization operations, recording capital gains of tEuros 80,400 and tEuros 2,114, respectively (Note 37).

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Between May 2008 and November 2011, BST made seven issues of Covered Bonds under the "€ 12,500,000,000 Covered Bonds Programme". As at 30 June 2012 and 31 December 2011, the covered bonds had an autonomous pool of assets comprised by:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Loans and advances to banks	262,418	355,804
Interest on applications	192	647
	<u>262,610</u>	<u>356,451</u>
Loans and advances to customers (Note 11)	7,305,448	7,567,003
Interest on loans	11,674	15,150
Commission	( 32,488 )	( 37,605 )
Expenses with deferred charges	18,131	18,364
	<u>7,302,765</u>	<u>7,562,912</u>
Hedging derivatives	43,999	47,423
	<u>7,609,374</u>	<u>7,966,786</u>
	<u>=====</u>	<u>=====</u>

Changes in debt issued by the Bank during 2011 and in the first semester of 2012 were the following:

	<u>Bonds in circulation</u>		<u>EMTN Programme</u>	
	<u>Issued</u>	<u>Repurchased</u>	<u>Issued</u>	<u>Repurchased</u>
<b>Balances on 31 December 2010</b>	<b>7,203,795</b>	<b>(1,016,403)</b>	<b>2,470,420</b>	<b>-</b>
. Issues made	4,543,598	-	740,010	-
. Issues repaid	(2,434,483)	104,655	(920,860)	-
. Issues repurchased	-	(3,397,372)	-	(22,920)
<b>Balances on 31 December 2011</b>	<b>9,312,910</b>	<b>(4,309,120)</b>	<b>2,289,570</b>	<b>(22,920)</b>
. Issues made	-	-	900	-
. Issues repaid	(237,856)	35,257	(1,063,920)	7,270
. Issues repurchased	-	(343,294)	-	(30,060)
<b>Balances on 30 June 2012</b>	<b>9,075,054</b>	<b>(4,617,157)</b>	<b>1,226,550</b>	<b>(45,710)</b>

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As at 30 June 2012, the Bank had the following bonds issued under the Euro Medium Term Notes Programme:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Bonds with remuneration indexed to a basket of shares		
. Maturing up to one year	-	6,250
. Maturing between one and three years	110,340	112,910
. Maturing between three and five years	900	-
Bonds with remuneration indexed to the Euribor		
. Maturing between three and five years	32,300	32,300
Fixed rate bonds		
. Maturing up to one year	341,650	1,343,750
. Maturing between one and three years	325,325	327,200
. Maturing between three and five years	146,575	183,300
. Maturing over five years	269,460	283,860
	<u>1,226,550</u>	<u>2,289,570</u>
	=====	=====

22. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during the semesters ended on 30 June 2012 and 2011 is as follows:

	<u>31-12-2011</u>	<u>Increases</u>	<u>Reversals</u>	<u>Utilizations</u>	<u>30-06-2012</u>
Provisions for tax contingencies (Note 16)	16,683	263	-	-	16,946
Provision for pensions and other charges	29,957	441	-	(5,587)	24,811
Impairment and provisions for guarantees and other sureties given	8,254	10,036	(6,160)	-	12,130
Other provisions	20,588	3,808	(4,281)	(2,073)	18,042
	<u>75,482</u>	<u>14,548</u>	<u>(10,441)</u>	<u>(7,660)</u>	<u>71,929</u>

	<u>31-12-2010</u>	<u>Entry and/or exit from the consolidation perimeter</u>	<u>Increases</u>	<u>Reversals</u>	<u>Utilizations</u>	<u>Other</u>	<u>30-06-2011</u>
Provisions for tax contingencies	32,982	-	1,169	-	(2,468)	(2,000)	29,683
Provision for pensions and other charges	9,565	-	447	-	-	-	10,012
Impairment and provisions for guarantees and other sureties given	32,993	-	2,226	(3,837)	(446)	-	30,936
Other provisions	28,653	3,380	3,264	(3,512)	(1,870)	-	29,915
	<u>75,482</u>	<u>3,380</u>	<u>7,106</u>	<u>(7,349)</u>	<u>(4,784)</u>	<u>(2,000)</u>	<u>100,546</u>

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	31-12-2011	Impairment losses	Reversal of impairment losses	Utilizations	30-06-2012	Impairment recovery
Impairment of loans and advances to customers (Note 11):						
Domestic loans	219,830	115,065	(23,098)	-	311,797	-
Foreign loans	869	435	-	-	1,304	-
Non-derecognized securitized loans	67,955	304	(35,987)	-	32,272	-
Other securitized loans and receivables	3,094	971	-	-	4,065	-
Impairment of overdue loans and interest (Note 11):						
Domestic loans	325,816	168,118	(17,938)	(52,815)	423,181	(5,183)
Foreign loans	10,095	4,881	(713)	(210)	14,053	(45)
Non-derecognized securitized loans	44,203	16,028	(8,194)	(1,046)	50,991	-
Other securitized loans and receivables	51	237	-	-	288	-
	<u>671,913</u>	<u>306,039</u>	<u>(85,930)</u>	<u>(54,071)</u>	<u>837,951</u>	<u>(5,228)</u>
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 9)	64,670	160	(140)	(2,655)	62,035	-
Impairment of investments in associates (Note 15)	500	-	-	-	500	-
	<u>65,170</u>	<u>160</u>	<u>(140)</u>	<u>(2,655)</u>	<u>62,535</u>	<u>-</u>
Impairment of non-financial assets:						
Non-current assets held for sale (Note 13)	67,181	22,797	(874)	(6,056)	83,048	-
Tangible assets (Note 14)	2,529	1,371	(22)	-	3,878	-
Other assets (Note 17)	21,653	5,148	(1,973)	-	24,828	-
	<u>91,363</u>	<u>29,316</u>	<u>(2,869)</u>	<u>(6,056)</u>	<u>111,754</u>	<u>-</u>
	<u>828,446</u>	<u>335,515</u>	<u>(88,939)</u>	<u>(62,782)</u>	<u>1,012,240</u>	<u>(5,228)</u>

	31-12-2010	Entry and/or exit of entities to/from the consolidation perimeter	Impairment losses	Reversal of impairment losses	Utilizations	30-06-2011	Impairment recovery
Impairment of loans and advances to customers:							
Domestic loans	162,074	19,252	40,841	(52,845)	(4,173)	165,149	-
Foreign loans	1,860	-	1	(1,231)	-	630	-
Non-derecognized securitized loans	53,894	8,322	38,224	(24,248)	-	76,192	-
Other securitized loans and receivables	7,680	-	-	(230)	-	7,450	-
Impairment of overdue loans and interest:							
Domestic loans	215,928	6,592	101,872	(1,967)	(20,388)	302,037	10,806
Foreign loans	5,277	-	2,017	(689)	(239)	6,366	174
Non-derecognized securitized loans	49,665	5,124	5,741	(22,478)	(981)	37,071	-
Other securitized loans and receivables	779	-	-	(779)	-	-	-
	<u>497,157</u>	<u>39,290</u>	<u>188,696</u>	<u>(104,467)</u>	<u>(25,781)</u>	<u>594,895</u>	<u>10,980</u>
Impairment of other financial assets:							
Impairment of available-for-sale financial assets	59,148	-	3,345	(40)	(3,693)	58,760	-
Impairment of investments in associates	500	-	-	-	-	500	-
	<u>59,648</u>	<u>-</u>	<u>3,345</u>	<u>(40)</u>	<u>(3,693)</u>	<u>59,260</u>	<u>-</u>
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	45,678	6,094	18,435	(3,735)	(6,757)	59,715	-
Tangible assets (Note 14)	3,183	-	-	-	(654)	2,529	-
Other assets	11,227	-	5,954	(1,791)	-	15,390	-
	<u>60,088</u>	<u>6,094</u>	<u>24,389</u>	<u>(5,526)</u>	<u>(7,411)</u>	<u>77,634</u>	<u>-</u>
	<u>616,893</u>	<u>45,384</u>	<u>216,430</u>	<u>(110,033)</u>	<u>(36,885)</u>	<u>731,789</u>	<u>10,980</u>

As at 30 June 2012 and 31 December 2011, the provision for pensions and other charges refers essentially to a provision for a restructuring plan amounting to tEuros 14,684 and tEuros 20,271, respectively, and for a supplementary pension plan of the Board of Directors (Note 45).

As at 30 June 2012 and 31 December 2011 the caption "Other provisions" includes:

- Provisions for lawsuits by customers and Bank employees, for the amounts of tEuros 3,713 and tEuros 6,438, respectively. The legal area of the Bank estimates the expected loss for each process, based on its evolution as reported by the lawyer responsible for the respective process;
- Provisions for contingencies relating to operational risk (fraud, pending confirmation operations, open items and fines) for the amounts tEuros 12,146 and of tEuros 13,023, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

23. SUBORDINATED LIABILITIES

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-----	-----
	288,540	288,540
Repurchased securities	( 284,265 )	( 284,265 )
Interest payable	46	53
	-----	-----
	4,321	4,328
	=====	=====

The conditions of the subordinated liabilities are presented in Annex II.

24. OTHER LIABILITIES

This caption is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Suppliers	3,080	1,914
Invoices received and pending approval	31,270	36,650
Withholding tax	21,093	17,344
Social Security contributions	3,898	3,886
Contributions to other health systems	1,520	1,534
VAT payable	8,006	8,455
Staff charges:		
· Long service bonus	26,081	25,762
· Holidays and holiday subsidy	24,006	30,846
· Other variable remuneration	30,582	26,336
· Other staff costs	9,315	859
Captive account resources	28,486	28,026
Other resources	1,551	1,365
Creditors' balances pending settlement	10,890	9,147
Creditors from factoring contracts	62,677	38,249
Amounts to be settled with banks and customers	18,237	10,970
Creditors from futures operations (Note 17)	3,894	2,580
Other interest and charges payable (Note 17)	14,675	18,283
Liability operations to be settled	4,663	4,548
Other	12,366	22,835
	-----	-----
	316,290	289,589
	=====	=====

As at 30 June 2012 and 31 December 2011, the caption "Amounts to be settled with banks and customers" corresponds essentially to inter-bank electronic transfers that were cleared in the first days of the following year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

25. SHAREHOLDER'S EQUITY

As indicated in the Introduction and in Note 1.4., the merger by incorporation of Totta IFIC was recorded on 1 April 2011, with its assets and liabilities being integrated into BST. The terms of the exchange were determined based on an independent valuation of each of the entities as at May 31, 2010, which resulted in the following amounts:

	<u>Totta IFIC</u>	<u>BST</u>
Subscribed share capital (excluding treasury shares)	34,562,675	620,052,218
Nominal value per share (in Euros)	<u>5</u>	<u>1</u>
Number of shares	34,562,680	620,052,219
Independent valuation of the shareholders' equity (in Euros)	318,666,145	4,488,702,452
Value per share (in Euros)	<u>46.10</u>	<u>7.24</u>
Terms of exchange		<u>6.3680</u>
Shares of Totta IFIC held by Santander Totta SGPS		5,750,322
Share capital increase of BST (in Euros)		36,618,301
Value assigned to the shares of Totta IFIC held by Santander Totta SGPS (in Euros)		<u>66,304,974</u>
Share premium increase (in Euros)		<u>29,686,673</u>

Therefore on March 18, 2011, BST's share capital was increased by 36,618,301 Euros, equivalent to 36,618,301 shares of 1 Euro each, which was performed Santander Totta, SGPS, S.A. through the transfer of 5,750,322 shares representing the share capital of Totta IFIC held by that entity, for which the total value of 66,304,974 Euros was assigned. This corresponds to a share premium of Euros 0.8107059066 per share.

The difference between the share capital increase and the shareholders' equity of Totta IFIC on the date of the merger was recorded in the merger reserve, which was determined as explained in Note 1.4..

Consequently, as at 30 June 2012 and 31 December 2011 the Bank's share capital was represented by 656,723,284 shares with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	<u>Number of shares</u>	<u>% of participation</u>	<u>Amount</u>
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A.	14,593,315	2.22	14,593
Other	761,419	0.11	761
Treasury shares	98,930	0.02	99
	<u>656,723,284</u>	<u>100.00</u>	<u>656,723</u>
	=====	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

On 27 May 2011 the General Meeting of Shareholders approved the distribution of dividends for the amount of tEuros 175,000.

Within the terms of Dispatch no. 408/99, of 4 June, published in the Diário da República – I Série B, no. 129, the share premium, amounting to tEuros 193,390, cannot be used to pay out dividends or to purchase treasury shares.

The other equity instruments refer to supplementary capital contributions made by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined redemption term. These instruments can only be redeemed by decision of the Bank's Board of Directors with the prior approval of the Bank of Portugal.

As at 30 June 2012 and 31 December 2011, the revaluation reserves were made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Revaluation reserves -		
Reserves resulting from the fair value valuation:		
Financial assets available for sale (Note 9)	( 802,301 )	( 939,954 )
Financial assets available for sale of companies under the equity method	1,494	1,100
Cash flow hedging instruments	83,270	58,546
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
Actuarial differences of liabilities with pensions (Note 1.5.)	( 560,029 )	( 554,267 )
Actuarial differences over pension liabilities of companies under the equity method	( 1,376 )	( 1,376 )
Foreign exchange differences in consolidation	( 938 )	( 6,116 )
	<u>( 1,256,635 )</u>	<u>( 1,418,822 )</u>
Deferred tax reserves		
Due to temporary differences:		
Relating to available-for-sale financial assets	232,708	272,587
companies under the equity method	( 324 )	( 210 )
Relating to hedging instruments	( 24,148 )	( 16,978 )
Due to the revaluation of tangible fixed assets	( 4,314 )	( 4,543 )
Due to the revaluation of tangible fixed assets of companies under the equity method	( 132 )	( 132 )
Due to actuarial differences (Note 1.5.)	151,276	159,238
Due to actuarial differences of companies under the equity method	399	399
	<u>355,465</u>	<u>410,361</u>
	<u>( 901,170 )</u>	<u>( 1,008,461 )</u>
	=====	=====

Revaluation reserves

During 1998, under Decree Law no. 31/98, of 11 February, the Bank revalued its tangible fixed assets, which resulted in an increase in the respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was entered in revaluation reserves. The net amount resulting from the revaluation may only be used for capital increases or the hedging of losses, through the use (amortization) or sale of the assets it relates to.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

As at 30 June 2012 and 31 December 2011, the caption of "Other reserves and retained earnings" was made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Legal reserve	245,862	243,633
	-----	-----
Other reserves		
Reserves of consolidated companies	190,872	194,447
Reserves of companies valued under the equity method	74,749	70,463
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BSN	35,405	35,405
Other	1,748	2,296
	-----	-----
	934,628	934,465
	-----	-----
Retained earnings	248,665	226,484
	-----	-----
	1,429,155	1,404,582
	=====	=====

Legal reserve

In conformity with the provisions of Decree Law no. 298/92, of 31 December, amended by Decree Law no. 201/2002, of 26 of September, the Bank set up a reserve fund up to the amount of the share capital or of the sum of the free reserves and retained earnings, if greater. For this purpose, a fraction of the annual net income on a stand-alone basis is transferred to this reserve each year until the said amount is reached.

This reserve may only be used for the hedging of accumulated losses or to increase the share capital.

Merger reserve

Under current legislation, the merger reserve is equivalent to the legal reserve and may only be used to hedge accumulated losses or to increase the share capital.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

26. CONSOLIDATED NET INCOME FOR THE PERIOD

Consolidated net income for the semesters ended 30 June 2012 and 2011 may be summarised as follows:

	30-06-2012		30-06-2011 (Restated)	
	Net income for the period	Contribution to the consolidated net income	Net income for the period	Contribution to the consolidated net income
Net income of BST on an individual basis	2,791	2,791	19,224	19,224
Net income of the remaining Group companies:				
Serfin International Bank & Trust (SBT)	212	212	80	80
Santotta - Internacional, SGPS	104	104	(53)	(53)
Totta Ireland, Plc.	43,137	43,137	55,255	55,255
Banco Caixa Geral Totta de Angola	19,261	4,813	14,168	3,541
Totta Urbe	862	862	1,043	1,043
Totta & Açores, Inc. - New ark	(31)	(31)	56	56
Totta & Açores, Financing, Ltd (TAF)	6,180	6,180	6,180	6,180
BST International Bank, Inc	8,206	8,206	8,145	8,145
Partang, SGPS	9,936	4,869	2	1
Santander Pensões	430	430	625	625
Santander Gestão de Activos	1,771	1,771	14,522	14,522
Santander Asset Management, SGFIM, S.A.	625	625	1,506	1,506
Taxagest	(66)	(65)	(625)	(618)
Unicre	3,549	763	4,945	1,063
	94,176	71,876	105,849	91,346
Elimination of dividends:				
Totta Ireland, Plc.		(46,800)		(33,000)
Santander Gestão de Activos		(9,430)		(13,000)
Unicre		(1,036)		(1,574)
Santander Pensões		(1,000)		-
		(58,266)		(47,574)
Adjustments related with the merger of Totta IFIC in BST		-		6,206
Temporal alignment of the results of Totta Ireland		(6,700)		(4,639)
Application of IAS/IFRS - Retirement pensions		(301)		5,638
Adjustments related with securitization operations		48,534		(9,129)
Elimination of the valuation by Partang of the participation in Banco Caixa Geral Totta de Angola		(4,869)		-
Other		(917)		678
Consolidated net income for the period		52,148		61,750

27. MINORITY INTERESTS

Third party participation in the Group's companies in 2011 and 2010, was as follows by entity:

	Balance sheet		Income statement	
	30-06-2012	31-12-2011	30-06-2012	30-06-2011 (Restated)
Preference shares of BST				
International Bank, Inc	285,941	278,229	-	-
Preference shares of TAF	300,000	300,000	-	-
Special dividends	( 1,483 )	( 1,459 )	-	-
Taxagest	549	550	-	7
Other	203	200	3	( 1 )
	-----	-----	---	----
	585,210	577,520	3	6
	=====	=====	==	==

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

As at 30 June 2006, the BST International Bank, Inc (BST Porto Rico) issued 3,600 non-voting preference shares of 100,000 United States Dollars (USD) each, fully subscribed and paid up by Banco Santander, S.A.. The Bank guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56% payable if and when declared by BST Puerto Rico's directors, at the beginning of January of each year. BST Puerto Rico may redeem the preference shares, in full or in part as from June 30, 2016 at 100,000 USD per share plus the amount of the dividend accrued monthly since the last payment made.

On 29 of June 2005, TAF issued 300,000 non-voting preference shares of 1,000 Euros each, fully subscribed and paid up by Banco Santander, S.A.. The Bank guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 4.12% payable if and when declared by TAF's directors, at the beginning of January of each year. TAF may redeem the preference shares, in full or in part, as from June 30, 2015 at 1,000 Euros per share plus the amount of the dividend accrued monthly since the last payment made.

These issues were classified as equity in accordance with IAS 32. Under this Standard, the preference shares issued are classified as equity if:

- The Issuer or the Bank does not have a contractual liability to deliver cash or other financial asset to the shareholders; and
- Payment of dividends and repayment of the preference shares are at the discretion of the issuer.

28. OFF-BALANCE SHEET ITEMS

Off-balance sheet items were made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,367,169	1,488,455
Open documentary credits	173,465	570,363
Assets pledged as guarantee		
Bank of Portugal	123,114	121,723
Deposit Guarantee Fund	82,202	70,345
Investor Indemnity System	4,636	4,079
Other contingent liabilities	5	6
	-----	-----
	1,750,591	2,254,971
	=====	=====
Commitments		
Credit lines		
Revocable	4,558,117	4,792,257
Irrevocable	1,399,910	1,217,742
Term deposit contracts	57,179	85,933
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	2,911	3,119
Other irrevocable commitments	11,024	16,141
Other revocable commitments	26,807	27,751
	-----	-----
	6,110,040	6,197,035
	=====	=====
Liabilities for services rendered		
Deposit and custodial services	50,664,036	55,382,093
Amounts received for collection	169,236	130,762
Assets managed by the institution		
Other	7,432,258	7,264,208
	-----	-----
	58,265,530	62,777,063
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

Deposit Guarantee Fund

The Deposit Guarantee Fund was created in November 1994 in accordance with Decree Law no. 298/92, dated December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, which was established by Ministerial Order of the Ministry of Finance, was made in cash and deposit securities, and was amortised over 60 months as from January 1995. Except as mentioned in the following paragraph, regular annual contributions to the Fund are recorded as an expense of the year to which it relates.

In 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amount of tEuros 3,918. In this period, the Bank accepted an irrevocable commitment to the Deposit Guarantee Fund to pay the remaining 10% of the annual contribution if and when required to do so. The total unpaid amount of this commitment as at 30 June 2012 and 31 December 2011 amounted to tEuros 54,092. The assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet accounts at market value.

In 2012 the Bank made the payment of 100% of the annual contribution in the amount of tEuros 4,906.

Investor Indemnity System (SII)

The responsibility to pay the Investor Indemnity System is not recorded as a cost, but is covered by the acceptance of an irrevocable commitment to pay that amount, if required to do so, with part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. As at 30 June 2012 this commitment amounted to tEuros 2,911 (tEuros 3,119 on 31 December 2011).

In accordance with a regulation of the CMVM, an extraordinary payment of tEuros 4,082 was made by the Bank to the SII in 2011, regarding the Banco Privado Português.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

29. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	1,051	2,045
In credit institutions	116	179
Interest on loans and advances		
In domestic credit institutions		
In the Bank of Portugal	948	142
In other credit institutions	5,261	13,978
In foreign credit institutions	21,988	29,928
Interest on loans and advances to customers		
Domestic loans	364,964	331,723
Foreign loans	10,211	11,486
Other loans and receivables (commercial paper)	16,085	20,387
Associated commission received at amortised cost	20,703	20,748
Interest from securitised assets not derecognised	118,475	107,951
Interest on overdue credit (Note 47)	4,601	4,424
Interest and similar income on other financial assets		
Financial assets available for sale		
Securities	103,991	85,731
Other financial assets at fair value through profit or loss	2,092	2,087
Hedging derivatives	167,859	170,695
Debtors and other applications	14	7
Other interest and similar income		
Swap agreements	65,400	64,100
Other	676	1,001
	<u>904,435</u>	<u>866,612</u>
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

30. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Interest on customers' deposits		
Public sector	10,330	9,058
Emigrants	10,072	7,160
Other residents	207,308	135,294
Non-residents	12,059	8,144
	<u>239,769</u>	<u>159,656</u>
Interest on other customers' resources	532	1,625
Interest on resources of Central Banks		
Bank of Portugal	29,976	21,323
Other Central Banks	-	13
Interest on resources of credit institutions		
Domestic	7,157	10,934
Foreign	20,047	58,156
Interest on debt securities issued		
Non-subordinated		
Bonds	52,044	50,760
Other	43,521	47,131
Interest on hedging derivatives	161,129	160,311
Interest and commission on subordinated liabilities	108	205
Other interest and similar charges		
Swap agreements	67,837	63,784
Other	149	93
	<u>382,500</u>	<u>414,335</u>
	<u>622,269</u>	<u>573,991</u>
	=====	=====

31. INCOME FROM EQUITY INSTRUMENTS

This caption refers to dividends and income received and is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços	1,075	1,072
Other	570	167
	<u>1,645</u>	<u>1,239</u>
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

32. INCOME FROM SERVICES AND COMMISSION

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
On guarantees given		
Guarantees and sureties	8,022	7,495
Open documentary credits	1,509	2,347
On commitments to third parties		
Irrevocable	788	943
Revocable	2,818	1,158
For services rendered		
Funds for collection and management	6,944	7,527
Fund management	13,334	16,896
Card transactions	34,341	32,303
Annuities	7,087	7,032
Credit operations	26,823	29,211
Other	5,407	5,520
On operations carried out on behalf of third parties		
On securities	24,147	17,034
Other	250	180
Other commission received		
Insurance companies (Note 42)	51,769	50,848
Specialised credit	571	721
Demand deposits	9,415	7,323
Cheques and Booklets	7,667	7,873
Other	2,257	15,863
	-----	-----
	203,149	210,274
	=====	=====

33. CHARGES WITH SERVICES AND COMMISSION

This caption is made up as follows:

	<u>30-06-2011</u>	<u>30-06-2011</u> (Restated)
On guarantees received		
Guarantees and sureties	620	730
On banking services rendered by third parties		
Funds for collection and management	2,009	2,845
Credit operations	5,739	6,619
Customer transactions	11,123	11,374
Other	1,575	1,498
On operations carried out by third parties		
Securities	1,236	1,293
Other	574	856
Other commission paid	175	307
	-----	-----
	23,051	25,522
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

34. RESULT OF ASSETS AND LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS

These captions were made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Financial assets held for trading:		
Equity instruments	6,181	26
Debt instruments	11,104	(13,578 )
Derivative instruments:		
FRA's	260	-
Swaps		
. Foreign exchange rate contracts	( 324 )	(173 )
. Interest rate contracts	3,244	19,982
. Equity contracts	1,946	188
. Other	( 25,759 )	(488 )
Options:		
. Foreign exchange rate contracts	19	225
. Interest rate contracts	45	64
. Equity contracts	41	( 82 )
. Other	-	(1 )
Interest rate guarantee contracts	( 150 )	87
	-----	-----
	( 3,393 )	6,250
	-----	-----
Hedging derivatives:		
Swaps		
. Interest rate contracts	( 42,163 )	(18,278 )
. Equity contracts	634	(52,946 )
Options:		
. Auto-callable	489	( 769 )
Value adjustments of hedged assets and liabilities	40,889	71,272
	-----	-----
	( 151 )	( 721 )
	-----	-----
	( 3,544 )	5,529
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

35. RESULT OF AVAILABLE-FOR-SALE ASSETS

This caption is made up as follows:

	30-06-2012			(Restated) 30-06-2011		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	-	(1)	(1)	-	(57,474)	(57,474)
Issued by non-residents						
Foreign public issuers	-	-	-	-	(25,858)	(25,858)
Equity instruments						
Valued at fair value	50	-	50	78	(51)	27
Other	9	(3,873)	(3,864)	6,321	(27)	6,294
	<u>59</u>	<u>(3,874)</u>	<u>(3,815)</u>	<u>6,399</u>	<u>(83,410)</u>	<u>(77,011)</u>

In 2011 this caption refers essentially to realised capital losses on the sale of Portuguese and Spanish treasury bonds amounting to tEuros 83,331.

36. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Gains on the revaluation of the foreign exchange position	26,830	8,555
Losses on the revaluation of the foreign exchange position	( 24,220 )	( 6,761 )
	<u>2,610</u>	<u>1,794</u>
	<u>=====</u>	<u>=====</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

37. RESULTS FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Gains on the sale of loans and advances to customers (Note 11)	3,925	-
Gains on non-current assets held for sale	1,427	627
Gains on tangible assets	172	368
Gains on the repurchase by the Group of bonds Issued under mortgage securitization loans	80,400	2,114
Other	103	48
	<u>86,027</u>	<u>3,157</u>
Losses on non-current assets held for sale	( 1,281 )	( 905 )
Losses on tangible assets	( 97 )	( 7 )
Losses on the sale of loans and advances to customers (Note 11)	( 100 )	( 2,373 )
Other	( 1,054 )	( 230 )
	<u>( 2,532 )</u>	<u>( 3,515 )</u>
	<u>83,495</u>	<u>( 358 )</u>
	<u>=====</u>	<u>=====</u>

In March 2012, BST made a tender offer for the bonds issued under the mortgage securitization operations held by entities outside of the Santander Group. As a result of this operation the Bank recorded a capital gain of tEuros 80,367.

38. OTHER OPERATING RESULTS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Other operating income		
Operating leases	172	166
Reimbursement of expenses	1,402	2,413
Income from sundry services rendered	2,968	2,339
Other	9,998	9,338
	<u>14,540</u>	<u>14,256</u>
Other operating expenses		
Subscriptions and donations	(783 )	( 1,518 )
Contributions to the Deposit Guarantee Fund	( 2,310 )	( 1,894 )
Other operating expenses	( 13,684 )	( 13,587 )
Other taxation		
Direct	( 592 )	( 2,163 )
Indirect	(481 )	( 531 )
	<u>( 17,850 )</u>	<u>( 19,693 )</u>
	<u>(3,310 )</u>	<u>( 5,437 )</u>
	<u>=====</u>	<u>=====</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

39. STAFF COSTS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Remuneration		
Management and supervisory boards (Note 45)	2,745	3,098
Employees	93,713	95,312
Other variable remuneration	17,986	13,077
	-----	-----
	114,444	111,487
	-----	-----
Mandatory social charges		
Charges on remuneration	25,784	26,979
Charges with pensions and other benefits (Note 43)	( 1,746 )	816
Other mandatory social charges	488	3,878
Early retirement	-	1,270
Gains resulting from the reduction in liabilities with death subsidy (Note 43)	( 9,190 )	-
Adjustment of liabilities transferred to the Social Security	59	-
	-----	-----
	15,395	32,943
	-----	-----
Other staff costs		
Contractual indemnities	-	455
Staff transfers	264	293
Other	2,997	3,241
	-----	-----
	3,261	3,989
	-----	-----
	133,100	148,419
	=====	=====

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

40. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Specialised services	21,013	22,964
Communications	7,193	6,431
Maintenance of software and hardware	15,842	16,129
Maintenance and repairs	1,170	1,484
Advertising and publishing	5,273	7,079
Rent and leases	5,674	4,428
External supplies		
Water, electricity and fuel	4,065	3,756
Current consumable material	1,143	1,564
Other	181	99
Travel, lodging and representation expenses	2,596	3,063
Transportation	1,156	1,230
Staff training	942	1,223
Insurance	324	271
Other	2,158	2,189
	-----	-----
	68,730	71,910
	=====	=====

41. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Partang, SGPS, S.A.	3,964	3,731
Totta Crédito Especializado, IFIC, S.A.	-	1,560
Unicre - Instituição Financeira de Crédito, S.A.	763	1,063
Benim - Sociedade Imobiliária, S.A.	( 124 )	105
	-----	-----
	4,603	6,459
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

42. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered refers mainly to the commissions charged to Santander Totta Seguros - Companhia de Seguros de Vida S.A., and to other insurance companies for the placement of their products (Note 32), and it is as follows:

	<u>30-06-2012</u>			<u>30-06-2011</u> (Restated)		
	<u>Life</u>	<u>Non-Life</u>	<u>Total</u>	<u>Life</u>	<u>Non-Life</u>	<u>Total</u>
	<u>Insurance</u>	<u>Insurance</u>		<u>Insurance</u>	<u>Insurance</u>	
Santander Totta Seguros	46,278	123	46,401	45,705	129	45,834
Other	-	5,368	5,368	-	5,014	5,014
	-----	-----	-----	-----	-----	-----
	46,278	5,491	51,769	45,705	5,143	50,848
	=====	=====	=====	=====	=====	=====

As at 30 June 2012 and 31 December 2011, the caption "Other assets – Income receivable from other services rendered" (Note 17) includes commission receivable from insurance companies, as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Santander Totta Seguros	18,988	19,558
Other	1,411	1,309
	-----	-----
	20,399	20,867
	=====	=====

These amounts refer essentially to the commissions raised on premiums for insurances sold during the second quarter of 2012 and last quarter of 2011, respectively, which were received subsequently to the balance sheet date.

43. EMPLOYEES' POST EMPLOYMENT BENEFITS

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

The liability with retirement pensions, healthcare benefits and death subsidy as at 30 June 2012 and in the four previous years, as well as the respective hedging, are as follows:

	30-06-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Estimated past service liability					
- Pensions					
. Serving employees	214,235	210,669	275,580	255,009	231,114
. Pensioners	27,970	18,455	36,406	34,692	34,895
. Retired and early retired staff	378,926	387,608	855,952	896,251	973,904
	621,131	616,732	1,167,938	1,185,952	1,239,913
- Healthcare benefits (SAMS)	118,167	117,422	127,822	127,877	132,522
- Death subsidy	8,329	16,973	18,184	17,728	17,994
	747,627	751,127	1,313,944	1,331,557	1,390,429
Funding of the liability					
- Valued of the fund assets	754,689	758,244	1,312,888	1,395,849	1,391,585
Amount overfunded/(underfunded)	7,062	7,117	(1,056)	64,292	1,156
Actuarial and financial differences generated in the year					
- Change in assumptions	-	(103,831)	-	(51,086)	(100,674)
- Experience adjustments:					
. Other actuarial (Gains)/Losses	2,581	(23,708)	(29,458)	(21,172)	(4,100)
. Financial (Gains)/Losses	3,087	339,627	103,392	61,639	306,680
	5,668	315,919	73,934	40,467	302,580
	5,668	212,088	73,934	(10,619)	201,906

The reduction in liabilities with the death subsidy in the first semester of 2012 is essentially due to the amendments introduced by Decree Law no. 133/2012 of 27 of June, which introduced a maximum amount for the subsidy for death corresponding to six times the amount of the social support index. The reduction in liabilities resulting from this alteration was tEuros 9,190 (Note 35).

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

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

	<u>Serving employees</u>	<u>Retired employees</u>
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above assumptions amounted to tEuros 1,186,387 of which tEuros 435,260 corresponds to liabilities transferred to the Social Security, as mentioned above.

The main assumptions used as at 30 June 2012 and 31 December 2011 were the following:

Mortality table	TV 88/90
Pension fund return rate	5.50%
Actuarial technical rate (discount rate)	
- Serving	5.92%
- Non-serving	5.00%
Salary growth rate	2.35%
Pension growth rate	1.35%
Inflation rate	1.75%

The assumptions used in the calculation of the liabilities in 31 December 2011 were used in determining the cost with pensions for the first semester of 2012.

The discount rate of 5.00% for serving employees and 5.92% for the inactives correspond to an average of 5.5%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 5.5% for the entire population had been used.

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

Salary growth rate to calculate the deductible pension	2.35%
Inflation (no. 1 of article 27)	1.75%
Inflation (no. 1 of article 27)	2.00%
Sustainability factor accumulated to 2011	Reduction of 3.14%
Future sustainability factor	Reduction of 0.5% per year

The basis for the return on assets expected rate of the Pension Fund is the estimated return on assets of the Fund's portfolio as at December 31, 2011, which is determined by the actuaries in charge.

The discount rates used in the actuarial studies are determined based on the market rates of highly rated corporate bonds in Euros for similar maturities as those of the Plan's liabilities, for serving and non-serving employees, respectively.

More specifically, among other sources, the rates of return on a sample of bonds of private corporations in Euros with credit quality of Aa-(credit risk rating, based on four rating agencies - Moody's, Standard & Poor's, Fitch and Dominion Bond Rating Service) were used. This information was taken from Bloomberg.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

As at 30 June 2012 and 31 December 2011, the amount of liabilities with healthcare arising from a 1% variation in the contribution rate may be presented as follows:

	30-06-2012			31-12-2011		
	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%
Serving employees (Defined Benefit Plan)	5,393	22,746	31,018	5,451	20,811	28,379
Serving employees (Defined Contribution Plan)	171	40	54	157	25	33
Pensioners	950	4,203	5,731	926	4,183	5,705
Retired and early retired staff	5,340	73,363	100,039	5,338	74,338	101,370
	<u>11,854</u>	<u>100,352</u>	<u>136,842</u>	<u>11,872</u>	<u>99,357</u>	<u>135,487</u>

Changes in the Bank's past service liability in the semester ended on 30 June 2012 and in the year ended 31 December 2011 may be broken down as follows, with regard to the Bank's pension plan:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Liabilities at the start of the period	751,127	1,313,944
Current service cost	199	2,237
Interest cost	18,742	66,962
Actuarial (gains)/losses	2,582	( 127,539 )
Early retirement	5,009	3,763
Amounts paid	( 21,950 )	( 76,337 )
Employees' contributions	1,151	2,313
Transfer of liabilities to the Social Security	-	(435,260 )
Liabilities of the IFIC arising from the merger	-	1,044
Reduction of liabilities with death subsidy (Note 39)	( 9,190 )	-
Adjustment of the liabilities transferred to the Social Security	( 43 )	-
	<u>-----</u>	<u>-----</u>
Liabilities at the end of the period	<u>747,627</u>	<u>751,127</u>
	<u>=====</u>	<u>=====</u>

The cost of the period relating to pensions includes current service and interest cost, less the estimated income from the assets of the Fund. In the first semester of 2012 and 2011, costs with pensions were recognised in the caption of "Staff costs" (Note 39) and are made up as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u> (Restated)
Current service cost	199	1,159
Interest cost	18,742	33,502
Estimated income	( 20,374 )	( 35,059 )
	<u>-----</u>	<u>-----</u>
Defined benefits plan	( 1,433 )	( 398 )
Defined contribution plan	18	20
London branch plan	( 331 )	150
Increase of liability with IFIC	-	1,044
	<u>-----</u>	<u>-----</u>
	<u>( 1,746 )</u>	<u>816</u>
	<u>=====</u>	<u>===</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

Changes in actuarial differences in 2011 and in the first semester of 2012 was the following:

Balance on 31 December 2010 – Restated	338,967
	-----
. Actuarial gains on pensions generated in 2011	(112,771 )
. Financial losses on pensions generated in 2011	301,625
. Actuarial gains with healthcare and death subsidy in 2011	( 14,768 )
. Financial losses with healthcare and death subsidy in 2011	38,002
	-----
Balance on 31 December 2011 (Note 25)	551,055
. Actuarial losses on pensions generated in 2012	2,258
. Financial losses on pensions generated in 2012	2,544
. Actuarial losses with healthcare and death subsidy in 2012	323
. Financial losses with healthcare and death subsidy in 2012	543
	-----
Balance as at 30 June 2012 (Note 25)	556,723
	=====

As a result of the change in the accounting policy described in Note 1.3. k), the accumulated actuarial differences are deducted under the caption “Revaluation reserves”.

As at 30 June 2012 and 31 December 2011, the balance sheet amount related with the pension plan is made up as follows (Note 17):

	<u>30-06-2012</u>	<u>31-12-2011</u>
(Underfunded)/Overfunded liability	7,062	7,117
Underfunded liability (London branch)	( 388 )	( 3,820 )
	-----	-----
	6,674	3,297
	=====	=====

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

The effective salary growth in the first semester of 2012 and in 2011 for the purpose of the contributions to the Social Security relating to the employees of the former Totta was 2.13% and 1.18%, respectively.

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



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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. is the entity that manages BST's Pension Fund. As at 30 June 2012 and 31 December 2011, the number of participants in the Fund was as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Serving employees <sup>(1)</sup>	5,564	5,608
Pensioners	950	926
Retired and early retired staff	5,340	5,338
	<u>11,854</u>	<u>11,872</u>
	=====	=====

(1) Of whom 171 and 157 employees are included in the new defined contribution plan as at 30 June 2012 and 31 December 2011, respectively.

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

	<u>Serving employees</u>	<u>Retired and early retired staff</u>	<u>Pensioners</u>
Total as at 31-12-2010	5,606	5,381	912
Exits:			
. Serving employees	(111)	-	-
. By death	-	(86)	(19)
. Other	-	-	(25)
Transfers	(36)	36	-
Entry of Totta IFIC employees	99	-	-
Entries	50	7	58
Total as at 31-12-2011	<u>5,608</u>	<u>5,338</u>	<u>926</u>
Exits:			
. Serving employees	(48)	-	-
. Retirement	-	(31)	(13)
Transfers	(24)	24	-
Entries	28	9	37
Total as at 30-06-2012	<u>5,564</u>	<u>5,340</u>	<u>950</u>

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

Changes in BST's Pension Fund during 2011 and in the first semester of 2012 was the following:

Net asset value on 31 December 2010	1,312,888
Contributions made by the Bank (cash)	245,000
Contributions made by employees	2,313
Net return of the Fund	( 269,509 )
Pensions paid	( 76,337 )
Transfer to the Social Security	( 456,111 )
Net asset value on 31 December 2011	758,244
Contributions made by employees	1,151
Net return of the Fund	17,287
Pensions paid	( 21,950 )
Adjustment of the transfer of liabilities to the Social Security	( 43 )
Net asset value on 30 June 2012	754,689
	=====

The rates of return of the Pension Fund in the first semester of 2012 (annualised) and in 2011 were 4.6% and -20.53%, respectively.

The Pension Fund's profitability was affected negatively in 2011 by the negative trend of the equity and loans markets.

As at 30 June 2012 and 31 December 2011, the BST's Pension Fund portfolio in 2011 included the following assets:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Debt instruments	271,159	385,693
Real estate investment funds	216,286	222,339
Securities investment funds	145,372	139,059
Equity instruments	152	152
Buildings	87,210	87,215
Deposits	42,960	125,255
Pending settlement	( 8,450 )	( 201,470 )
	754,689	758,244
	=====	=====

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

As at 30 June 2012 and 31 December 2011, the portfolios of the Pension Fund included the following assets with Santander Group companies:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Leased property	22,966	22,966
Securities (including participating units in funds)	160,146	154,464
	183,112	177,430
	=====	=====

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(RESTATED)

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A life insurance policy was taken out in 2010 to cover the liability arising from a new supplementary retirement plan for the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2011, the premium paid by the Bank amounted to tEuros 583 and the periodified amount as at 30 June 2012 was tEuros 291.

Defined benefit pension plan – London branch

As at 30 June 2012 and 31 December 2011, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that covers the employees of the London branch were the following:

Mortality table	AMC00/AFC00
Rate of return on the assets of the Pension Fund	5.02%
Actuarial technical rate (discount rate)	4.90%
Salary growth rate	2.70%
Pension growth rate	1.90%
Rate of inflation	2.70%

As at 30 June 2012 and 31 December 2011, the liabilities with the defined benefit pension plan of the London branch and its hedging were as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Estimated liabilities for past services	30,786	29,260
Hedging – net asset value of the fund	30,398	25,440
	-----	-----
Non-financed amount – London branch	( 388 )	( 3,820 )
	====	=====

In relation to the specific pension plan of the London branch, the movement in the liabilities for past services in the year ended 31 December 2011 and in the first semester of 2012 may be presented as follows:

Liabilities as at 31 December 2010	25,003
	-----
Cost of current services	174
Interest cost	1,450
Actuarial losses	2,551
Amounts paid	( 680 )
Foreign exchange fluctuations	762
	-----
Liabilities as at 31 December 2011	29,260
	-----
Cost of current services	100
Interest cost	729
Amounts paid	( 337 )
Foreign exchange fluctuations	1,034
	-----
Liabilities as at 30 June 2012	30,786
	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

The movement in the Pension Fund of the London branch during 2011 and first semester of 2012 was the following:

Net asset value on 31 December 2010	23,112
	-----
Net return of the fund	2,125
Contribution by the Bank	179
Pensions paid	( 680 )
Foreign exchange fluctuations	704
	-----
Net asset value in 31 December 2011	25,440
	-----
Net return of the fund	1,202
Contribution by the Bank	3,193
Pensions paid	( 337 )
Foreign exchange fluctuations	900
	-----
Net asset value as at 30 June 2012	30,398
	=====

The costs with the pension plan of the London branch in the first six months of 2012 and 2011 were as follows:

	<u>30-06-2012</u>	<u>30-06-2011</u>
Cost of current services	100	104
Interest cost	729	675
Estimated return	( 1,160 )	( 629 )
	-----	-----
	( 331 )	150
	===	===

As at 30 June 2012 and 31 December 2011, the movement in the actuarial differences of the London branch was broken down as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Actuarial losses on pensions in 2009	3,630	3,630
Financial gains on pensions in 2009	( 1,315 )	( 1,315 )
Actuarial gains on pensions in 2010	( 817 )	( 817 )
Financial gains on pensions in 2010	( 45 )	( 45 )
Actuarial losses on pensions in 2011	2,551	2,551
Financial gains on pensions in 2011	( 930 )	( 930 )
Financial gains on pensions in 2012	( 41 )	-
Foreign exchange fluctuations	273	138
	-----	-----
Balance of actuarial differences (Note 25)	3,306	3,212
	=====	=====

As at 30 June 2012 and 31 December 2011, the Pension Fund of the London branch included the following assets:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Debt instruments	26,041	21,763
Equity instruments	4,354	3,608
Deposits	3	69
	-----	-----
Fund's net asset value	30,398	25,440
	=====	=====

#### 44. SECURITIZATION OPERATIONS

##### **Description of the operations**

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

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

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

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

In July 2010, BST securitised part of its mortgage portfolio, called Hipototta no. 11, for the total initial amount of tEuros 2,000,000. The loans were sold at their nominal value (book value) to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus).

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

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

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

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

To finance the operation, the Hipototta and Leasetotta No. 1 FTC Funds issued participating units, for the same amount of the loan portfolio purchased, which were fully subscribed for by Hipototta PLC/Ltd. and Leasetotta, both based in Ireland.

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

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To finance these operations, the Hipottota and the LeaseTotta PLC/Ltd. and Tagus issued bonds with different levels of subordination and rating and, consequently, of return. As at 30 June 2012, the bonds issued and still active are as follows:

Hipottta no. 1 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Moody's			Up to early redemption date	After early redemption date
Class A	1,053,200	196,808	AA-	A2	November 2034	August 2012	Euribor 3 m + 0.27%	Euribor 3 m + 0.54%
Class B	32,500	12,690	AA-	Baa2	November 2034	August 2012	Euribor 3 m + 0.65%	Euribor 3 m + 0.95%
Class C	14,300	5,592	A	Ba1	November 2034	August 2012	Euribor 3 m + 1.45%	Euribor 3 m + 1.65%
	<u>1,100,000</u>	<u>215,090</u>						
Class D	17,600	11,000			November 2034	August 2012	Residual income of the securitized portfolio	
	<u>1,117,600</u>	<u>226,090</u>						

Hipottta no. 4 PLC							
Issued debt	Amount		Rating Fitch	Redemption date	Early redemption date	Remuneration	
	Initial	Actual				Up to early redemption date	After early redemption date
Class A	2,616,040	1,068,211	A	December 2048	December 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%
Class B	44,240	38,863	A	December 2048	December 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%
Class C	139,720	122,735	BB	December 2048	December 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%
	2,800,000	1,229,809					
Class D	14,000	14,000		December 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	1,243,809					

Hipottta no. 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1,693,000	926,158	AA-	A3	February 2060	February 2014	Euribor 3 m + 0.13%	Euribor 3 m + 0.26%
Class B	26,000	26,000	AA-	Baa3	February 2060	February 2014	Euribor 3 m + 0.17%	Euribor 3 m + 0.34%
Class C	24,000	24,000	A	Ba2	February 2060	February 2014	Euribor 3 m + 0.24%	Euribor 3 m + 0.48%
Class D	26,000	26,000	BBB	B3	February 2060	February 2014	Euribor 3 m + 0.50%	Euribor 3 m + 1.00%
Class E	31,000	31,000	BB	Caa2	February 2060	February 2014	Euribor 3 m + 1.75%	Euribor 3 m + 3.50%
	<u>2,000,000</u>	<u>1,033,158</u>						
Class F	10,000	10,000	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>1,043,158</u>						

Hipototta no. 7 Ltd						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Moody's		
Class A1	200,000	-			February 2061	Euribor 3 m + 0.20%
Class A2	1,596,000	1,059,152	AA-	A2	February 2061	Euribor 3 m + 0.30%
Class B	60,000	60,000	A	A3	February 2061	Euribor 3 m + 0.60%
Class C	50,000	50,000	BBB	Baa2	February 2061	Euribor 3 m + 1.2%
Class D	44,000	44,000	BB	Ba3	February 2061	Euribor 3 m + 2.75%
Class E	50,000	50,000	B	Caa1	February 2061	Euribor 3 m + 4.75%
	<u>2,000,000</u>	<u>1,263,152</u>				
Class F	20,000	20,000	CCC-	Ca	February 2061	Residual income of the securitized portfolio
	<u>2,020,000</u>	<u>1,283,152</u>				

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Totta Consumer no. 1					
Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	700,000	399,785	AAH	2038	Euribor 3 m + 3%
Class B	300,000	300,000		2038	Euribor 3 m + 3.25%
	<u>1,000,000</u>	<u>699,785</u>			
Class C	100,400	100,400		2038	Residual income of the securitized portfolio
	<u>1,100,400</u>	<u>800,185</u>			
Leasetotta no. 1 Ltd					
Issued debt	Amount		Rating DBRS	Redemption date	Remuneration
	Initial	Actual			
Class A	1,040,000	346,020	AAH	2042	Euribor 3 m + 0.30%
Class B	260,000	260,000		2042	Euribor 3 m + 4.75%
	<u>1,300,000</u>	<u>606,020</u>			
Class C	65,000	65,000		2042	Residual income of the securitized portfolio
	<u>1,365,000</u>	<u>671,020</u>			

The bonds issued by Hipototta no. 1 PLC and Hipototta no. 4 PLC bear interest payable quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta no. 5 PLC and Hipototta no. 7 Ltd bear interest payable quarterly on February 28, May 30, August 31 and November 30 of each year. The bonds issued by Totta Consumer no. 1 bear interest payable quarterly on January 30, April 30, July 31 and October 31 of each year. The bonds issued by LeaseTotta no. 1 Limited bear interest payable quarterly on January 15, April 15, July 15 and October 15 of each year.

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

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

Remuneration of the Class D notes of Hipototta No. 1 and Hipototta No. 4, the Class F notes for Hipototta No.5, Hipototta No.7 and the Class C notes for the Hipototta No. 11, Hipototta No. 12, Leasetotta No. 1 Limited, Totta Consumer No. 1 and BST SME No. 1 are the last liabilities to be paid.

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

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

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When the securitization operations were launched, the estimated income of the securitised loan portfolios included in the calculation of the remuneration of the Class D notes of Hipototta PLC No. 1 and 4 corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F notes of Hipototta PLC No. 5 it corresponded to an annual average of 0.9% of the total credit portfolio. For the Class F notes of Hipotottas No. 7 and the Class C notes of Hipototta No.11 and Leasetotta No. 1, it corresponded to an annual average rate of 0.7% of each of the loan portfolios. For the Class C notes of Hipototta No. 12, BST SME and Totta Consumer corresponded to an average annual rate of 5.25% on the value of the loan portfolio.

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

When the securitizations were issued, subordinated loans were granted by BST to Hipotottas, for facilities / credit lines in case of need for liquidity by Hipotottas. There were also signed Swap Agreements between the Santander Group and the first issued Hipotottas and between the BST and the remaining securitization vehicles to cover the interest rate risk.

**Accounting recognition**

In compliance with IAS 27 and SIC 12, for the purposes of the consolidated financial statements, the Hipototta FTC Funds and Hipototta PLC/Ltd were included in the consolidation perimeter (Note 4), given that the Bank has the majority of the risks and benefits relating to the operations of these entities. Consequently, the securitised mortgage loans were reflected in the balance sheet and part of the bonds issued by Hipototta PLC/Ltd, Leasetotta No.1 Limited and Tagus which are held by the Group, were eliminated in the consolidation process.



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(RESTATED)

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45. RELATED PARTY DISCLOSURES

The related party disclosures of the Bank with which it had balances or transactions in the first semester of 2012 and in 2011 are the following:

Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
Totta & Açores, Inc. - Newark	USA
Serfim International Bank & Trust	Cayman Islands
Totta & Açores Financing, Ltd	Cayman Islands
Totta Ireland, PLC	Ireland
Bst International Bank, Inc.	Puerto Rico
Santander Asset Management SGFIM, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Santander-Pensões Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santotta Internacional, S.G.P.S., Sociedade Unipessoal, LDA	Portugal
Taggest, SGPS, S.A.	Portugal
Tottaube - Empresa Administração e Construções, S.A.	Portugal
<b>Entities significantly influenced by the Group</b>	
Banco Caixa Geral Totta de Angola	Angola
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Unicre-Instituição Financeira de Crédito, S.A.	Portugal
Name of the related entity	Head office
<b>Entities under direct or indirect common control by the Group</b>	
Banco Santander Brasil, S.A.	Brasil
Banco Santander Chile	Chile
All Funda Bank, SA	Spain
Banco Banif, S.A.	Spain
Capital Grupo Santander, SA SGEGR	Spain
Fondo de Titulización de Activos Santander Empresas 1	Spain
Fondo de Titulización de Activos Santander Empresas 2	Spain
Fondo de Titulización de Activos Santander Empresas 3	Spain
Fondo de Titulización Santander Financiación 1	Spain
Ftpyme Santander 2 Fondo de Titulización de Activos	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banesto: Sociedades consolidables	Spain
Iberica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Produban Servicios Informáticos Generales, S.L.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Spain
Santander Consumer Finance S.A.	Spain
Santander Consumer Spain Auto 07-1	Spain
Santander Consumer, EFC, S.A.	Spain
Santander de Titulización SGFT	Spain
Santander Global Facilities	Spain
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain
Santander Investment, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Transolver Finance EFC, SA	Spain
Union de Créditos Inmobiliarios, SA	Spain
Banco Santander International Miami	USA
Santander Investment Securities, Inc	USA
Sovereign Bank	USA
Optimal Strategic Us Equity Int Euro Fnd	Ireland
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	México
Banco Santander Puerto Rico	Puerto Rico
Banco Santander Consumer Portugal S.A.	Portugal
HBF Aluguer Comércio Viaturas S.A.	Portugal
ISBAN PT - Engenharia and Software Bancário, S.A.	Portugal
Konecta Portugal, Lda.	Portugal
Multi-Rent, Aluguer e Comércio de Automóveis, S.A.	Portugal
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Abbey National Treasury Services plc	United Kingdom
Alliance & Leicester PLC	United Kingdom
Cater Allen International Limited	United Kingdom
Santander UK plc	United Kingdom
Banco Santander (Suisse), S.A.	Switzerland
<b>Special Purpose Entities that are directly or indirectly controlled by the Group</b>	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER NO. 1)	Portugal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011  
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As at 30 June 2012, the balances with related party were as follows:

	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b><u>Assets:</u></b>			
Balances due from banks	7,182	-	27,448
Financial assets held for trading	217,868	-	2,279
Available-for-sale financial assets	-	-	4,672
Loans and advances to banks	869,757	-	291,738
Loans and advances to customers	-	-	36,530
Hedging derivatives	196,633	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	143,763	-
Other assets	18,740	-	39,101
<b><u>Liabilities:</u></b>			
Financial liabilities held for trading	1,636,798	-	56,439
Resources of other financial institutions	631,662	79,967	304,164
Resources of customers and other loans	83,213	1,233	838,202
Debt securities issued	537,845	-	1,342,057
Hedging derivatives	314,018	-	-
Subordinated liabilities	-	-	4,321
Other liabilities	14,813	-	505
<b><u>Costs:</u></b>			
Interest and similar charges	220,457	513	47,949
Charges with services and commission	440	-	45
Result of assets and liabilities designated at fair value through profit or loss	2,663,659	-	184,754
General administrative costs	-	-	16,998
<b><u>Income:</u></b>			
Interest and similar income	221,655	4	5,884
Result of assets and liabilities designated at fair value through profit or loss	2,344,349	-	168,580
Result of foreign exchange revaluation	1,256	-	-
Income from services and commission	196	-	48,057
Results of participations in associates and joint-ventures	-	4,603	-
Other operating results	-	-	99
<b><u>Off-balance sheet items:</u></b>			
Guarantees and other contingent liabilities	17,063	-	46,941
Guarantees received	715	-	1,400
Commitments to third parties	12,275	815	83,202
Currency operations and derivatives	23,074,154	-	1,157,897
Responsibilities for services rendered	2,938,302	36,426	8,742,557

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On 31 December 2011, the balances with related party were as follows:

	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b><u>Assets:</u></b>			
Balances due from banks	9,444	-	18,537
Financial assets held for trading	297,417	-	5,948
Available-for-sale financial assets	-	-	13,668
Loans and advances to banks	1,011,381	-	371,170
Loans and advances to customers	-	-	32,502
Hedging derivatives	136,090	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	134,050	-
Other assets	21,016	5,395	23,014
<b><u>Liabilities:</u></b>			
Financial liabilities held for trading	1,440,410	-	68,602
Resources of other financial institutions	668,304	103,227	391,231
Resources of customers and other loans	108,163	11,004	711,466
Debt securities issued	699,812	-	1,658,447
Hedging derivatives	277,632	-	-
Subordinated liabilities	-	-	4,328
Other liabilities	18,430	-	1,547
<b><u>Costs:</u></b>			
Interest and similar charges	326,109	234	83,914
Charges with services and commission	1,118	-	269
Result of assets and liabilities designated at fair value through profit or loss	2,901,332	-	200,887
Result of available-for-sale financial assets	75,247	-	-
Result of foreign exchange revaluation	2,418	-	-
General administrative costs	-	16	35,203
Result from sale of other assets	2,817	-	-
Other operating results	-	-	1
<b><u>Income:</u></b>			
Interest and similar income	321,961	26	8,494
Result of assets and liabilities designated at fair value through profit or loss	2,281,194	-	162,403
Result of available-for-sale financial assets	-	-	715
Income from services and commission	588	721	96,663
Results of participations in associates and joint-ventures	-	11,330	-
Other operating results	-	-	176
<b><u>Off-balance sheet items:</u></b>			
Guarantees and other contingent liabilities	475,879	-	32,935
Guarantees received	715	-	1,400
Commitments to third parties	1,946	389	116,684
Currency operations and derivatives	24,154,065	-	1,200,737
Responsibilities for services rendered	3,532,924	35,717	8,511,057

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**MANAGEMENT AND SUPERVISORY BOARDS****Board of Directors**

As at 30 June 2012 and 31 December 2011, the loans and advances to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 1,092 and tEuros 1,289, respectively. Fixed and variable remuneration at these dates amounted to tEuros 2,745 and tEuros 4,522, respectively.

The Santander Group, which includes BST, also has a worldwide long term incentive plan, which is described in Note 41 and is divided into cycles. For the members of the Board of Directors, the amount entered in the caption of staff costs as at 30 June 2012 and 2011 is presented below:

	<u>30-06-2012</u>	<u>30-06-2011</u>
Third cycle – PI11 - assigned in 2008 and exercisable in July 2011	-	177
Fourth cycle – PI12 - assigned in 2009 exercisable in July 2012	85	152
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	109	158
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	-	-
	-----	-----
	194	487
	===	===

In 11 July 2011, the third cycle of the long term incentive plan linked to objectives was completed. In this regard, the total number of shares assigned to members of the Board of Directors was 133,727, at a price of 7.511 Euros per share.

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

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

As at 30 June 2012 and 31 December 2011 the liabilities with this plan amounted to tEuros 10,127 and tEuros 9,686, respectively, and were covered by a provision of the same amount stated in the caption "Provisions for pensions and other charges" (Note 22).

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

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46. LONG-TERM INCENTIVE PLANS

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

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

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

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

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

As at 30 June 2012 and 2011, the cost total of the plan for all the employees of BST covered by it may be presented as follows:

Share Plan Linked to the Santander Group's Objectives	<u>30-06-2012</u>	<u>30-06-2011</u>
Third cycle - PI11	-	632
Fourth cycle - PI12	575	575
Fifth cycle - PI13	736	736
Sixth cycle - PI14	533	-
	-----	-----
	1,844	1,943
	=====	=====

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

Stocks' plans	Number of shares	Cost per share (Euros)	Estimated date of delivery of the shares	Number of employees	Entitlement date
<b>Plans in place as at 31 December 2010:</b>					
PI11	662,021	5.4419	Jul/2011	311	2008
PI12	754,339	4.5112	Jul/2012	311	2009
PI13	778,723	5.5707	Jul/2013	310	2010
Change in 2011:					
PI11 - Reversals (*)	(1,750)	-	-	(1)	-
PI11 - Shares available	(571,640)	-	Jul/2011	(321)	-
PI11 - Shares not available (**)	(95,001)	-	-	-	-
PI12 - Reversals (*)	(15,250)	-	-	(5)	-
PI13 - Reversals (*)	(13,870)	-	-	(4)	-
PI11 - Inclusion of employees due to entry of companies (***)	6,370	-	-	11	-
PI12 - Inclusion of employees due to entry of companies (***)	7,970	-	-	12	-
PI13 - Inclusion of employees due to entry of companies (***)	10,590	-	-	13	-
PI13 - Corrections (****)	3,769	-	-	1	-
PI14 - Entitlement	609,358	4.5254	Jul/2014	309	2011
<b>Plans in place as at 31 December 2011:</b>					
PI12	747,059	4.5112	Jul/2012	318	2009
PI13	779,212	5.5707	Jul/2013	320	2010
PI14	609,358	4.5254	Jul/2014	309	2011
Change in 2012:					
PI12 - Reversals (*)	(74,339)	-	-	(2)	-
PI13 - Reversals (*)	(76,339)	-	-	(2)	-
<b>Plans in place as at 30 June 2012:</b>					
PI12	672,720	4.5112	Jul/2012	316	2009
PI13	702,873	5.5707	Jul/2013	318	2010
PI14	609,358	4.5254	Jan/1900	309	2011

## Notes:

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

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

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

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

For the share plans linked to objectives in force on 30 June 2012 (4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> cycles), the fair value was determined in accordance with a following methodology:

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

	PI12	PI13	PI14
Volatility (*)	42.36%	49.65%	51.35%
Annual dividend yield in recent years	4.88%	6.34%	6.06%
Risk-free interest rate	2.040%	3.330%	4.073%

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

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Application of the simulation model results in a percentage of 55.42% for PI12, 62.62% for PI13 and 55.39% for PI14 to which 50% of the value allocated to determine the accounting cost of the TRS incentive is applied. Since the valuation refers to a market condition, it is not subject to adjustment as from the allocation date.

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

As at 30 June 2012 and 31 December 2011, financial instruments had the following book value:

	30-06-2012				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	102,887	176,542	-	279,429
Balances due from banks	-	117,563	66,281	-	183,844
Financial assets held for trading	2,058,272	-	-	-	2,058,272
Financial assets held for trading	93,318	-	-	-	93,318
Available-for-sale financial assets	4,991,721	-	22,605	(62,035)	4,952,291
Loans and advances to banks	-	2,462,438	-	-	2,462,438
Loans and advances to customers	51,954	29,104,014	-	(837,951)	28,318,017
Hedging derivatives	196,633	-	-	-	196,633
	<u>7,391,898</u>	<u>31,786,902</u>	<u>265,428</u>	<u>(899,986)</u>	<u>38,544,242</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	6,851,615	-	-	6,851,615
Financial liabilities held for trading	1,855,892	-	-	-	1,855,892
Resources of other financial institutions	-	2,632,474	-	-	2,632,474
Resources of customers and other loans	2,543,828	17,659,218	-	-	20,203,046
Debt securities issued	3,708,060	2,055,387	-	-	5,763,447
Hedging derivatives	314,027	-	-	-	314,027
Subordinated liabilities	-	4,321	-	-	4,321
	<u>8,421,807</u>	<u>29,203,015</u>	<u>-</u>	<u>-</u>	<u>37,624,822</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

	31-12-2011				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from banks	-	274,320	82,642	-	356,962
Financial assets held for trading	1,995,784	-	-	-	1,995,784
Financial assets held for trading	80,121	-	-	-	80,121
Available-for-sale financial assets	4,481,477	-	22,798	(64,670)	4,439,605
Loans and advances to banks	-	2,692,911	-	-	2,692,911
Loans and advances to customers	53,573	28,990,367	-	(671,913)	28,372,027
Hedging derivatives	167,302	-	-	-	167,302
	<b>6,778,257</b>	<b>32,158,728</b>	<b>292,147</b>	<b>(736,583)</b>	<b>38,492,549</b>
<b><u>Liabilities</u></b>					
Resources of central banks	-	4,913,234	-	-	4,913,234
Financial liabilities held for trading	1,663,299	-	-	-	1,663,299
Resources of other financial institutions	-	3,611,532	-	-	3,611,532
Resources of customers and other loans	1,832,184	18,011,920	-	-	19,844,104
Debt securities issued	4,816,609	2,577,256	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	282,889
Subordinated liabilities	-	4,328	-	-	4,328
	<b>8,594,981</b>	<b>29,118,270</b>	<b>-</b>	<b>-</b>	<b>37,713,251</b>

During the semesters ended on 30 June 2012 and in 2011, the reclassification of financial assets refer to the commercial paper and real estate investment funds (Notes 7 9).

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

**INCOME STATEMENT**

In the semesters ended on 30 June 2012 and 2011, the net gains and losses in financial instruments were as follows:

	30-06-2012					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	4,079,823	(4,094,349)	(14,526)	-	-	-
Other financial assets and liabilities designated at fair value through profit or loss	13,196	-	13,196	-	-	-
Available-for-sale financial assets	162,663	(4,035)	158,628	137,653	-	137,653
Balances in central banks and other financial institutions	29,364	-	29,364	-	-	-
Loans and advances to customers	661,354	(312,631)	348,723	-	-	-
Hedging derivatives	534,253	(568,328)	(34,075)	24,724	-	24,724
Resources in central banks and other financial institutions	-	(57,180)	(57,180)	-	-	-
Resources of customers and other loans	25,610	(240,989)	(215,379)	-	-	-
Debt securities issued	80,400	(115,600)	(35,200)	-	-	-
Subordinated liabilities	-	(108)	(108)	-	-	-
	<u>5,586,663</u>	<u>(5,393,220)</u>	<u>193,443</u>	<u>162,377</u>	<u>-</u>	<u>162,377</u>
Guarantees given	10,753	(6,886)	3,867	-	-	-
Credit lines	8,544	(3,150)	5,394	-	-	-

	30-06-2011					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	2,826,430	(2,806,602)	19,828	-	-	-
Other financial assets and liabilities designated at fair value through profit or loss	2,087	(13,577)	(11,490)	-	-	-
Available-for-sale financial assets	86,230	(101,641)	(15,411)	-	(250,829)	(250,829)
Balances in central banks and other financial institutions	46,272	-	46,272	-	-	-
Loans and advances to customers	638,616	(201,271)	437,345	-	-	-
Hedging derivatives	290,785	(350,836)	(60,051)	-	(12,479)	(12,479)
Resources in central banks and other financial institutions	-	(90,656)	(90,656)	-	-	-
Resources of customers and other loans	35,267	(165,742)	(130,475)	-	-	-
Debt securities issued	137,399	(149,896)	(12,497)	-	-	-
Subordinated liabilities	-	(205)	(205)	-	-	-
	<u>4,063,086</u>	<u>(3,880,426)</u>	<u>182,660</u>	<u>-</u>	<u>(263,308)</u>	<u>(263,308)</u>
Guarantees given	10,428	(29)	10,399	-	-	-

The above amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which, as at 30 June 2012 and 2011, corresponded to net gains of tEuros 2,610 and tEuros 1,794, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

In the first semesters of 2012 and 2011 interest, income and expense, determined in accordance with the effective interest rate method of financial assets and liabilities not stated at fair value through profit or loss, are as follows:

	30-06-2012			30-06-2011		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Cash and deposits at central banks	1,051	-	1,051	2,045	-	2,045
Balances due from banks	116	-	116	179	-	179
Available-for-sale financial assets	103,991	-	103,991	84,874	-	84,874
Loans and advances to banks	28,197	-	28,197	44,048	-	44,048
Loans and advances to customers	537,866	(357)	537,509	500,410	(1,650)	498,760
	<u>671,221</u>	<u>(357)</u>	<u>670,864</u>	<u>1,324,745</u>	<u>(1,862)</u>	<u>1,322,883</u>
<b><u>Liabilities</u></b>						
Resources of central banks	-	(29,976)	(29,976)	-	(21,336)	(21,336)
Resources of other financial institutions	-	(27,204)	(27,204)	-	(69,090)	(69,090)
Resources of customers and other loans	4,259	(240,301)	(236,042)	4,199	(161,281)	(157,082)
Debt securities issued	-	(95,565)	(95,565)	-	(97,891)	(97,891)
Subordinated liabilities	-	(108)	(108)	-	(205)	(205)
	<u>4,259</u>	<u>(393,154)</u>	<u>(388,895)</u>	<u>8,373</u>	<u>(798,557)</u>	<u>(790,184)</u>
Guarantees given	9,531	-	9,531	9,842	-	9,842
Credit lines	3,606	-	3,606	2,101	-	2,101

In the first semesters of 2012 and 2011 fees and commissions income and expenses, not included in the calculation of the effective interest rate, on financial assets and liabilities not stated at fair value through profit or loss, are as follows:

	30-06-2012			30-06-2011		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Loans and advances to customers	<u>27,394</u>	<u>(6,313)</u>	<u>21,081</u>	<u>21,751</u>	<u>(7,475)</u>	<u>40,217</u>
<b><u>Liabilities</u></b>						
Resources of customers and other loans	<u>17,081</u>	<u>-</u>	<u>17,081</u>	<u>22,656</u>	<u>-</u>	<u>30,723</u>

During the first semesters of 2012 and 2011 the Bank recognised financial income referring to “Interest and similar income” on overdue or impaired credit operations, amounting to tEuros 4,601 and tEuros 4,424, respectively (Note 29).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

**OTHER DISCLOSURES**Hedge accounting

As at 30 June 2012 and 31 December 2011, hedging derivatives and financial instruments designated as hedged items, are as follows:

	30-06-2012					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedge:						
Loans and advances to customers	45,702	46,100	5,841	51,941	45,704	(6,125)
Available-for-sale financial assets	2,075,000	2,097,838	266,968	2,364,806	2,075,000	(276,993)
Resources of customers and other loans	(2,526,442)	(2,546,907)	3,079	(2,543,828)	2,538,599	1,953
Debt securities issued	(3,585,136)	(3,625,688)	(82,372)	(3,708,060)	3,655,187	68,570
Cash flow hedge:						
Loans and advances to customers	3,995,266	3,995,266	-	3,995,266	2,950,000	95,201
	4,390	(33,391)	193,516	160,125	11,264,490	(117,394)
	31-12-2011					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedge:						
Loans and advances to customers	47,809	48,242	5,327	53,569	47,811	(5,567)
Available-for-sale financial assets	2,075,000	2,118,714	210,141	2,328,855	2,075,000	(245,972)
Resources of customers and other loans	(1,822,365)	(1,831,722)	(461)	(1,832,183)	1,811,861	2,600
Debt securities issued	(4,696,585)	(4,753,741)	(62,868)	(4,816,609)	3,780,998	46,660
Cash flow hedge:						
Loans and advances to customers	3,496,486	3,496,486	-	3,496,486	2,600,000	86,692
	(899,655)	(922,021)	152,139	(769,882)	10,315,670	(115,587)

Cash flow hedges

The expected cash flows by period that might affect the profit or loss in the semester ended on 30 June 2012 and during 2011 are as follows:

	30-06-2012					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Cash flow hedge						
Interest rate sw ap	(1,968)	(1,465)	25,656	53,114	19,864	95,201
	31-12-2011					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Cash flow hedge						
Interest rate sw ap	18,568	5,780	(8,270)	56,938	13,676	86,692

In the semesters ended on 30 June 2012 and 2011, hedge ineffectiveness did not have an impact on the income statement.

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

The gains and losses recognised on fair value hedging operations in the income statements of the semesters ended on 30 June 2012 and 2011 are as follows:

	Results of assets and liabilities valued at fair value through profit or loss					
	30-06-2012			30-06-2011		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	976	(976)	-	(1,076)	1,100	24
Available-for-sale financial assets	56,828	(56,828)	-	(14,886)	14,886	-
Resources of customers and other loans	3,115	(2,909)	206	3,951	(4,216)	(265)
Debt securities issued	(20,040)	19,683	(357)	83,281	(83,761)	(480)
	<u>40,879</u>	<u>(41,030)</u>	<u>(151)</u>	<u>71,270</u>	<u>(71,991)</u>	<u>(721)</u>

Fair value of financial instruments

As at 30 June 2012 and 31 December 2011, financial instruments were made up as follows:

	30-06-2012		
	Valued at fair value	Not valued at fair value	Total
<b><u>Assets</u></b>			
Cash and deposits at central banks	-	279,429	279,429
Balances due from banks	-	183,844	183,844
Financial assets held for trading	2,058,272	-	2,058,272
Other financial assets designated at fair value through profit or loss	93,318	-	93,318
Available-for-sale financial assets	4,936,379	15,912	4,952,291
Loans and advances to banks	-	2,462,438	2,462,438
Loans and advances to customers	51,941	28,266,076	28,318,017
Hedging derivatives	196,633	-	196,633
	<u>7,336,543</u>	<u>31,207,699</u>	<u>38,544,242</u>
<b><u>Liabilities</u></b>			
Resources of central banks	-	6,851,615	6,851,615
Financial liabilities held for trading	1,855,892	-	1,855,892
Resources of other financial institutions	-	2,632,474	2,632,474
Resources of customers and other loans	2,543,828	17,659,218	20,203,046
Debt securities issued	3,708,060	2,055,387	5,763,447
Hedging derivatives	314,027	-	314,027
Subordinated liabilities	-	4,321	4,321
	<u>8,421,807</u>	<u>29,203,015</u>	<u>37,624,822</u>

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

	31-12-2011		
	Valued at fair value	Not valued at fair value	Total
<b><u>Assets</u></b>			
Cash and deposits at central banks	-	387,837	387,837
Balances due from banks	-	356,962	356,962
Financial assets held for trading	1,995,784	-	1,995,784
Other financial assets designated at fair value through profit or loss	80,121	-	80,121
Available-for-sale financial assets	4,423,499	16,106	4,439,605
Loans and advances to banks	-	2,692,911	2,692,911
Loans and advances to customers	53,568	28,318,459	28,372,027
Hedging derivatives	167,302	-	167,302
	<u>6,720,274</u>	<u>31,772,275</u>	<u>38,492,549</u>
<b><u>Liabilities</u></b>			
Resources of central banks	-	4,913,234	4,913,234
Financial liabilities held for trading	1,663,299	-	1,663,299
Resources of other financial institutions	-	3,611,532	3,611,532
Resources of customers and other loans	1,832,184	18,011,920	19,844,104
Debt securities issued	4,816,609	2,577,256	7,393,865
Hedging derivatives	282,889	-	282,889
Subordinated liabilities	-	4,328	4,328
	<u>8,594,981</u>	<u>29,118,270</u>	<u>37,713,251</u>

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

As at 30 June 2012 and 31 December 2011, the fair value of financial assets and liabilities valued at fair value or subject to fair value adjustments in accordance with hedge accounting, was broken down as follows:

	30-06-2012				
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation
<b><u>Assets</u></b>					
Financial assets held for trading	227,193	-	1,831,079	-	-
Other financial assets designated at fair value through profit or loss	90,855	3,779	(1,316)	-	-
Available-for-sale financial assets	5,471,406	55,645	(802,297)	266,968	(55,343)
Loans and advances to customers	45,702	410	-	5,841	(12)
Hedging derivatives	-	-	196,633	-	-
	<u>5,835,156</u>	<u>59,834</u>	<u>1,224,099</u>	<u>272,809</u>	<u>(55,355)</u>
<b><u>Liabilities</u></b>					
Financial liabilities held for trading	-	-	1,855,892	-	-
Resources of customers and other loans	2,526,442	20,464	-	(3,078)	-
Debt securities issued	3,585,136	40,551	-	82,373	-
Hedging derivatives	-	-	314,027	-	-
	<u>6,111,578</u>	<u>61,015</u>	<u>2,169,919</u>	<u>79,295</u>	<u>-</u>

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(RESTATED)

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	31-12-2011					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	Net book value
<b><u>Assets</u></b>						
Financial assets held for trading	286,984	-	1,708,800	-	-	1,995,784
Other financial assets designated at fair value through profit or loss	91,202	1,340	(12,421)	-	-	80,121
Available-for-sale financial assets	5,127,670	83,579	(939,913)	210,141	(57,978)	4,423,499
Loans and advances to customers	47,809	437	-	5,327	(5)	53,568
Hedging derivatives	-	-	167,302	-	-	167,302
	<b>5,553,665</b>	<b>85,356</b>	<b>923,768</b>	<b>215,468</b>	<b>(57,983)</b>	<b>6,720,274</b>
<b><u>Liabilities</u></b>						
Financial liabilities held for trading	-	-	1,663,299	-	-	1,663,299
Resources of customers and other loans	1,822,365	9,357	-	462	-	1,832,184
Debt securities issued	4,696,585	57,156	-	62,868	-	4,816,609
Hedging derivatives	-	-	282,889	-	-	282,889
	<b>6,518,950</b>	<b>66,513</b>	<b>1,946,188</b>	<b>63,330</b>	<b>-</b>	<b>8,594,981</b>

The methods used to determine fair value are based on market prices on active markets or other valuation techniques, such as discounted cash flows. As at 30 June 2012 and 31 December 2011, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedging operations, is as follows:

	30-06-2012			
	Method of determining fair value			
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<b><u>Assets</u></b>				
Financial assets held for trading	227,193	1,831,079	-	2,058,272
Other financial assets designated at fair value through profit or loss	93,318	-	-	93,318
Available-for-sale financial assets	4,638,213	280,157	18,009	4,936,379
Loans and advances to customers	-	51,941	-	51,941
Hedging derivatives	-	196,633	-	196,633
	<u>4,958,724</u>	<u>2,359,810</u>	<u>18,009</u>	<u>7,336,543</u>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	1,855,892	-	1,855,892
Resources of customers and other loans	-	2,543,828	-	2,543,828
Debt securities issued	-	3,708,060	-	3,708,060
Hedging derivatives	-	314,027	-	314,027
	-	<u>8,421,807</u>	-	<u>8,421,807</u>

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

	31/12/2011			
	Method of determining fair value			
	Quoted in active markets	Other valuation techniques		Total
	(Level 1)	(Level 2)	(Level 3)	
<b><u>Assets</u></b>				
Financial assets held for trading	287,010	1,708,774	-	1,995,784
Other financial assets designated at fair value through profit or loss	80,121	-	-	80,121
Available-for-sale financial assets	3,615,429	804,088	3,982	4,423,499
Loans and advances to customers	-	53,568	-	53,568
Hedging derivatives	-	167,302	-	167,302
	<u>3,982,560</u>	<u>2,733,732</u>	<u>3,982</u>	<u>6,720,274</u>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	1,663,299	-	1,663,299
Resources of customers and other loans	-	1,832,184	-	1,832,184
Debt securities issued	-	4,816,609	-	4,816,609
Hedging derivatives	-	282,889	-	282,889
	-	<u>8,594,981</u>	-	<u>8,594,981</u>

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

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

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

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

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

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

	30-06-2012		31-12-2011	
	EUR	USD	EUR	USD
Overnight	0.60%	0.30%	1.00%	0.30%
1 month	0.38%	0.23%	1.10%	1.55%
3 months	0.66%	0.51%	1.40%	1.85%
6 months	0.93%	0.78%	1.65%	2.15%
9 months	1.08%	1.00%	1.83%	2.25%
1 year	1.23%	1.30%	1.98%	2.40%
3 years	0.95%	0.63%	1.39%	0.88%
5 years	1.30%	0.96%	1.74%	1.28%
7 years	1.64%	1.33%	2.07%	1.69%
10 years	1.98%	1.75%	2.38%	2.06%

As at 30 June 2012 and 31 December 2011, the book value and fair value of the financial instruments valued at amortised cost or historical cost was the following:

	30-06-2012		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	279,429	279,429	-
Balances due from banks	183,844	183,844	-
Available-for-sale financial assets	15,912	15,912	-
Loans and advances to banks	2,462,438	2,595,457	133,019
Loans and advances to customers	28,266,076	25,911,616	(2,354,460)
	<u>31,207,699</u>	<u>28,986,258</u>	<u>(2,221,441)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(6,851,615)	(6,862,423)	(10,808)
Resources of other financial institutions	(2,632,474)	(2,652,316)	(19,842)
Resources of customers and other loans	(17,659,218)	(17,780,569)	(121,351)
Debt securities issued	(2,055,387)	(1,567,240)	488,147
Subordinated liabilities	(4,321)	(4,287)	34
	<u>(29,203,015)</u>	<u>(28,866,835)</u>	<u>336,180</u>



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	31-12-2011		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	387,837	387,837	-
Balances due from banks	356,962	356,962	-
Available-for-sale financial assets	16,106	16,106	-
Loans and advances to banks	2,692,911	2,889,517	196,606
Loans and advances to customers	28,318,459	26,139,361	(2,179,098)
	<u>31,772,275</u>	<u>29,789,783</u>	<u>(1,982,492)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(4,913,234)	(4,883,949)	29,285
Resources of other financial institutions	(3,611,532)	(3,534,077)	77,455
Resources of customers and other loans	(18,011,920)	(18,070,005)	(58,085)
Debt securities issued	(2,577,256)	(1,740,447)	836,809
Subordinated liabilities	(4,328)	(4,263)	65
	<u>(29,118,270)</u>	<u>(28,232,741)</u>	<u>885,529</u>

As at June 30, 2012, if the fair value of the most of the debt issued subject to hedging operations included in the debt securities issued item (second and third covered bond issues) was calculated, it would be lower than the respective carrying amount by approximately tEuros 244,613 (tEuros 596,042 as at 31 December 2011).

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

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

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**RISK MANAGEMENT****CREDIT RISK**

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

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

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

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

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

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

As at 30 June 2012 and 31 December 2011, the maximum exposure to credit risk and corresponding book value of the financial instruments is made up as follows:

	30-06-2012		31-12-2011	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	279,429	279,429	387,837	387,837
Balances due from banks	183,844	183,844	356,962	356,962
Financial assets held for trading	2,058,272	2,058,272	1,995,784	1,995,784
Other financial assets designated at fair value through profit or loss	93,318	93,318	80,121	80,121
Available-for-sale financial assets	4,952,291	4,952,291	4,439,605	4,439,605
Loans and advances to banks	2,462,438	2,462,438	2,692,911	2,692,911
Loans and advances to customers	28,318,017	34,276,044	28,372,027	34,382,026
Hedging derivatives	196,633	196,633	167,302	167,302
Investments in associates	142,763	142,763	133,052	133,052
	<u>38,544,242</u>	<u>44,502,269</u>	<u>38,492,549</u>	<u>44,502,548</u>
Guarantees given	<u>1,540,634</u>	<u>1,540,634</u>	<u>2,058,818</u>	<u>2,058,818</u>

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The maximum exposure in "Loans and advances to customers" as at 30 June 2012, includes tEuros 1,399,910 and tEuros 4,558,117 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 1,217,742 and tEuros 4,792,257 on 31 December 2011, respectively).

Loans granted

The Bank periodically reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of the collective analysis of impairment losses, the Bank segments the credit portfolio in accordance with the type of product and type of customer involved in the operations (Note 11). In this respect, as at 30 June 2012 and 31 December 2011, the loans granted to customers without evidence of impairment is made up as follows:

	30-06-2012	31-12-2011
Consumer credit	1,054,046	1,111,840
Mortgage loans	15,106,173	15,384,875
Other loans and advances to individuals	444,861	435,914
Credit cards of individuals	242,329	250,675
Total credit without evidence of impairment granted to individuals	16,847,409	17,183,304
Loans and advances to large companies	1,532,047	1,361,928
Loans and advances to medium-sized companies	4,306,646	4,684,117
Loans and advances to small companies	611,020	652,240
Leasing	903,143	1,045,821
Factoring	1,175,875	1,271,079
Credit cards of companies	11,691	12,144
Loans and advances to financial institutions	-	1
Commercial paper	1,481,295	655,200
Total credit without evidence of impairment granted to companies	10,021,717	9,682,530
Guarantees given	1,451,153	1,988,824
Total credit granted without evidence of impairment	28,320,279	28,854,658

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

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

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

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

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

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

Rating 1 – 3: Customer with high credit risk;

Rating 4 – 6: Customer with moderate credit risk;

Rating 7 – 9: Customer with with low credit risk.

As at 30 June 2012 and 31 December 2011, the loans granted to companies without evidence of impairment, is made up as follows by internal rating:

	30-06-2012		31-12-2011	
	Credit granted	Guarantees given	Credit granted	Guarantees given
Rating 7 - 9	319,735	41,441	369,368	41,815
Rating 4 - 6	6,138,664	1,176,203	6,142,092	1,214,133
Rating 1 - 3	610,190	84,228	697,212	85,918
	7,068,589	1,301,872	7,208,672	1,341,866
Without Rating	1,460,142	112,181	1,806,513	160,073
	8,528,731	1,414,053	9,015,185	1,501,939
Credit cards of companies	11,691	-	12,144	-
Financial institutions	-	37,101	1	486,885
Commercial paper	1,481,295	-	655,200	-
	10,021,717	1,451,153	9,682,530	1,988,824

With regard to loans granted to individuals without evidence of impairment, provisions obtained from the impairment model in effect in the Bank as at 30 June 2012 and 31 December 2011 came to tEuros 54,422 and tEuros 37,437, respectively, corresponding to percentages on these dates of 0.32% and 0.22%, respectively.

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As at 30 June 2012 and 31 December 2011, the loans granted to customers with evidence of impairment, was made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Maturing loans	1,327,862	1,409,667
Overdue loans		
. Up to 90 days	57,279	54,267
. Between 90 and 180 days	115,532	97,880
. Over 180 days	711,465	529,589
	-----	-----
	2,212,138	2,091,403
	=====	=====
Guarantees given	90,044	70,559
	=====	=====

As at 30 June 2012 and 31 December 2011, overdue credit or impaired credit determined by specific analysis guaranteed by mortgage, pledged deposits at the Bank, debt securities issued by the entity itself or with no guarantee, is made up as follows:

	<u>30-06-2012</u>		<u>31-12-2011</u>	
	<u>Outstanding principal</u>	<u>Value of guarantee/collateral</u>	<u>Outstanding principal</u>	<u>Value of guarantee/collateral</u>
Credit overdue or impaired determined by specific analysis:				
Guarantees in excess of the principal due	463,754	1,492,480	464,167	972,751
Guarantees lower than the principal due	192,338	42,159	554,772	215,718
Without guarantee	1,209,116	-	1,474,172	-
	<u>1,865,208</u>	<u>1,534,639</u>	<u>2,493,111</u>	<u>1,188,469</u>

As at 30 June 2012 and 31 December 2011, the book value of executed guarantees and other collateral relating to credit granted amounted to tEuros 243,296 and tEuros 215,389, respectively, and is made up as follows:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Assets received as settlement of defaulting loans (Note 13)		
. Properties	207,921	177,737
. Equipment	5,157	3,982
. Participation units	18,663	-
Other assets received as settlement of defaulting loans (Note 17)	101,569	89,888
Available-for-sale financial assets	22,121	40,784
	<u>355,431</u>	<u>312,391</u>
Impairment of assets received as settlement of defaulting loans		
. Properties	(62,676)	(53,639)
. Equipment	(3,631)	(2,785)
. Other	(23,707)	(18,456)
Impairment of available-for-sale financial assets	(22,121)	(22,121)
	<u>(112,135)</u>	<u>(97,001)</u>
	<u>243,296</u>	<u>215,390</u>

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As at 30 June 2012 and 31 December 2011, the book value referring to debt instruments is made up as follows, by external rating:

	<u>30-06-2012</u>	<u>31-12-2011</u>
Financial assets designated at fair value through profit or loss		
Rating S&P		
BBB+ / BBB / BBB-	93,318	80,121
	<u>93,318</u>	<u>80,121</u>
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	8,404	1,628,499
BBB+ / BBB / BBB-	1,501,933	1,578,621
BB+ / BB / BB-	2,752,512	209,729
Without external rating	504,514	954,434
	<u>4,767,363</u>	<u>4,371,283</u>
	<u>4,860,681</u>	<u>4,451,404</u>

**LIQUIDITY RISK**

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

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

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

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

Under its liquidity policy, as at 30 June 2012, the Bank has a Euro Medium Term Notes (EMTN) programme of tEuros 10,000,000, of which tEuros 1,226,550 have been issued.

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

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The contractual projected cash flows of financial instruments (not discounted) as at 30 June 2012 and 31 December 2011 were as follows:

	30-06-2012							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b><u>Assets</u></b>								
Cash and deposits at central banks	176,609	254	780	2,085	2,088	149,821	-	331,637
Balances due from banks	183,844	-	-	-	-	-	-	183,844
Financial assets held for trading	2,058,272	-	-	-	-	-	-	2,058,272
Other financial assets designated at fair value through profit or loss	-	4,909	-	94,901	-	-	-	99,810
Available-for-sale financial assets	2	27,046	1,574,655	2,033,275	252,501	2,253,240	243,777	6,384,496
Loans and advances to banks	1,343,988	394,891	37,085	376,561	321,997	160,632	-	2,635,154
Loans and advances to customers	506,185	3,233,352	4,520,311	4,778,801	3,150,933	18,757,000	-	34,946,582
Hedging derivatives	196,633	-	-	-	-	-	-	196,633
Investments in associates	-	-	-	-	-	-	143,263	143,263
	<b>4,465,533</b>	<b>3,660,452</b>	<b>6,132,831</b>	<b>7,285,623</b>	<b>3,727,519</b>	<b>21,320,693</b>	<b>387,040</b>	<b>46,979,691</b>
<b><u>Liabilities</u></b>								
Resources of central banks	1,830,155	-	-	5,154,467	-	-	-	6,984,622
Financial liabilities held for trading	1,855,892	-	-	-	-	-	-	1,855,892
Resources of other financial institutions	233,191	1,670,946	58,361	434,135	293,167	-	-	2,689,800
Resources of customers and other loans	5,798,379	4,205,686	5,055,628	2,961,308	2,601,531	243,395	-	20,865,927
Debt securities issued	82,570	278,975	1,491,158	2,584,182	481,261	1,210,342	-	6,128,488
Hedging derivatives	314,027	-	-	-	-	-	-	314,027
Subordinated liabilities	-	4,341	-	-	-	-	-	4,341
	<b>10,114,214</b>	<b>6,159,948</b>	<b>6,605,147</b>	<b>11,134,092</b>	<b>3,375,959</b>	<b>1,453,737</b>	<b>-</b>	<b>38,843,097</b>
	31-12-2011							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b><u>Assets</u></b>								
Cash and deposits at central banks	186,840	508	1,535	4,076	4,081	290,803	-	487,843
Balances due from banks	356,962	-	-	-	-	-	-	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	-	1,995,784
Other financial assets designated at fair value through profit or loss	-	-	4,909	94,901	-	-	-	99,810
Available-for-sale financial assets	34,652	1,095,018	239,605	1,439,120	881,861	2,317,414	132,061	6,139,731
Loans and advances to banks	1,318,976	587,418	6,965	79,838	659,418	364,647	-	3,017,262
Loans and advances to customers	320,687	3,160,729	5,293,895	6,481,685	4,245,405	14,734,212	-	34,236,613
Hedging derivatives	167,302	-	-	-	-	-	-	167,302
Investments in associates	-	-	-	-	-	-	133,552	133,552
	<b>4,381,203</b>	<b>4,843,673</b>	<b>5,546,909</b>	<b>8,099,620</b>	<b>5,790,765</b>	<b>17,707,076</b>	<b>265,613</b>	<b>46,634,859</b>
<b><u>Liabilities</u></b>								
Resources of central banks	-	2,517,830	-	-	2,475,600	-	-	4,993,430
Financial liabilities held for trading	1,663,299	-	-	-	-	-	-	1,663,299
Resources of other financial institutions	898,441	1,767,346	52,556	196,904	700,795	95,203	-	3,711,245
Resources of customers and other loans	5,659,027	5,445,875	4,596,317	2,387,104	2,141,908	199,668	-	20,429,899
Debt securities issued	62,919	100,261	1,825,804	3,692,185	693,491	1,655,971	-	8,030,631
Hedging derivatives	282,889	-	-	-	-	-	-	282,889
Subordinated liabilities	-	4,350	-	-	-	-	-	4,350
	<b>8,566,575</b>	<b>9,835,662</b>	<b>6,474,677</b>	<b>6,276,193</b>	<b>6,011,794</b>	<b>1,950,842</b>	<b>-</b>	<b>39,115,743</b>

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

- The projected cash flows of assets and liabilities with variable remuneration related to the interest rate curve were calculated considering the forward interest rate curve;
- Financial instruments classified as “non-structural” were considered as maturing on demand, except for investments in associates and equity instruments recorded as assets available for sale, which were considered of undetermined maturity. Non structural assets and liabilities correspond to assets not subject to changes in interest rate (cash, balances due from banks, equity instruments classified as financial assets available for sale and investments in associates) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Group considers the fair value of the assets and liabilities held for trading as being its market value on demand;
- Credit line operations without defined maturity or periodically renewable dates, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;
- The projected cash flows of demand deposits were considered as being payable on demand.

### **MARKET RISK**

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

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

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

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

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

**Interest rate risk**

As at 30 June 2012 and 31 December 2011, financial instruments by exposure to interest rate risk are as follows:

	30-06-2012				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	102,887	176,542	-	279,429
Balances due from banks	-	-	183,844	-	183,844
Financial assets held for trading	-	-	227,193	1,831,079	2,058,272
Other financial assets designated at fair value through profit or loss	90,855	-	2,463	-	93,318
Available-for-sale financial assets	4,902,999	347,235	(297,943)	-	4,952,291
Loans and advances to banks	1,905,131	183,185	374,122	-	2,462,438
Loans and advances to customers	1,684,658	26,519,279	114,080	-	28,318,017
Hedging derivatives	-	-	-	196,633	196,633
	<b>8,583,643</b>	<b>27,152,586</b>	<b>780,301</b>	<b>2,027,712</b>	<b>38,544,242</b>
<b><u>Liabilities</u></b>					
Resources of central banks	29,786	6,800,018	21,811	-	6,851,615
Financial liabilities held for trading	-	-	-	1,855,892	1,855,892
Resources of other financial institutions	2,120,608	385,941	125,925	-	2,632,474
Resources of customers and other loans	15,026,251	4,938,539	238,256	-	20,203,046
Debt securities issued	3,713,286	1,926,321	123,840	-	5,763,447
Hedging derivatives	-	-	-	314,027	314,027
Subordinated liabilities	-	4,274	47	-	4,321
	<b>20,889,931</b>	<b>14,055,093</b>	<b>509,879</b>	<b>2,169,919</b>	<b>37,624,822</b>

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

	31-12-2011				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	201,130	186,707	-	387,837
Balances due from banks	-	-	356,962	-	356,962
Financial assets held for trading	-	-	287,032	1,708,752	1,995,784
Other financial assets designated at fair value through profit or loss	91,202	-	(11,081)	-	80,121
Available-for-sale financial assets	4,190,407	828,000	(578,802)	-	4,439,605
Loans and advances to banks	2,248,983	305,621	138,307	-	2,692,911
Loans and advances to customers	2,141,904	26,135,221	94,902	-	28,372,027
Hedging derivatives	-	-	-	167,302	167,302
	<u>8,672,496</u>	<u>27,469,972</u>	<u>474,027</u>	<u>1,876,054</u>	<u>38,492,549</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	4,900,007	13,227	-	4,913,234
Financial liabilities held for trading	-	-	-	1,663,299	1,663,299
Resources of other financial institutions	2,850,564	617,229	143,739	-	3,611,532
Resources of customers and other loans	14,403,256	5,177,142	263,706	-	19,844,104
Debt securities issued	4,838,253	2,432,154	123,458	-	7,393,865
Hedging derivatives	-	-	-	282,889	282,889
Subordinated liabilities	-	4,274	-	54	4,328
	<u>22,092,073</u>	<u>13,130,806</u>	<u>544,130</u>	<u>1,946,242</u>	<u>37,713,251</u>

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

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

- all assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;
- the assets and liabilities are grouped in accordance with their exposure to interest rate risk;
- future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each operation (contract);
- operations are sub-grouped by re-pricing/maturity date for each previously defined group;
- the intended time intervals for measurement of the interest rate gaps are defined;
- for each group, the flows are re-grouped based on the intervals created;
- for each product considered to be sensitive, but which does not have a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models;
- the total inflows and outflows are calculated for each interval and the difference between them, corresponding to the interest rate risk gap, is determined for each interval.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

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

*General assumptions of this interest rate sensitivity analysis*

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

As at 30 June 2012 and 31 December 2011, the sensitivity of the asset value of these financial instruments to positive and negative variations of 100 basis points (bp's) corresponds to:

	30-06-2012		31-12-2011	
	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
<b><u>Assets</u></b>				
Cash and deposits at central banks	1,017	(941)	1,954	(1,954)
Available-for-sale financial assets	2,516	(2,437)	2,503	(2,499)
Loans and advances to banks	14,422	(13,703)	3,076	(3,077)
Loans and advances to customers	211,071	(205,823)	203,667	(203,378)
	<u>229,026</u>	<u>(222,904)</u>	<u>211,200</u>	<u>(210,908)</u>
Hedging derivatives	<u>(39,021)</u>	<u>39,152</u>	<u>(37,970)</u>	<u>37,966</u>
<b><u>Liabilities</u></b>				
Resources of central banks	50,139	(38,328)	47,278	(47,278)
Resources of other financial institutions	34,805	(33,961)	11,853	(11,844)
Resources of customers and other loans	79,724	(73,941)	88,286	(84,198)
Debt securities issued	14,764	(14,624)	18,692	(18,654)
	<u>179,432</u>	<u>(160,854)</u>	<u>166,109</u>	<u>(161,974)</u>

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(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

Financial instruments held for trading

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

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

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

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

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

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

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

As at 30 June 2012 and 31 December 2011, the VAR associated to the interest rate risk corresponded to:

	30-06-2012	31-12-2011
VaR Percentil 99%	(27)	(34)
VaR Weighted Percentil 99%	(25)	(25)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

**Foreign exchange risk**

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

As at 30 June 2012 and 31 December 2011, financial instruments by currency are as follows:

30-06-2012				
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	276,215	1,679	1,535	279,429
Balances due from banks	142,628	34,134	7,082	183,844
Financial assets held for trading	2,047,519	10,623	130	2,058,272
Other financial assets designated at fair value through profit or loss	93,318	-	-	93,318
Available-for-sale financial assets	4,942,506	9,785	-	4,952,291
Loans and advances to banks	2,058,064	370,170	34,204	2,462,438
Loans and advances to customers	28,221,250	57,863	38,904	28,318,017
Hedging derivatives	195,784	849	-	196,633
	<u>37,977,284</u>	<u>485,103</u>	<u>81,855</u>	<u>38,544,242</u>
<b><u>Liabilities</u></b>				
Resources of central banks	6,821,829	29,786	-	6,851,615
Financial liabilities held for trading	1,842,473	13,335	84	1,855,892
Resources of other financial institutions	2,282,049	339,540	10,885	2,632,474
Resources of customers and other loans	19,120,851	904,214	177,981	20,203,046
Debt securities issued	5,763,447	-	-	5,763,447
Hedging derivatives	313,264	763	-	314,027
Subordinated liabilities	4,321	-	-	4,321
	<u>36,148,234</u>	<u>1,287,638</u>	<u>188,950</u>	<u>37,624,822</u>
31-12-2011				
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	382,103	3,631	2,103	387,837
Balances due from banks	320,314	23,126	13,522	356,962
Financial assets held for trading	1,988,164	7,472	148	1,995,784
Other financial assets designated at fair value through profit or loss	80,121	-	-	80,121
Available-for-sale financial assets	4,429,999	9,606	-	4,439,605
Loans and advances to banks	2,295,560	378,576	18,775	2,692,911
Loans and advances to customers	28,281,995	51,966	38,066	28,372,027
Hedging derivatives	166,846	456	-	167,302
	<u>37,945,102</u>	<u>474,833</u>	<u>72,614</u>	<u>38,492,549</u>
<b><u>Liabilities</u></b>				
Resources of central banks	4,913,234	-	-	4,913,234
Financial liabilities held for trading	1,655,678	7,473	148	1,663,299
Resources of other financial institutions	3,126,454	475,918	9,160	3,611,532
Resources of customers and other loans	18,794,630	891,766	157,708	19,844,104
Debt securities issued	7,393,865	-	-	7,393,865
Hedging derivatives	282,079	810	-	282,889
Subordinated liabilities	4,328	-	-	4,328
	<u>36,170,268</u>	<u>1,375,967</u>	<u>167,016</u>	<u>37,713,251</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON 30 JUNE 2012 AND 2011

(RESTATED)

(Amounts in thousands of Euros - tEuros, except when expressly indicated)

As at 30 June 2012 and 31 December 2011, the VaR associated to the foreign exchange risk corresponded to:

	<u>30-06-2012</u>	<u>31-12-2011</u>
VaR Percentil 99%	(7)	(16)
VaR Weighted Percentil 99%	(5)	(9)

**Equity risk of assets**

Financial instruments held for trading

As at 30 June 2012 and 31 December 2011, had no equity risk of its financial instruments held for trading, therefore the VaR related to this risk is zero.

48. NOTE ADDED FOR TRANSLATION

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

## BANCO SANTANDER TOTTA, S.A.

## DEBT SECURITIES ISSUED AS AT 30 JUNE 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet							
Bonds issued											
Bonds											
AutoCallable 80-20	EUR	1.611	-	1.611	-	(255)	1.356	Variable	07-06-2011	07-06-2013	Basket of Shares
AutoCallable 80-20 2nd series	EUR	2.950	-	2.950	-	(116)	2.834	Variable	30-08-2010	30-08-2013	Basket of Shares
World Basket October 2012	EUR	7.050	-	7.050	-	(2.845)	4.205	Variable	12-10-2009	12-10-2012	Basket of indexes
Europa 5	EUR	7.424	-	7.424	-	(62)	7.362	Variable	08-03-2010	08-03-2013	Basket of shares
Europa 5 2nd series	EUR	3.094	-	3.094	-	(22)	3.072	Variable	25-05-2010	25-05-2013	Basket of shares
Europa 155	EUR	1.920	-	1.920	-	(34)	1.886	Variable	28-06-2010	28-06-2014	2 share indexes
Europa Bonds 2nd series	EUR	1.210	-	1.210	-	-	1.210	Variable	09-11-2009	09-11-2012	Basket of Shares
Performance Mais	EUR	63.096	6.367	56.729	354	2.355	59.438	Variable	24-11-2009	24-11-2014	Basket of indexes
Performance Mais II	EUR	13.731	-	13.731	75	487	14.293	Variable	22-12-2009	15-01-2015	Basket of indexes
Rendimento Europeu	EUR	99.796	12.434	87.362	920	4.021	92.303	Variable	06-08-2009	06-08-2014	Stock exchange index
Rendimento Global	EUR	3.767	-	3.767	-	(21)	3.746	Variable	18-01-2010	18-01-2013	Basket of Shares
ST Diversificação Invest 2nd amortization Customers	EUR	28.008	8.977	19.031	1.140	1.668	21.839	Variable	17-03-2009	28-03-2013	EUR/USD
ST Diversificação Invest 3rd amortization Customers	EUR	19.817	786	19.031	-	-	19.031	Variable	17-03-2009	28-03-2015	Basket of indexes
ST Diversificação Invest 4th amortization Customers	EUR	23.913	4.882	19.031	-	-	19.031	Variable	17-03-2009	28-03-2017	Basket of indexes
Super Rendimento Campeão Clientes	EUR	58.907	7.414	51.493	-	(36)	51.457	Variable	23-08-2007	23-11-2012	Basket of 5 shares
Valorização Performance 5 year	EUR	21.533	-	21.533	189	2	21.724	Variable	30-09-2010	30-09-2015	Basket of indexes
Valorização Performance 5 year OCTOBER 2010	EUR	9.993	-	9.993	83	(57)	10.019	Variable	02-11-2010	02-11-2015	Basket of indexes
Dollar Valuation	EUR	3.645	-	3.645	-	(24)	3.621	Variable	12-04-2010	12-04-2013	Rate of exchange EUR/USD
Top Alemanha	EUR	65.042	-	65.042	896	1.448	67.386	Variable	14-02-2011	13-02-2015	Basket of Shares
Top Alemanha February 2011	EUR	57.892	-	57.892	951	983	59.826	Variable	09-03-2011	09-03-2015	Basket of Shares
China Valuation	EUR	56.379	-	56.379	694	731	57.804	Variable	11-04-2011	02-04-2015	Index FTSE China 25
Latin America	EUR	2.175	-	2.175	24	25	2.224	Variable	20-05-2011	20-05-2014	Basket of funds
USA	EUR	74.607	-	74.607	1.124	418	76.149	Variable	30-06-2011	30-06-2014	Index Standard & Poor's 500
Latin America Top 3	EUR	99.997	-	99.997	1.369	691	102.057	Variable	01-08-2011	31-10-2014	Index FTSE Latibex Top
AutoCallable 85-15	EUR	3.230	-	3.230	-	(292)	2.938	Variable	01-08-2011	31-10-2014	Index FTSE Latibex Top
AutoCallable 85-15a	EUR	570	-	570	-	-	570	Variable	01-08-2011	31-10-2014	Index FTSE Latibex Top
		731.357	40.860	690.497	7.819	9.065	707.381				
Covered bonds											
Hipotecarias II	EUR	1.000.000	125.750	874.250	18.912	36.285	929.447	3,25%	21-Out-2009	21-Out-2014	Tx Fixa
Hipotecarias III	EUR	1.000.000	-	1.000.000	5.151	6.987	1.012.138	2,625%	15-Abr-2010	15-Abr-2013	Tx Fixa
Hipotecarias IV - 1st Tr	EUR	750.000	750.000	-	-	-	-	4,375%	12-Jan-2011	12-Jan-2014	Tx Fixa
Hipotecarias IV - 2nd Tr	EUR	600.000	600.000	-	-	-	-	4,045%	21-Jan-2011	12-Jan-2014	Tx Fixa
Hipotecarias IV - 4th Tr	EUR	225.000	225.000	-	-	-	-	2,883%	16-Fev-2011	12-Jan-2014	Tx Fixa
Hipotecarias IV - 5th Tr	EUR	175.000	-	175.000	(1.129)	-	173.871	1,077%	30-Mar-2011	30-Mar-2014	Tx Fixa
Hipotecarias V	EUR	1.250.000	1.250.000	-	-	-	-	3,182%	23-Mai-2011	23-Mai-2014	Tx Fixa
Hipotecarias VI - 1st tranche	EUR	250.000	250.000	-	-	-	-	3,204%	4-Nov-2011	4-Nov-2014	Tx Fixa
Hipotecarias VII - 1st tranche	EUR	380.000	380.000	-	-	-	-	3,204%	4-Nov-2011	4-Nov-2014	Tx Fixa
		5.630.000	3.580.750	2.049.250	22.934	43.272	2.115.456				
Bonds issued on securitization operations											
Hipototta 1 - Class A - Notes	EUR	196.808	160.014	36.794	82	-	36.876	Variable	25-Jul-2003	25-Nov-2034	Euribor 3m+0,27% (até ao reembolso antecipado a Agosto de 2012); Euribor 3m+0,54% (após data de reembolso antecipado)
Hipototta 4 - Class A - Notes	EUR	1.068.211	524.926	543.285	(1.410)	-	541.875	Variable	9-Dez-2005	30-Dez-2048	Euribor 3m+0,12% (até ao reembolso antecipado a Dezembro de 2014); Euribor 3m+0,24% (após data de reembolso antecipado)
Hipototta 4 - Class C - Notes	EUR	122.735	65.637	57.098	3	-	57.101	Variable	9-Dez-2005	30-Dez-2048	Euribor 3m+0,29% (até ao reembolso antecipado a Dezembro de 2014); Euribor 3m+0,58% (após data de reembolso antecipado)
Hipototta 5 - Class A2 - Notes	EUR	926.158	244.970	681.188	(112)	-	681.076	Variable	22-Mar-2007	28-Fev-2060	Euribor 3m+0,13% (até ao reembolso antecipado a Fevereiro de 2014); Euribor 3m+0,26% (após data de reembolso antecipado)
CON 1 - Class A -Notes	EUR	399.785	-	399.785	2.561	-	402.346	Variable	24-Jun-2011	24-Jun-2038	Euribor 3m+0,3%
		2.713.697	995.547	1.718.150	1.124	-	1.719.274				
Other											
EMTN's	EUR	1.226.550	45.710	1.180.840	10.460	30.036	1.221.336				
		1.226.550	45.710	1.180.840	10.460	30.036	1.221.336				
TOTAL DEBT SECURITIES ISSUED		10.301.604	4.662.867	5.638.737	42.337	82.373	5.763.447				

BANCO SANTANDER TOTTA, S.A.DEBT SECURITIES ISSUED AS AT 30 JUNE 2012 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue			Accrual			Total Interest rate	Issue Date	Maturity Date	Call Option
		Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet				
Perpetual Subordinated Bonds 2000	EUR	270.447	270.447	-	180	180	-	-	3,44%	Perpetual	22 June 2010
AutoCallable 80-20	EUR	4.275	-	4.275	46	-	46	4.321	3,50%	Perpetual	23 February 2011
Perpetual Subordinated Bonds BSP 2001	EUR	13.818	13.818	-	151	151	-	-	3,50%	Perpetual	23 February 2011
		<u>288.540</u>	<u>284.265</u>	<u>4.275</u>	<u>377</u>	<u>331</u>	<u>46</u>	<u>4.321</u>			