

<b>V. Accounting Policies and Valuation methods</b>		
22.	Classification of transactions and of structured products for accounting purposes and respective accounting treatment	See Attachment to Consolidated FS's – Note 1.
23.	Consolidation of Special Purpose Entities (SPE) and other vehicles and reconciling these with the structured products affected by the turbulence period;	N.A:
24.	Detailed disclosure of the fair value of the financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (breakdown of all exposures measured at fair value in the fair value hierarchy and breakdown between availabilities and derivative instruments as well as disclosure of migration between hierarchical levels); - Treatment of "day 1 profits" (including quantitative information); - Use of fair value option (including conditions for its use) and respective amounts (with the adequate breakdown);	See Attachment to Consolidated FS's – Notes 1.3 e) and f), 7, 8, 12 and 47.
25.	Description of modelling techniques used for the valuation of financial instruments, including information on: - Modelling techniques and instruments to which these are applied; - Evaluation processes (particularly including the assumptions and the inputs on which the models are based); - Types of adjustment applied to reflect the modelling risk and other evaluation uncertainties; - Fair value sensitivity (namely the variations in key assumptions and inputs); - Stress scenarios.	See Attachment to Consolidated FS's – Notes 1.3 e), f) and 47.
<b>VI. Other Relevant Disclosure Features</b>		
26.	Description of the disclosure policies and of the principles followed in disclosure and financial reporting.	See Attachment to Consolidated FS's – Note 1.

## Organic Structure by Position

### António Vieira Monteiro

#### Internal Audit – Miguel Cabeza Ruiz

- Dep. Operational Risks
- Dep. Credit Risks
- Dep. Financial Risks

#### Human Resources – Isabel Viegas

- Dep. Human Resources Management
- Dep. Administrative Management
- Dep. Training, Knowledge and Development
- Off. Compensation and Information

#### Chairman's Office – Sebastião Beltrão

#### Control/Operation Risk Management – Manuel Aragão

#### Recoveries – José Sousa

- Dep. Recoveries & Special Processes
- Dep. Recoveries & Mass Management
- Dep. Recoveries North
- Dep. Recoveries South

#### Standardized Risks – Inês Furtado

- Off. Risk Information Systems
- Dep. Private Risks
- Dep. Business Risks
- Dep. Follow Up Non Portfolio Customers

#### Wholesale Banks and Companies – Amílcar Lourenço

- Dep. Real Estate Risks
- Dep. Wholesale Banking
- Dep. Commercial Banking
- Dep. Follow Up Portfolio Customers

#### Solvency, Markets and Credit Control – Jesus Garcia

- Dep. Control & Analysis of Commercial Risks & BIS II
- Dep. Control & Analysis of Wholesale Risks
- Dep. Control & Analysis of Market & Financial Risks
- Dep. Technological Systems Risk Information

#### Planning and Risk Projects – José Leão

#### Higher Credit Council

### *Finance & International – Manuel Preto*

#### Finance – Luís Capitão-Mor

- Dep. Corporate Finance
- Dep. Shareholdings and Taxation
- Dep. Assets & Liabilities Management
- Dep. Short Term Markets
- Off. Strategic Planning and Investor Relations

#### International – António Carneiro

- Off. Support and Network Dynamics
- Dep. Subsidiaries and Management Control
- Off. Europe
- Off. America and Africa

### *Accounting & Management Control – Ignacio Centenera Galán*

#### Accounting – Graça Vale

- Div. Account Rendering Bank
- Div. Account Rendering Specialized Credit
- Div. Account Rendering Treasury
- Div. Monetary & Financial Statistics
- Div. Parameterization
- Div. Consolidation
- Off. Prudential Control

#### Management Control – Ana Cristina Marques

- Div. Commercial Banking Management Control
- Div. Group Consolidation Management Control
- Div. Expenses Management Control
- Div. Bank, AC and ALCO Management Control

#### Internal Control – Américo Domingues

#### Management Control Support – Manuela Marinho

### José Manuel Elias da Costa

#### Companies – North – Paulo Natal

- Companies Porto 1
- Companies Braga
- Companies Guimarães
- Companies Boavista - Porto
- Companies Aveiro
- Companies Viseu
- Companies Coimbra
- Companies Porto 2
- Specialists and Dynamizers North
- Customer Management & Follow Up North
- Companies Middle Office North
- Company Risks North

#### Companies – South – Jorge Gaspar

- Companies Rua do Ouro - Lisbon
- Companies Conde Valbom - Lisbon
- Companies Setúbal
- Companies Odivelas
- Companies Estoril
- Companies Leiria
- Companies Funchal
- Companies Columbano B. Pinheiro – Lisbon
- Companies Iberian - Lisbon
- Specialists and Dynamizers South
- Customer Management & Follow Up South
- Companies Middle Office South
- Company Risks South

#### Business Support to Company Network

#### Real Estate Credit/Construction Promotion – António Fontes

- Construction Promotion North
- Construction Promotion South



**Institutional Customers – Pedro Fialho**

Institutional Customers  
Dinamizing of Institutional Customers  
Off. Collective Protocols

**Factoring & Confirming– Maria do Carmo Carvalho**

Off. Private & Business Factoring & Confirming Management  
Off. Companies Factoring & Confirming Management

**International Desk– Pedro Correia**

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**João Baptista Leite**

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**Technology & Business Systems - Nuno Frias Costa**

Off. of Planning & Financial Control  
Off. of Government & Compliance  
Dep. of Planning Management & Technical Implementation  
Dep. of Business Processes  
Dep. of Network Means

**Operations – Elsa Graça**

Dep. of Middle Office, Assets & Liabilities  
Dep. of Trans-nationality, Forwarding & Records  
Dep. of Custody, Markets & Financial Assets  
Dep. of Leasing  
Dep. of Official Bodies & Contractual Support  
Dep. of Control, Innovation & Efficiency Systems  
Dep. of Accounting Controls

**Real Estate, General Services & Security – Pedro Rodrigues**

Off. of Security  
Off. of Financial Control  
Dep. of Works & Maintenance  
Dep. of Areas & Asset Management  
Dep. of General Services

**Organization – Otilia Casquilho**

Off. of Structures  
Off. of Planning & Control

**Integral Expense Management – Mário Paulino**

Off. of Purchasing Management  
Off. of Optimization & Expense Control

**Technological & Operational Risk – Esther Casillas**

Off. of Operational Risk  
Off. of Operational Treasury & Brokerage Risk  
Off. of Computer Security and Technological Risk

**Supplementary Channels – Joaquim Calça e Pina**

Off. Contact Centre  
Dep. Self-Banking  
Dep. NetB@nco

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**José Carlos Sftima**

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**Business Legal Consultancy**

Dep. Corporate Consultancy  
Dep. Network Consultancy  
Off. of Consultancy to Global Wholesale Banking

**Institutional & Compliance Issues – João Labareda**

Off. of Compliance  
Unit for Prevention of Money Laundering

**Supervision – João Pedro Mendes****Real Estate Divestment – Jacinto Galante**

Off. of Technical Divestment Regularization  
Off. of Real Estate Sales  
Off. of Divestment Contracting  
Off. of Divestment Management Control

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**José Leite Maia**

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**Private & Business – North – Manuel Cerejeira Castro**

Companies - North  
Privates - North  
Business Support - North  
Off. of Price Decision - North  
Private & Business North 1  
Private & Business North 2  
Private & Business North 3  
Private & Business North 4  
Private & Business North 5  
Private & Business North 6  
Private & Business North 7  
Private & Business North 8  
Private & Business North 9  
Private & Business North 10  
Private & Business North 11  
Private & Business North 12  
Private & Business North 13  
Private & Business North 14  
Private & Business North 15

**Private & Business – South – Sofia Frère**

Companies - South  
Private - South  
Business Support - South  
Off. of Price Decision - South  
Private & Business South 1  
Private & Business South 2  
Private & Business South 3  
Private & Business South 4  
Private & Business South 5  
Private & Business South 6  
Private & Business South 7  
Private & Business South 8  
Private & Business South 9  
Private & Business South 10  
Private & Business South 11  
Private & Business South 12  
Private & Business South 13  
Private & Business South 14  
Private & Business South 15  
Private & Business South 16  
Private & Business South 17

**Private Banking South – Luís Henrique S. Santos**

Private Banking South 1  
Private Banking South 2

**Support to Private Business– Miguel Cordovil****Management of Private Assets – Catarina Roseira****Private Banking North – Luís Coimbra**

**Premium – António Lourenço**

Dinamizing Premium North  
Dinamizing Premium South  
Off. of Support to Premium Segment

**Business Follow Up – António Velez do Peso**

Business Follow Up North  
Business Follow Up South  
Off. of Support to Business Follow Up

**Network Control & Dynamics – Joaquim Filipe**

Dep. Planning & Control of Network Management  
Dep. Network Operational Marketing  
Dep. Management & Dynamics of Commercial Network  
Off. of Support to Network Projects and Insurance Brokerage

**Support to Private & Business Network – Pedro Loureiro****Real Estate Promoters & Brokers – José Alberto Moura**

Off. of Management Support  
P&B North  
P&B South

**Studies & CRM– Sara Fonseca**

Off. Technical & Support  
Off. Study Analyses

**Control of Irregulars – Jorge Mogo**

Control of Irregulars - North  
Control of Irregulars – South  
Div. of Tele-collections  
Off. of Technical Support

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**Luís Bento dos Santos**

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**Quality – Abel Bernardes**

Dep. of Customer Support  
Dep. of Control & Assessment  
Dep. Customer Experience Management

**Image & Internal Communication – Rui Santos****External Communication – Cristina Neves****Public Relations & Events – Cristina Carvalho****Shareholders – José Pacheco****Economic Research– Rui Constantino****Universities– Marcos Ribeiro**

Universities  
Off. of Support for University Development  
Div. of Management Control of the Consolidated Group  
Div. of Management of Cost Control  
Div. of Bank, Ac & ALCO Management Control

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**Pedro Castro e Almeida**

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**Corporate and Investment Banking – João Veiga Anjos****Credit Markets – Cristina Melo Antunes****Global Transaction Banking – Hélder Gomes**

Global Customers - South  
Global Customers - North  
Off. for Dinamizing Global Customer Products  
Dep. of Institutional Custody

**Treasury – Alexandra Gomes**

Dep. of Fixed Income Corporate Sales  
Dep. of Fixed Income Retail Sales  
Dep. of Retail Structured Products, FX & Cash Equities

**Middle Office & GBM Control– António Rebocho**

Off. Sales & Trading Support  
Off. Global Transaction Banking Support  
Off. Loan and Markets Support

**Business Control– José Viegas****Financial Institutions Group – Carlos Ramalho****Marketing**

Dep. of Marketing Planning & Segments  
Dep. of Publicity & Communication

**Products & Private Services – Inês Oom de Sousa**

Off. Liabilities & Price List  
Off. Consumer Credit  
Off. Mortgage Loans

**Products & Company Services – Cláudia Barrocas**

Dep. Credit, Resources & Partnership Products  
Off. Transaction Banking  
Off. International Business  
Div. Customer Service  
Off. Correspondent Banks  
Off. Specialized Services

**Means of Payment – Inês Gouveia**

Off. Technical & Control  
Off. for POS  
Off. for Cards



## Positions occupied by Members of the Santander Totta Board of Directors in other companies

The main activities that the members of the Board of Directors of BANCO SANTANDER TOTTA, SA, fulfil outside the company, significant in themselves, are the exercise of the following offices in the Following companies:

Name	Company	Office
Matias Rodrigues Inciarte	Banco Santander, S.A (Spain).	Third Deputy Chairman of the Board of Directors
	Banco Espanhol de Crédito, S.A.	Member of the Board of Directors
	Financeira Ponferrada, S.A.	Member of the Board of Directors
	SCH Seguros e Reseguros, S.A.	Member of the Board of Directors
	União de Crédito Imobiliário, S.A.	Chairman of the Board of Directors
	Operador do Mercado Ibérico de Energia Pólo Espanhol, S.A.	Member of the Board of Directors
	Sanitas, S.A.	Director
António José Sacadura Vieira Monteiro	Portal Universia Portugal, S.A.	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Faculty of Social & Human Sciences	Member of the General Council
	Portuguese-Spanish Chamber of Commerce & Industry	Deputy Chairman of the Board of Directors
	Vieira Monteiro, Lda.	Manager
José Carlos Brito Sítima	Portal Universia Portugal, S.A.	Chairman of the General Meeting
	Partang, SGPS, S.A.	Member of the Board of Directors
	Tottaube – Empresa de Administração e Construções, S.A.	Chairman of the Board of Directors <sup>(1)</sup>
Luís Filipe Ferreira Bento dos Santos	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee
Eduardo José Stock da Cunha	Sovereign Bank	Member of the Board of Directors and of the Management Executive Committee MD, Head of Manufacturing
José Urgel Moura Leite Maia	Association of the Friends of Recife	Chairman of the Audit Board
Pedro Aires Coruche Castro e Almeida	Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	Chairman of the Board of Directors
	Trem – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
	SIBS – Forward Payment Solutions, S.A.	Member of the Board of Directors
	SIBS – SGPS, S.A.	Member of the Board of Directors
	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
Luís Manuel Moreira de Campos e Cunha	Serralves Foundation	Vice-President
	SEDES – Association for Economic & Social Development	President
	Galp Energia, SGPS, S.A.	Member of the Board of Directors
	Centro Cultural de Belém Foundation	Vice-President of the Management Committee
	Lisbon Nova University	Professor
Ricardo Manuel Duarte Vidal de Castro	Clube do Autor, S.A.	Director

(1) Terminated office on 02-02-12

## Movements in Shares and Bonds held by Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of Company Law and CMVM Regulation No. 5/2008, following were the movements in shares and bonds held by Corporate Officers in 2012:

Name	Securities	Opening 31/12/11	Movements in 2012				Closing 31/12/12
			Date	Purchases	Disposals	Unit Price (€)	
João Baptista Leite	BST – Cash U.S.A. – Cx.Bonds	820					820
	BST – Cash Income Latin America TOP 3 Bonds	400					400

### I - Report

This report is prepared in line with the provisions of art. No. 70, §2, item b) of Company Law

1. The Bank's share capital is 97.647% owned by Sociedade Santander Totta SGPS, SA, which is directly controlled by Santusa, SL, a Company incorporated under Spanish Law which owns in it a 99.848% shareholding.

In its turn the Santusa Company is fully owned by Banco Santander SA which thus indirectly holds the dominant control in Banco Santander Totta, SA.

There is a remaining 2.222% holding in the Bank's share capital that is owned by a Company under full, direct or indirect control of Companies Santander Totta, SGPS, Santusa and Banco Santander.

The remaining 0.131% of the total share capital is dispersed among several shareholders, with 0.019% corresponding to BST's own shares.

2. The shares representing the share capital are all of the same type and category, conferring similar rights to the respective holders, including voting rights and shares in profits.

Consequently there are no privileged shares of any type. Equally there are no restrictions whatsoever to the possibility of share transmissions, which are entirely free.

There is no statutory system covering employee participation in the Company's share capital.

3. Without prejudice to the provisions of the previous paragraph the articles of association rule that one vote is attributed to each lot of one hundred shares.

In order that shareholders have the right to take part in the General Meetings they must prove the registration or deposit of their shares in financial intermediaries from the fifteenth day prior to the date 7. the General Meeting has been called for.

4. The Company is not aware of any agreement that may have been concluded among shareholders.

5. The Company is organically structured in line with the provisions of article No. 278, §1, item a) of Company Law.

The corporate bodies are: the General Meeting, the Board of Directors and the Audit Board. Additionally, an official auditor, autonomous from the Audit Board, has been appointed in line with the provisions of article No. 413, §1, item b) and §2c of Company Law.

The mandates of the corporate officers are valid for a normal period of three years.

The Board of Directors comprises an Executive Committee on which are constituted all the powers permitted by article No. 407, §4 of Company Law.

The Board of Directors meets at least once every quarter and whenever it is called by the Chairman or by two Directors.

The Board of Directors is not empowered to decide upon increases in the Company's share capital.

Equally no special rules exist with respect to the appointment or replacement of Directors, or as to alterations to the articles of association, such situations being governed by General Law.

6. The Executive Committee is the body responsible for the current management of the business and for the Bank's representation. It meets monthly or whenever called by its Chairman or by any two of its members, continuously following the development of the company business, specifically through the analysis of projects in progress or to be developed, as well as the results obtained.

The permanent objective is the rationalization and uniformity of operations and technical support services to the Commercial Network.

The Company has not established any agreements whose entry into force is dependent upon the Bank's shareholder structure or that their alterations or termination derive from it.

Within the scope of the normal operation of banking activity, in its several components there are, however, contracts that confer on the counterparty the right to

terminate them in the event of changes in the Bank's shareholder structure and control, in line with what is current and common in banking practice.

Otherwise there are no agreements that confer upon corporate officers or employees the right to compensation when the termination of their binding to the Institution derives from their own initiative, from destitution or dismissal with just cause and reason or that occurs following a public offering.

## 8. The main business areas of the Bank are:

- Retail Banking – refers essentially to credit granting operations and to the capture of resources related to private and business customers with a turnover lower than five million euros, channelled by the branch network and services made available by supplementary channels (telephone, internet, etc.);
- Company Banking – This area comprises companies with turnovers between 5 and 125 million euros. This activity is supported by the branch network, by company centres and specialized services, including several products, such as loans to finance working capital, project finance, trading, exports and real estate;
- Global Banking & Markets – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and stock exchange brokerage orders received from customers;
- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but is not directly linked with the core business, also including liquidity management, balance sheet coverage and structural financing of the Bank.

## 9. The global model of the company's governance is that comprised under item IV

Itemized below are the most relevant and the specific activities of the multiple interdisciplinary Committees that follow up and control all the institutions activity.

### Higher Credit Council

Highest decision body in the Risk structure that exercises the powers delegated by the Executive Committee.

### Market & Financial Risks

Analysis of the governance information of the Risks area; analysis and control of the several risks; approval of procedures and controls to prevent or mitigate existing risks.

### ALCO – Assets and Liabilities Committee

Manages the market and liquidity structural risk, establishes contingency plans, promotes hedging strategies, and decides strategic positioning in order to optimize net interest income and the profitability of the equity funds.

### Human Resources Committee

Analysis and decision concerning changes and exceptions to the current HR management policies.

### ARC – Analysis and Resolution Committee

Prevents Money Laundering and Financing Terrorism and carries out the communications established by Law.

### Marketing and Product Follow Up

Approval of product and services and their respective follow up, singling out incidences that may occur and the reputation risk they may generate.

### Expenditure and Investments

Assesses, decides, follows up and controls expenditure and investment.

### Pensions

Carries out the corporate policy over pensions and fully controls the respective risks.

### Commercial (Private, Companies, Business, Premium, University Business and International Business)

Follows up the evolution of operating income, ensuring that it proceeds in line with the established objectives, accompanies proposals and decides over the launching of products and campaigns.

### Customer Capturing and On-Boarding

Redesigns the model of capturing and binding of customers for the development of a sustained and sustainable model of customer capturing that supports the Bank's growth requirements.

### Distribution and Multi-channelling Model

Redesigns the distribution model and adapts it to the requirements of the new commercial model.

### Customer Quality and Experience

Monitors and assesses general quality indicators within the scope of the quality management model.

### Internal Control and Compliance



Follows up and supervises compliance policies and promotes an internal control environment, specifically through the effective application of the Risk Management system.

### **Technological and Operational Risk**

Establishes and follows up the implementation of control and mitigation measures to be applied in case of technological and operational risk.

### **Disposal of Real Estate**

Analysis and decision on the disposal of real estate with values equal to or in excess of 200,000 euros.

### **Risk Models**

Guarantees the alignment of the local areas involved in the development and follow up of risk models, as well as their inclusion in management procedures. Involvement must occur at the Higher Management level.

### **Standardized Risks**

Analyse, issue view on or approve Programmes of Credit Management (PCM), follow up the indicators and supervise the credit management policies applied.

### **Analysis and Follow Up of Provisions**

Ensure the correct operational management of the provisions set up and decide upon credit provisions that should be binding.

### **Public Policy**

Follows up known legislative or regulatory projects as well as standards of conduct.

### **Sustainability**

Establishes the Social Responsibility Strategic Plan, jointly with the Santander Group corporate plan.

### **Taxation**

Assesses the legal changes and fiscal rulings with impact on the Group's institutions to determine the appropriate measures to comply with rules and requirements comprised in tax legislation.

10. The Bank fully complies with Instruction No. 5/2008 from the Bank of Portugal, with respect to Internal Control.

Within this framework, the Bank practices a system of risk identification and management in line with articles Nos. 11 and 12 of the above referred instruction and has the required organization to bring about a proper and appropriate controlling environment and a sound risk management system.

Policies and procedures are specifically established with respect to all the risks referred to in article No. 11 of the above mentioned Instruction No. 5/2008.

Such policies and procedures are available and easily accessed by all the institution's employees through their disclosure in the appropriate area of the Bank's intranet system.

11. The duties of risk management, compliance and auditing missions are duly instituted in legal and regulatory terms.

Following are the general lines that rule the organization and operation of the above referred three missions.

### **a) Risk Management Mission**

The Risk Management Mission (RMM) is transversal to the Santander Totta Group. The mission is comprised in the Control Office / Risk Management Mission (CORMM), established in BST's organic structure.

Due to the major interconnection between Group companies, with a significant portion of risk measuring and control operations ensured by transversal central services, it was decided the RMM should adopt a transversal and common service feature to all the Credit Institutions and Finance Companies dominated by Santander Totta, SGPS, SA.

This feature's general mission is to ensure an efficient and adequate operation of the internal control model, aiming to assess the relevance of the incurred risks and the degree of effectiveness of the measures adopted for its control, mitigation and overcoming.

RMM was set up with the highest level of independence, that is, without any direct responsibility over any executive duty or first or second line of control over the activities to be assessed and thus with the capability of carrying out its own tests with the objective to ensure the effective application of the risk management system.

The Executive Committee (EC) conferred on this body the widest possible powers to apply its mission, basing its activity on the applicable legislation and on the following principles and duties:

- Full access to all the institution's activities as well as to all considered as relevant in the audit reports;
- Independence relative to the assessed areas;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and in the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Board;

- Promotion of an adequate and efficient level of control extensive to the whole organization considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputation and Strategic Risks, without prejudice to any others that, in the view of the institution, may become material;
- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements with respect to the development of new tools and the estimate of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Board the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board considers as opportune.

In total agreement with these competences, the CORMM was set up under the control of the EC, which also ensures the greatest autonomy and freedom in the exercise of its duties.

The CORMM is applying a specific methodology developed to assess the reach and effectiveness of the controls and mitigation processes of the Risk profiles, which has materialized in a number of tests or checks of the requisites specifically recommended for each type of risk. Such tests and requisites were based on the recommendations issued by the Basle Committee and by the European Banking Authority (EBA, ex-CEBS), by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), by the Federal Reserve System (FED), Sarbanes-Oxley Law (SOX), Financial Services Authority (FSA) and other standard and regulatory bodies. Also considered was the Portuguese case, especially the regulations covering Internal Control contained in the General Regime of Credit Institutions and Finance Companies (GRCIFC) and connected documentation such as CMVM and particularly in the Risk Assessment Model (RAM).

The activity developed by the Risk Management Mission is usually documented in a specific annual report, the "CMM Report", the last of which is dated May 2012. This document is intended to be used as a support to the Internal Control System of the Santander Totta Group, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred Report.

As a complement, the activity was directed towards the accompaniment of the Special On-Site Inspection Programme (SIP) promoted by the Bank of Portugal, with the support of international auditors and consultants, under the supervision of IMF/ECB/EU, the excellent results of which confirmed, in all regards – *Work Stream* (WS) 1,

2, 3 and 4 – the certainty of the correct adequacy of the policies, procedures and controls instituted by Santander Totta.

WS1 acted on the assessment of the credit portfolio; WS2 on the capital requisites for credit risk ("RWA"); WS3 on the methodologies and parameters used in the Stress Tests; and WS4 on the assessment of the credit portfolio on the activities of real estate promotion and construction "Commercial Real Estate (CRE) and Construction".

The main conclusions identified: for WS1, that after 100% of the portfolio had been assessed no additional provisions had to be constituted; for WS2 that Core Tier 1 ratio would increase by 0.1 percentage points with the application of the revision carried out; for WS3 that ST uses a clearly appropriate methodology in its stress test exercises. The WS4 results were disclosed in November 2012 with reference to 30 June 2012, and indicated the need for an additional 49 million euro parity, which had anyway already been provided for in September, with the result that BST was also the only bank that had not shown additional provisioning needs in this WS.

## b) Compliance Mission

The Bank has given precedence, for some time, to the autonomy, follow up and control of risks that could be contingent to incurring in legal or regulatory sanctions, as well as in financial or reputation losses, as a result of non compliance with any legal or regulatory provisions that could be considered as applicable, whether legal or regulatory, and also deriving from an infringement to the Codes of Conduct or procedures that do not conform to ethical standards or the required best practices.

The compliance mission is comprised in the Department for Coordination of Institutional and Compliance Issues (DCICI). The officer responsible is the Compliance Manager, Dr. João António Cunha Labareda, with the following specific duties and attributions:

- DCICI is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;
- DCICI has its own staff, who are employees of the institution, exclusively affected to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;
- DCICI, in exercising its mission, has free access to all information and data relative to the Bank's activity that it may request or require, as well as to the Institution's facilities and equipment;

- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputation and compliance risks and, should it be the case, the correction of the incidences occurred;
- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by DCICI that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;
- Policies and procedures are approved and established for marketing products, as well as the process and offices for the respective approval and follow up that aim, on the one hand, to guarantee the prior checking of all the necessary requisites in order that marketing operates without legal, reputation and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, enter the justifiable overcoming measures, which may include the interruption or the termination of the marketing exercise when circumstances so determine or advise. In this context, special relevance is assumed by the assessment and follow up of the reputation risk inherent to the products or that may arise during the exercise of the marketing operation by the occurrence of on the spot adverse circumstances that, in some way, may affect those, or that are relevantly incident on customer relationship;
- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its scope, to external branches and subsidiaries. Several of these already have officers responsible for compliance that locally exercise the corresponding duties. In remaining cases, where the type of operation of the activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in Portugal. DCICI, within the framework of its mission, controls the performance of such duties by the respective responsible officers.

On another level, and in order to ensure the most efficient and effective means to perform its mission, the

Management promoted the institutionalization of specific compliance committees especially designed for the more sensitive areas, such as those closer related to the financial markets, that operate periodically - monthly as a rule – and that allow considering the established practices, assess their conformity with applicable legal and regulatory standards, keep the areas informed as to innovations occurred and guarantee that these are carried out, control compliance with information and other applicable requirements, identify possible incidences and, should it be the case, analyse and implement the appropriate mitigation and preventive measures. These committees are directed and coordinated by DCICI, with the officers responsible for the involved areas taking part in the respective meetings.

Also singled out, in this framework, is the institutionalized connection with the Quality area – responsible for following up and processing customer's complaints – in order to follow up the evolution of the situation in this field and, mainly, to examine, from the typology of the complaints, possible omissions or inadequate practices that these may point out, so as to provide the appropriate adjustments or corrections.

The Compliance Management equally comprises the Internal Control and Compliance Committee that has general control and risk management duties.

Without prejudice to the permanent and systematic contacts with the Board of Directors, and mainly with the Director responsible, the activity developed within the scope of the compliance mission is the object of an annual report.

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2011) and the end of May 2012.

In line with the above, the opinion of the Compliance Manager is that the Bank should proceed in accordance with the regulatory framework of the compliance mission, contained in Instruction No. 5/2008.

### c) Audit Mission

The basic duties of Internal Audit are:

- Supervise the compliance, effectiveness and efficiency of the Group's systems of internal control, as well as the reliability and quality of the accounting information. For this purpose the risks inherent to the Group's activity are adequately covered, particularly the accounting risks, market risks (that include interest and exchange rates), of the balance sheet structure (that includes liquidity risks), credit, operational,

(including the adequate launching of products), money laundering, regulatory and reputation;

(size of Unit, last rating obtained, and degree of implementation of the recommendations).

- Check that the Units responsible to exercise Risk controls comply with their duties and respect the policies established by the Board of Directors, and the applicable internal and external procedures and standards. Likewise, it analyses the latter's organizational structure and the adequate use of the assigned human resources and material means;
- Carry out special investigations, both on its own initiative and at the request of the Board of Directors;
- Prepare reports on all the audited units and advise these of the recommendations issued as a result of the audit procedures, establishing an implementation schedule and following this up to check that such recommendations are being carried out.

Based upon the assessment of all these factors the Overall Units covered are classified as Priority, Concerning, To Be Watched, Normal and Not Concerning. Amongst the Regulatory requisites are the carrying out of revisions of the Basle II project and DMIF. Additionally, the units' revisions include the analysis and checking of the SOX processes.

The officer responsible for the internal audit mission is Dr. Miguel Cabeza, appointed by the Board of Directors, who conferred on him all the necessary powers for the independent performance of his duties, with free access to all relevant information.

The staff of the Internal Audit Department comprises 28 employees, distributed over the areas of Financial Risks, Credit Risks and Operational Risks, and all of them are University graduates.

The Risk Matrix gives priority to the units covered by the Internal Audit, in line their inherent degree of risk. The matrix assesses the business risks implicit to the units during the previous accounting year and other factors

## II. Remuneration

### 1. Remuneration Policy of Corporate Officers applicable in 2012

Following a proposal of the Remuneration Committee, the General Meeting held on 28 May 2012 approved the following statement on remunerations policy.

#### Remuneration Policy of Corporate Officers

##### A. Framework

The remuneration Policy of Bank Santander Totta is framed within the directives established by the Bank's majority shareholder for all the Santander Group, which is laid out, with the involvement of external consultants, in line with the best practices existing in the sector. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Corporate Officers is reviewed and approved on an annual basis. In the respective definition, proposals were laid down and recommendations prepared to ensure that the remunerations are adequate and reflect the Bank's risk profile and long term objectives.

The current Remuneration Committee was elected for a three year mandate, at the meeting of the General Meeting held on 28 May 2010, and comprises the following individualities:

D. Alfredo Saenz Abad, representing Santander Totta SGPS  
D. José Luis Gómez Alciturri  
D. Matias Pedro Rodriguez Inciarte, appointed on 27 May 2011.

##### B. Santander Group Policy

Since the remuneration policy to be followed is necessarily and fully integrated in the Santander Group's policy it is relevant to refer the very competitive environment in which this activity is developed and that the achievement of its objectives depends, in a large measure, on the quality, capability for work, dedication, responsibility, knowledge of the business and on the commitment to the institution, of those who perform key functions and that lead the organization.

These are the premises that generally determine the Group's remuneration policy, with special reference to the executive directors, and that allow attracting and retaining talents in the organization, considering the wide scope of the market in which it operates.

Consequently, the remuneration policy of the members of the Board of Directors has, as it already had in the past concerning the executive directors, the following objectives:

- Ensure that the total remuneration and respective structure (comprising the different short , medium and long term components) are competitive with the practices in the international financial sector and coherent with the Group's leadership rationale;
- Maintain a fixed balanced component in line with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the interests of the shareholders.

In the case of the remuneration of non-executive duties, the remuneration policy equally aims to compensate the dedication, qualification and responsibility demanded for the respective performance.

Already in 2010, at Group level, a Committee for the Assessment of Risks in Remunerations was set up, whose members are individualities with recognized competence and impartiality, which aims to assess the quality of the results, risks incurred and achievement of objectives.

Thus the Group, following on what has been its custom, will continue to align its remuneration policy with the best market practices, anticipating, in general terms and within adequate measures, the concerns shown in the new Portuguese regulations.

## C. Guiding principles of the Remuneration Policy of Bank Santander Totta

In line with the above, the general guiding principles in setting remunerations are the following:

- Simplicity, clarity, transparency, aligned with the Bank's culture, and also considering the group to which it belongs;
- Consistency with an effective risk and control management to avoid excessive exposure to risk and conflicts of interest, on the one hand, and endeavouring coherence with the objectives, values and long term interests of the Bank, whose capacity for reinforcing its equity basis it preserves, jointly with its employees, and, on the other, the interests of its customers and investors;
- Competitiveness, considering the market practices and fairness, since the practice of remuneration is based upon uniform, consistent, fair and balanced criteria;
- Alignment with the best practices and recent trends in the financial sector, at national and international levels, with the ultimate objective of discouraging the exposure to excessive risks and to promote the continuity and sustainability of positive performances and results, namely: i) the setting of maximum limits for the Remuneration components that must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establishing the individual Variable Remuneration considering the assessment of the respective performance, based upon financial and non financial criteria, in line with the duties and level of responsibility, as well as the Bank's results, and also in comparison with other international institutions in the same sector;
- The legal rulings in force at each moment are applied to early termination of contracts;
- No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

## D. Components of the Remuneration Policy

In line with the above principles, the following is assumed:

- The Remuneration Policy of Corporate Officers is framed within the Group's directives that were laid down in line with the best practices existing in the sector
- The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
  - (i) Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
  - (ii) Annually, by the Group's Managing Director, with respect to the Chairman of the Bank's Executive Committee.
- Concerning the non executive directors, the Chairman of the Board of Directors does not receive any remuneration in Portugal, and is remunerated exclusively for his activity in Spain; the other non executive Director receives Fixed and Variable remuneration, the amount of which is directly related to the results of Bank Caixa Geral Totta de Angola, where he has executive duties.
- The members of the Audit Board receive only a fixed remuneration the amount of which is determined in line with the criteria and practices in use in the remaining Group companies, considering the size of the business and of the Portuguese market.
- Considering that the conditions under which the variable remuneration is established and paid result in an indeterminate value and eventual payment, it is not possible to determine a maximum absolute limit for the relation between the fixed and variable remuneration of the executive directors. For this reason, with respect to 2012, the only indication given will be the estimated proportion that results for each of the components in the total remuneration, considering the practice followed in previous years.



## D.1. Fixed Remuneration

- Fixed Remuneration is paid 14 times per year;
- The Fixed Remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank's results, the assessment of performance and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Remuneration of the executive directors has the limits annually set by the Remunerations Committee, and should not be, in 2012, lower than 40% of the Total Remuneration.

## D.2. Variable Remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2012, it will amount to more than 60% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established by the Group;
- The determination of the value of the Variable Remuneration is based upon the following criteria: i) the results of the Bank and of the Group it comprises, although, as to the latter, with a lower relative weight, and considering the indicators of efficient capital consumption and the average growth of the operating results; ii) individual performance, considering the individual quantitative results achieved, as well as the contribution to the Bank's image and reputation;
- Attribution of Variable Remuneration equally depends upon the degree of achievement of the annual objectives established;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary in each year as a function of the degree of achievement of the objectives, between 0% and a value that in 2012 is estimated not to be in excess of 150% of the reference value established annually by the Remunerations Committee;
- The weighting of the achievement of the strategic objectives set by and for the Bank, either in absolute terms, or by comparison with other institutions in the sector, for the purpose of establishing the Variable Remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
- In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be placed in suspense until such claims have been established and, should these be conclusive, the respective remuneration will not be attributed until such damages have been settled.

### D.2.1 Deferment of Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, with reflex on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander, S.A.;
- The deferment of Variable Remuneration is determined as a function of results obtained during a three year period and subject to the following cumulative conditions being achieved: i) permanence in the company during an established given period; ii) preservation of the level of financial performance of the Santander economic group during the referenced three year period; iii) non occurrence of significant variations in the economic capital or in the risk profile of the Santander Group; iv) compliance with internal standards, including those relative to risks, annually approved by the Group;
- The deferred portion will represent 40% of the total value of the Variable Remuneration, with respect to the main body of executive directors and may, in specific circumstances, reach 50%;
- Half of the non deferred portion will be paid in shares and the remaining half in cash;

- Half of the deferred amount is paid in shares and the other half in cash, the payment of the latter portion to be effected in three instalments, during the three coming years, and will be dependent upon the above referred conditions;
- Shares distributed to the members of the Executive Committee do not benefit from any risk coverage contract and will remain, until the termination of their respective contracts, subject to the condition that the shares continue held, until their value reaches twice the value of the amount of the Total Remuneration (without prejudice to the possibility of shares being disposed of should this be required in order to settle taxes resulting from the benefits of those same shares).

#### **D.2.2. Identification of the deferred portion and of that already paid**

On this date, with respect to two directors, two thirds of the Variable Deferred Remuneration relative to 2010 has been deferred, and one third of this Remuneration has already been paid in the current year.

Concerning the 2011 variable remuneration relative to members of the Executive Committee, 30% have been paid in cash and 30% in shares. The payment of the remainder has been deferred.

#### **D.3. Amounts paid by other companies owned or related to the Group**

It is not estimated that, in 2012, any amounts will be paid to the executive directors, by other companies owned or related to the Group.

#### **D.4. Benefits**

Attribution of benefits is carried out in order to ensure compatibility with company strategy, with the objectives, the values and the Bank's long term interests.

- Executive Directors benefit from a life insurance policy, of which the sum capital insured is equivalent to twice the value of the Fixed Remuneration of the officer concerned;
- The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service;
- The executive directors that have concluded a labour contract with the Bank, notwithstanding the suspension of the referred contract, are covered by a complementary pension plan established by the Group for all its managerial staff the terms of which were approved by the respective Boards of Directors, and the voting right not having been attributed, when such decisions were taken, to the directors who would benefit from this plan;
- The executive directors benefit equally from health insurance and from the advantages resulting from collective regulations applicable to employees, including housing credit.

### **E. Complementary features**

The attribution of option plans for 2012 is not envisaged.

Considering the provisions of §5 of article No. 403 of Company Law, statutory limitations to compensation for early termination of services by Corporate Officers have not been established nor is it envisaged that these should be introduced.



It is not foreseeable that, in 2012, any compensation will be paid for early termination of services by Corporate Officers.

## **F. Compliance with the remuneration policies established by the Bank of Portugal**

This remuneration Policy of the Bank's Corporate Officers is fully in line with the principles comprised in the Bank of Portugal's Instruction No. 10/2011, dated 26 December (Official Gazette, 2nd series, dated 9 January 2012), guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determination of the total remuneration of those Officers, comprising fixed and variable components, as well as the connection between these components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Instruction, which is manifestly its basic source.

The circumstance of the Bank being comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in turn, considering the global nature of the Group, respect the applicable international regulations.

### **2. Remuneration and Other Benefits Attributed to Corporate Officers**

This information is provided in order to comply with the provisions of article No. 3 of Law 28/2009, dated 19 June, and in article No. 17 of the Bank of Portugal's Instruction No. 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), in that part that refers to the disclosure of the annual amount paid in remunerations to Corporate Officers.

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2012 were, respectively, 2,337,000 euros in fixed remunerations and 3,338,000 euros in variable remuneration.

Paid and deferred individual remuneration is shown in the table below.

On 31 December 2012 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 1,135,000 euros.

## Annual Remuneration

### Board of Directors

Name	Position	Remuneration fixed
Matias Pedro Rodriguez Inciarte	Chairman	-
António José Sacadura Vieira Monteiro *	Vice - President	482
Carlos Manuel Amaral de Pinho	Non-Executive Member	139
Eduardo José Stock da Cunha	Non-Executive Member	-
João Baptista Leite	Member	200
José Carlos Brito Sítima	Member	273
José Urgel Moura Leite Maia	Member	200
José Manuel Alves Elias da Costa	Member	257
Luís Filipe Ferreira Bento dos Santos	Member	231
Pedro Aires Coruche Castro e Almeida	Member	210
Nuno Manuel da Silva Amado **		161
Miguel de Campos Pereira de Bragança ***		85
		<u>2,238</u>

\* Appointed on 31/01/2012

\*\* Renounced office on 27/01/2012

\*\*\* Renounced office on 11/02/2012

### Audit Board

Name	Position	Remuneration fixed
Luís Campos e Cunha	Chairman	60
Mazars & Associados, SROC	Member	15
Ricardo Castro	Member	24
		<u>99</u>

## Annual Variable Remuneration

Remuneration in cash:

### Board of Directors

Name	Position	Bonuses in 2012 (cash)
António José Sacadura Vieira Monteiro	Vice - Presidente	158
Carlos Manuel Amaral de Pinho	Non-Executive Member	83
João Baptista Leite	Member	79
José Carlos Brito Sítima	Member	122
José Urgel Moura Leite Maia	Member	120
José Manuel Alves Elias da Costa	Member	143
Luís Filipe Ferreira Bento dos Santos	Member	129
Pedro Aires Coruche Castro e Almeida	Member	170
		<u>1,004</u>

Remuneration in shares:

**Board of Directors**

Name	Position	Bonuses in 2012 retained by one year
António José Sacadura Vieira Monteiro	Vice - President	147
Carlos Manuel Amaral de Pinho	Non-Executive Member	78
João Baptista Leite	Member	73
José Carlos Brito Sítima	Member	114
José Urgel Moura Leite Maia	Member	112
José Manuel Alves Elias da Costa	Member	134
Luís Filipe Ferreira Bento dos Santos	Member	120
Pedro Aires Coruche Castro e Almeida	Member	159
		<u>937</u>

This amount corresponds to 156,212 shares of Banco Santander, S.A., at the value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

The Santander Group, in which the Bank is comprised, also has a long term worldwide incentive plan, naturally including Bank Banco Santander Totta, S.A., which is divided into cycles.

On 09 July 2012, the fourth cycle of the share plan bound to objectives was finalized. Within this, the total number of shares attributed to members of the Board of Directors numbered 35,850, at the value of 4.883 Euros per share (market value on that date). The individual value attributed to each member of the Board of Directors, which corresponds to the shares attributed in I12, was the following:

**Board of Directors**

Name	Position	Shares Plan I12 amount
António José Sacadura Vieira Monteiro	Vice - President	21
Carlos Manuel Amaral de Pinho	Non-Executive Member	14
João Baptista Leite	Member	11
José Carlos Brito Sítima	Member	21
José Urgel Moura Leite Maia	Member	23
José Manuel Alves Elias da Costa	Member	26
Luís Filipe Ferreira Bento dos Santos	Member	27
Pedro Aires Coruche Castro e Almeida	Member	32
		<u>175</u>

## Deferred Remuneration

Deferred remuneration in cash relative to 2012 was as follows:

### Board of Directors

Name	Position	Bonuses in 2012		
		2014	2015	2016
		Cash	Cash	Cash
António José Sacadura Vieira Monteiro	Vice - President	52	52	52
Carlos Manuel Amaral de Pinho	Non-Executive Member	19	19	19
João Baptista Leite	Member	17	17	17
José Carlos Brito Sítima	Member	27	27	27
José Urgel Moura Leite Maia	Member	27	27	27
José Manuel Alves Elias da Costa	Member	32	32	32
Luís Filipe Ferreira Bento dos Santos	Member	29	29	29
Pedro Aires Coruche Castro e Almeida	Member	38	38	38
		<u>241</u>	<u>241</u>	<u>241</u>

Deferred remuneration in shares relative to 2012 was as follows:

### Board of Directors

Name	Position	Bonuses in 2012		
		2014	2015	2016
		shares	shares	shares
António José Sacadura Vieira Monteiro	Vice - President	8,169	8,169	8,169
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,885	2,885	2,884
João Baptista Leite	Member	2,723	2,723	2,723
José Carlos Brito Sítima	Member	4,220	4,220	4,221
José Urgel Moura Leite Maia	Member	4,149	4,149	4,149
José Manuel Alves Elias da Costa	Member	4,963	4,963	4,964
Luís Filipe Ferreira Bento dos Santos	Member	4,452	4,452	4,452
Pedro Aires Coruche Castro e Almeida	Member	5,876	5,876	5,876
		<u>37,437</u>	<u>37,437</u>	<u>37,438</u>

On this date two thirds of the variable remuneration relative to 2011 has been deferred, and one third of that remuneration paid in the current year.

### Board of Directors

Name	Position	Bonuses of 2011 paid in February 2013			
		Interest	Dividend	Cash	Shares
António José Sacadura Vieira Monteiro	Vice - President	0.2	1	10	10
Carlos Manuel Amaral de Pinho	Non-Executive Member	-	1	-	11
João Baptista Leite	Member	0.1	1	6	7
José Carlos Brito Sítima	Member	0.2	1	10	10
José Urgel Moura Leite Maia	Member	0.2	1	10	10
José Manuel Alves Elias da Costa	Member	0.2	2	13	14
Luís Filipe Ferreira Bento dos Santos	Member	0.2	1	12	13
Pedro Aires Coruche Castro e Almeida	Member	0.5	3	25	27
		<u>2</u>	<u>11</u>	<u>86</u>	<u>102</u>

The amount corresponds to a number of 17,012 shares in Banco Santander, S.A., at a value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

### Board of Directors

Name	Position	Bonuses in 2011			
		2014		2015	
		Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Vice - President	1,703	10	1,703	10
Carlos Manuel Amaral de Pinho	Non-Executive Member	1,773	-	1,773	-
João Baptista Leite	Member	1,087	6	1,086	6
José Carlos Brito Sítima	Member	1,703	10	1,704	10
José Urgel Moura Leite Maia	Member	1,703	10	1,704	10
José Manuel Alves Elias da Costa	Member	2,409	13	2,409	13
Luís Filipe Ferreira Bento dos Santos	Member	2,138	12	2,138	12
Pedro Aires Coruche Castro e Almeida	Member	4,496	25	4,495	25
		<u>17,012</u>	<u>86</u>	<u>17,012</u>	<u>86</u>

On this date one third of the variable remuneration relative to 2010 has been deferred, and one third of that remuneration paid in the current year

#### Board of Directors

Name	Position	Bonuses of 2010 paid in February 2013	
		Dividend	Shares
José Manuel Alves Elias da Costa	Member	1	3
Pedro Aires Coruche Castro e Almeida	Member	4	19
		5	22

The amount corresponds to a number of 3,725 shares in Banco Santander, S.A., at a value of 6 Euros per share, this being the market value (stock exchange) on the date of the respective attribution.

#### Board of Directors

Name	Position	Bonuses of 2010 to pay in 2014
		Shares
José Manuel Alves Elias da Costa	Member	588
Pedro Aires Coruche Castro e Almeida	Member	3,137
		3,725

#### Other Benefits

With respect to post employment benefits, the members of the Board of Directors who are contractually bound to BST and that are not inserted in the plan referred to below are comprised in the pension plan of the Collective Labour Agreement for the banking sector subscribed by the Bank.

In 2010, the group set up a plan with an established contribution for its entire managerial staff. This plan also includes the members of the Board of Directors that are not comprised in the plan referred to below.

The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service

On 31 December 2012, liabilities with this plan amounted to 13,735,000 euros and are duly covered by a provision recorded in the Bank's accounts.

#### Contractual Terminations

There were no payments, in 2012, of any compensation for early termination of employment of corporate officers.

### 3. Remunerations Policy applicable in 2012 to the Managerial Staff of Bank Santander Totta, S.A.

At its meeting held on 20 June 2012 the Board of Directors approved the following remunerations policy.

## Remunerations Policy applicable to the Managerial Staff of Bank Santander Totta, S.A.

In the terms and for the purposes of the provisions of article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy is disclosed of the employees who, not being Corporate Officers of Bank Santander Totta, S.A. (the “Bank”), exercise their professional activity within the scope of the control missions comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank’s risk profile.

Considered for this purpose are the Managers referred to in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July (responsible for the Audit, General Control of the Bank’s Risks, Compliance and Credit and Market Risks areas), as well as those responsible for the Financial, Accounting and Management Control areas.

### A. Framework

The Remuneration Policy of Managerial Staff follows the principles in force for the Bank’s remaining employees, as comprised in the directives established by the Bank’s majority shareholder for all the Santander Group and laid out, with the involvement of external consultants, in line with the best practices existing in the sector. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Managerial Staff is annually reviewed and approved by the Board of Directors, in the exercise of the competence that may be delegated on the respective Executive Committee, The Bank’s Human Resources Management also took part in its definition, putting forward recommendations intended to ensure that remunerations are adequate and reflect the Bank’s risk profile and long term objectives, and also conform to legal and regulatory standards, as well as with the national and international pertinent principles and recommendations.

### B. The Santander Group Policy

Since the following remuneration policy is necessarily and fully comprised in the Santander Group policy, reference should be made to the extremely competitive context within which the Group’s activity is developed and the circumstance that the achievement of its objectives largely depends upon the quality, the capacity for work, the dedication, responsibility, knowledge of the business and commitment towards the institution, from those that perform key duties in the organization.

These are the premises that generally determine the Santander Group’s remuneration policy and that allow attracting and retaining talents in the organization, considering the global cover of the market within which it operates.

Consequently, the remuneration policy of these groups of employees has, as it did in the past, the following objectives:

- Ensure that total remuneration and its respective structure (made up by the different short, medium and long term components) are competitive with the practice of the international financial sector and coherent with the Group’s leadership rationale;
- Maintain a fixed relevant and balanced component in relation with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the shareholders’ interests.

The Group set up, in 2010, a Committee for the Assessment of Remuneration Risks, whose members are individualities of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives, all features that have an impact on remunerations.

Thus the Group, following on what has been its practice, will continue to align its remuneration policy with the best market practices, anticipating in general terms and within the adequate measures, the concerns evident in the Portuguese regulations.

## C. Guiding Lines of the Remuneration Policy

In line with the above, the general guiding principles of the remunerations policy have been and must remain the following:

- Definition of a policy that must be simple, clear, transparent and aligned with the Bank's culture, equally considering the Group it comprises;
- Definition of a policy consistent with an effective management and risk control to avoid excessive exposure to conflicts of interest, on the one hand, and searching for coherence with the Bank's long term objectives, values and interests, which preserve its capability to reinforce the base of its equity funds, and its employees, as well as the interests of its customers and investors, on the other;
- Definition of a competitive and equitable policy, considering market practices, since the practice of remuneration must be based on uniform, fair and balanced criteria;
- Alignment of the remuneration policy with the best practices and recent trends of the financial sector, at national and international levels, with the ultimate objective to discourage exposure to excessive risks and promote the continuity and sustainability of achievements and positive results, namely: i) the setting of maximum limits for the several components of remuneration, which must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establish the individual Variable Remuneration considering the Bank's performance, as well as the assessment of individual assessment based on financial and non financial criteria, in accordance with duties and level of responsibility;
- For the employees that exercise control duties, in the meaning of Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, and in addition to benefits that are not related to remuneration that may eventually be due, the variable component of the respective remuneration takes into consideration the assessment of individual performance and, materially, the specific objectives related with the duties exercised, and since it does not depend from performance in business areas, item c) of §2 of Chapter IV is thus not applicable in this area;
- The legal regime in force at each moment is applicable to early termination of contracts.

## D. Components of Remuneration Policy

In line with the above principles, the following is assumed:

- This Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the practices existing in the sector;
- The means for the assessment of the Managers' performance derive from the referred directives. This assessment is carried out on an annual basis by the Directors responsible for the respective areas. Whenever these managers report to two different areas, the assessment is also carried out by the Group officer responsible for the other area in question;
- Since the conditions for the establishment and payment of the variable remuneration render its final value indeterminate and its payment eventual, it is not possible to set an absolute maximum limit for the relationship between the fixed and variable components of the Managerial remunerations. For this reason, with respect to 2012, the only possible indication will be the estimated proportion that each of the components will represent in the total remuneration, having as a reference the practice followed in prior years.

## D. 1. Fixed Remuneration

- Fixed remuneration is paid 14 times a year;
- Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 2012, it will represent a lower proportion than 67% of Total Remuneration.

## D. 2. Variable Remuneration

- Managerial remuneration equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2012, it will amount to more than 33% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established by the Group;
- The determination of Variable Remuneration will thus be based on the following criteria: (i) the Bank's performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results, except in the case of the Managers referred to in Instruction No. 5/2008 of the Bank of Portugal; (ii) individual performance, considering the individual quantitative results achieved, as well as the contribution to the Bank's image and reputation;
- The attribution of Variable Remuneration depends upon short term performance and on the degree of achievement of the established annual objectives individually weighted in line with the respective degree of strategic importance and in the terms of the schedule defined in the Performance Assessment Policy;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary each year in terms of the degree in the achievement of objectives, between 0% and a value that in 2012 is estimated as not in excess of 150% of the reference value, such as determined by the majority shareholder.

### D. 2. 1. Deferment of Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, with reflex on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander,
- In the terms of the Regulation approved by the Board of Directors of Banco Santander, S.A., the deferment of Variable Remuneration is determined as a function of results obtained during a three year period and subject to the following cumulative conditions being achieved: i) permanence in the company during an established given period; ii) preservation of the level of financial performance of the Santander economic group during the referenced three year period; iii) non occurrence of significant variations in the economic capital or in the risk profile of the Santander Group; iv) compliance with internal standards, including those relative to risks, annually approved by the Group;
- The deferred portion will represent 40% of the value of the Variable Remuneration;
- Half of the non deferred portion will be paid in shares and the remaining half in cash;



- Half of the deferred amount is paid in shares and the other half in cash, the payment of the latter portion to be effected in three instalments, during the three coming years, and will be dependent upon the above referred conditions, under *b*);
- The shares immediately given to the employees covered by this regulation are subject to their being held during one year and do not benefit from any risk covering contract; shares given on a deferred basis are not subject to a holding condition.

#### **D. 2. 2. Identification of the deferred portion and of that already paid**

None of the Managers covered by this Declaration was subject to a deferment of a portion of Variable Remuneration relative to prior years.

#### **D. 3. Benefits**

Attribution of benefits is carried out in order to ensure compatibility with company strategy, and with the Bank's objectives, values and long term objectives.

Without prejudice to causal or residual attributions, resulting from measures taken in the past by previous employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

- Health Insurance complementary to the Medical & Social Assistance Services (SAMS) included in the collective labour regulations for the banking sector;
- Personal Accident Insurance, in line with the provisions included in the collective labour regulations for the banking sector.

Several employees benefit from life insurance, resulting from the contractual connection to the extinct Banco Santander Portugal or to Banco Santander, S.A.

Several employees benefit from a complementary pension plan, in the terms of the decision taken by the Bank's Board of Directors on 25 February 2010.

There are no pension benefits attributed on a discrete basis.

#### **E. Compliance with the remuneration policies determined by the Bank of Portugal**

The remuneration policy of Bank Managers is globally in line with the principles comprised in Instruction No. 10/2011 of the Bank of Portugal, dated 26 December (Official Gazette, 2nd Series, dated 9 January 2012), guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the establishment of the Total Remuneration of these groups of employees, comprising Fixed and Variable Remuneration, as well as the relationship between these two components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Instruction, which is manifestly its basic source.

The circumstance of the Bank being comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in turn, considering the global nature of the Group, respect the applicable international regulations. In this context, the adoption of the remaining rules contained in Instruction No. 10/2011 would imply a procedural redundancy and an artificial execution without any practical effects. Thus Bank Santander Totta's policy in the matter of its Managers remunerations is contained within the current limits without prejudice to the compliance, in global terms, and at the time of the setting of the directives of the Group it comprises, with rules issued in identical sense by the competent national authorities.

#### 4. Remuneration and Other Benefits attributed to Managers

This information is provided in compliance with the provisions of article No. 17 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), in that part that refers the disclosure, in aggregate terms, of the remuneration paid to employees who, not being Corporate Officers of Banco Santander Totta, S.A. (the "Bank"), exercise their professional activity within the scope of the control missions comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank's risk profile (herein referred to as "Managers").

##### Annual Remuneration

Fixed remuneration:	mEuros 1,028
Variable remuneration:	mEuros 473
Number of beneficiaries:	7

2012 Performance prize retained for one year amounting to Euros 242,000, corresponding to 40,295 shares of Banco Santander, S.A., at the value of 6 Euros per share, since this was the market value (stock exchange) on the date of the respective attribution.

Deferred Remuneration	<u>2014</u>	<u>2015</u>	<u>2016</u>
Cash portion (mEuros)	65	65	65
Shares	10.088	10.088	10.088

These managers are also included in the long term worldwide incentive plan, which is divided in cycles. The third cycle of the share plan was finalized on 09 July 2012. In this area, the total number of shares attributed to these Managers was 7,699, at a value of 4.883 Euros per share, corresponding to an amount of 38,000 Euros.

##### Other Benefits

Managers enjoy the benefits of health insurance complementary to Medical & Social Assistance Services (SAMS) comprised in the collective labour regulations for the banking sector and of personal accident insurance, in line with the provisions of the collective labour regulations for the banking sector.

Several Managers benefit from life insurance, as a result of a contractual link with the extinct Banco Santander Portugal or with Banco Santander, S.A.

Several Managers benefit from a complementary pension plan, in the terms of the decision of the Bank's Board of Directors dated 25 February 2010.

##### New Contracts

One employee was contracted in 2012, to exercise the control duties included in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, and with responsibility in assuming risks on behalf of the Bank or of its customers, with material impact in the Bank's risk profile, replacing the employee who terminated his duties.

##### Contractual Terminations

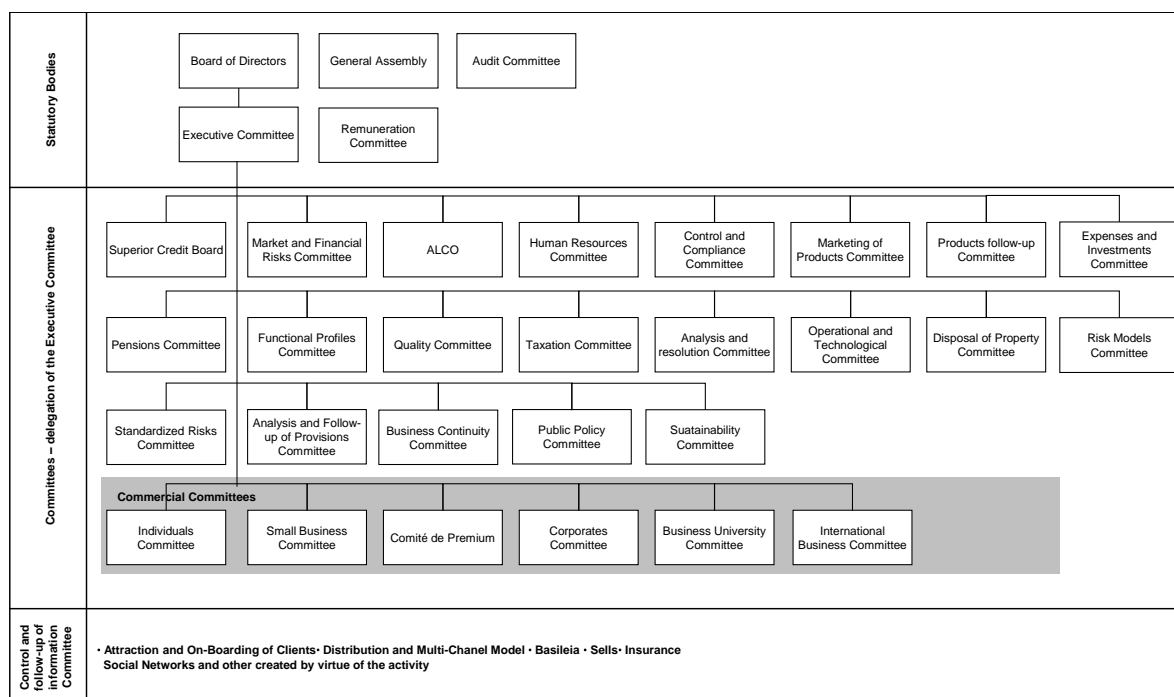
In 2012, one of the Managers that exercised control duties terminated his labour contract.

### III. Remunerations Policy for 2013

The Remunerations policy for the Corporate Officers of Bank Santander Totta for 2013, will be considered at the Annual General Meeting, in compliance with article No. 2, §1 of Law No. 28/2009, dated 19 June and of article No. 16 of Instruction No. 10/2011, of the Bank of Portugal, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012).

The Remunerations policy for the Managerial Staff of Bank Santander Totta was approved at the meeting of the Board of Directors held on 20 June 2012, applicable in 2012 and 2013. Until a new decision is taken, that policy is described above. This issue will be re-appreciated in June 2013.

### IV. Model of Internal Governance



## Declaration referred under item c) of § 1 of article No. 245 of the Securities Legislation

Item c) of §1 of article No. 245 of the Securities Legislation determines that each of the responsible officers in a company issues a declaration as defined therein.

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2012, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

### Board of Directors

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Matias Pedro Rodriguez Inciarte  
Chairman

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António José Sacadura Vieira Monteiro  
Director

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Carlos Manuel Amaral de Pinho  
Director

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Eduardo José Stock da Cunha  
Director

---

José Carlos Brito Sítima  
Director

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José Urgel Moura Leite Maia  
Director

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José Manuel Alves Elias da Costa  
Director

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Luís Filipe Ferreira Bento dos Santos  
Director

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Pedro Aires Coruche Castro e Almeida  
Director

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João Baptista Leite  
Director

## Declaration of the Audit Board on the Conformity of the Financial Information Presented

Item c) of §1 of article No. 245 of the Securities Legislation determines that each of the responsible officers in a company issues a declaration as defined therein.

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2012, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

### Audit Board

**Chairman:** Luís Manuel Moreira de Campos e Cunha

**Members:** Mazars & Associados, SROC, represented by Fernando Vieira

Ricardo Manuel Duarte Vidal Castro

## Consolidated Financial Statements

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheets originally issued in Portuguese - Note 49)

ASSETS	Notes	2012			2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
		Amounts before impairment and depreciation	Depreciation and impairment	Net assets	Net assets				
Cash and deposits at central banks	5	352,365	-	352,365	387,837	<b>Liabilities</b>			
Balances due from other banks	6	385,323	-	385,323	356,962	Resources of central banks	18	5,837,242	4,913,234
Financial assets held for trading	7	2,265,495	-	2,265,495	1,995,784	Financial liabilities held for trading	7	2,048,743	1,663,299
Financial assets at fair value through profit or loss	8	93,735	-	93,735	80,121	Resources of other credit institutions	19	1,949,574	3,611,532
Available-for-sale financial assets	9	3,548,847	58,983	3,489,864	4,439,605	Resources of customers and other debts	20	21,497,174	19,844,104
Loans and advances to credit institutions	10	3,097,422	-	3,097,422	2,692,911	Debt securities	21	3,953,519	7,393,865
Loans and advances to customers	11	27,945,311	965,662	26,979,649	28,372,027	Hedging derivatives	12	455,911	282,889
Hedging derivatives	12	284,850	-	284,850	167,302	Provisions	22	72,271	75,482
Non-current assets held for sale	13	300,905	94,065	206,840	141,163	Current tax liabilities	16	4,687	6,545
Other tangible assets	14	840,372	504,288	336,084	365,415	Deferred tax liabilities	16	75,303	66,972
Intangible assets	14	346,605	280,763	65,842	74,230	Subordinated liabilities	23	4,311	4,328
Investments in associated companies	15	143,654	660	142,994	133,052	Other liabilities	24	303,417	289,589
Current tax assets	16	4,246	-	4,246	17,632	Total liabilities		<u>36,202,152</u>	<u>38,151,839</u>
Deferred tax assets	16	631,578	-	631,578	714,817	<b>Shareholders' equity</b>			
Other assets	17	216,798	25,842	190,956	176,456	Share capital	25	656,723	656,723
						Share premium account	25	193,390	193,390
						Other equity instruments	25	135,000	135,000
						Revaluation reserves	25	(699,202)	(1,008,461)
						Other reserves and retained earnings	25	1,421,512	1,404,582
						(Treasury shares)		(42,560)	(42,400)
						Consolidated net income attributable to the shareholders' of BST	26	88,068	47,121
						Shareholders' equity attributable to the shareholders' of BST		1,752,931	1,385,955
						Minority interests	27	572,160	577,520
						Total shareholders' equity		<u>2,325,091</u>	<u>1,963,475</u>
Total assets, net		<u>40,457,506</u>	<u>1,930,263</u>	<u>38,527,243</u>	<u>40,115,314</u>	Total liabilities and shareholders' equity		<u>38,527,243</u>	<u>40,115,314</u>

The accompanying notes form an integral part of the consolidated balance sheet as of December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of income statement originally issued in Portuguese - Note 49)

	Notes	2012	2011
Interest and similar income	29	1,648,148	1,692,694
Interest and similar charges	30	(1,106,614)	(1,149,161)
<b>Net interest income</b>		<b>541,534</b>	<b>543,533</b>
Income from equity instruments	31	1,698	1,278
Income from services and commission	32	384,701	397,185
Charges with services and commission	33	(53,893)	(54,326)
Result of assets and liabilities at fair value through profit or loss	34	37,183	1,895
Result of available-for-sale financial assets	35	(2,696)	(77,237)
Result of foreign exchange revaluation	36	5,652	5,295
Result from the sale of other assets	37	85,689	1,006
Other operating results	38	(12,760)	(14,044)
<b>Net income from banking activities</b>		<b>987,108</b>	<b>804,585</b>
Staff costs	39	(257,636)	(296,634)
General administrative costs	40	(137,496)	(146,857)
Depreciation in the year	14	(63,873)	(63,362)
Provisions, net of reversals	22	(22,821)	(14,297)
Loan impairment net of reversals and recoveries	22	(378,147)	(227,826)
Impairment of other financial assets net of reversals and recoveries	22	(16,504)	(10,439)
Impairment of other assets net of reversals and recoveries	22	(49,137)	(40,478)
Result from associates	41	11,864	12,893
<b>Income before taxes and minority interests</b>		<b>73,358</b>	<b>17,585</b>
Taxes			
Current	16	(29,593)	(11,201)
Deferred	16	44,303	40,684
<b>Income after taxes and before minority interests</b>		<b>88,068</b>	<b>47,068</b>
Minority interests	27	-	53
<b>Consolidated net income attributable to the shareholders of BST</b>	26	<b>88,068</b>	<b>47,121</b>
Average number of ordinary shares outstanding		642,021,170	639,917,462
Earnings per share (in Euros)		0.14	0.07

The accompanying notes form an integral part of the consolidated statement of income  
for the year ended December 31, 2012.



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of comprehensive income originally issued in Portuguese - Note 49)

	December 31, 2012		December 31, 2011	
	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	88,068	-	47,121	(53)
Other comprehensive income				
. Exchange differences on transaction of foreign subsidiaries	1,527	(5,377)	(2,749)	8,808
. Revaluation reserves of associated companies valued at equity method				
. Fair value	1,446	-	(361)	-
. Tax effect	(420)	-	245	-
. Actuarial and financial deviations				
. Fair value	(35,093)	-	(213,765)	-
. Tax effect	10,178	-	61,992	-
. Changes in fair value of financial assets available for sale				
. Fair value	427,590	-	(426,027)	-
. Tax effect	(124,000)	-	123,563	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	40,944	-	52,083	-
. Tax effect	(11,874)	-	(15,104)	-
Consolidated comprehensive income for the year	398,366	(5,377)	(373,002)	8,755

The accompanying notes form an integral part of the consolidated statement comprehensive income for the year ended December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 49)

	Share Capital	Share Premium Account	Other equity instruments	Revaluation reserves			Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income in the year	Minority interests	Shareholder equity
				Legal revaluation	Fair value	Foreign exchange fluctuation								
<b>Balances as at December 31, 2010</b>	<b>620,105</b>	<b>163,703</b>	<b>135,000</b>	<b>23,245</b>	<b>(847,881)</b>	<b>(3,545)</b>	<b>239,825</b>	<b>215,832</b>	<b>828,691</b>	<b>94,177</b>	<b>(42,113)</b>	<b>399,196</b>	<b>568,792</b>	<b>2,395,027</b>
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)	-	-	-	(28)	(30,062)
Merger with Totta IFIC	36,618	29,687	-	-	-	-	-	-	67,611	-	-	-	-	133,916
Long-term incentives	-	-	-	-	-	-	-	-	(47)	-	-	-	-	(47)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(287)	-	-	(287)
Other	-	-	-	-	-	(1)	256	-	4	-	-	-	1	260
Comprehensive income for the year 2011	-	-	-	-	(588,070)	(2,749)	170,696	-	-	-	-	47,121	8,755	(364,247)
<b>Balances as at December 31, 2011</b>	<b>656,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(1,435,951)</b>	<b>(6,116)</b>	<b>410,361</b>	<b>243,633</b>	<b>934,465</b>	<b>226,484</b>	<b>(42,400)</b>	<b>47,121</b>	<b>577,520</b>	<b>1,963,475</b>
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	229	2,229	30,069	14,594	-	(47,121)	-	-
. Preference shares	-	-	-	-	-	(1,268)	-	-	(29,346)	-	-	-	16	(30,598)
Long-term incentives	-	-	-	-	-	-	-	-	(616)	-	-	-	-	(616)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(160)	-	-	(160)
Other	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Comprehensive income for the year 2012	-	-	-	-	434,887	1,527	(126,116)	-	-	-	-	88,068	(5,377)	392,989
<b>Balances as at December 31, 2012</b>	<b>656,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(1,001,064)</b>	<b>(5,857)</b>	<b>284,474</b>	<b>245,862</b>	<b>934,572</b>	<b>241,078</b>	<b>(42,560)</b>	<b>88,068</b>	<b>572,160</b>	<b>2,325,091</b>

consolidated statement of changes in shareholders' equity for the year ended December 31, 2012.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts expressed in thousands of Euros - tEuros)

(Translation of cash flow statements originally issued in Portuguese - Note 49)

	2012	2011
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commission received	1,862,203	1,932,731
Payment of interest and commission	(1,065,914)	(1,024,562)
Payments to staff and suppliers	(430,528)	(435,372)
Contributions to the Pension Fund	(12,023)	(245,000)
Foreign exchange and other operating results	(14,081)	(269)
Recovery of uncollectable loans	8,638	15,371
Operating results before changes in operating assets and liabilities	<u>348,295</u>	<u>242,899</u>
 (Increase) / decrease in operating assets:		
Loans and advances to banks	(403,229)	447,588
Financial assets held for trading	(257,082)	(12,084)
Loans and advances to customers	981,684	3,135,205
Assets and liabilities at fair value through profit and loss	(32,618)	43,916
Non-current assets held for sale	(108,330)	(60,074)
Other assets	(28,209)	61,480
	<u>152,216</u>	<u>3,616,031</u>
 Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(723,734)	(4,862,303)
Resources of customers and other loans	1,585,956	1,742,489
Financial liabilities held for trading	385,444	350,311
Other liabilities	20,553	(238,461)
	<u>1,268,219</u>	<u>(3,007,964)</u>
 Net cash flow from operating activities before income tax	1,768,730	850,966
Income tax paid	(19,588)	(33,949)
<b>Net cash flow from operating activities</b>	<u>1,749,142</u>	<u>817,017</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	1,698	1,278
Purchase of available-for-sale financial assets	(435,853)	(1,038,768)
Sale of available-for-sale financial assets	1,873,570	2,128,008
Income from available-for-sale financial assets	229,159	200,383
Purchase of tangible and intangible assets	(33,341)	(43,325)
Sale of tangible assets	7,945	716
<b>Net cash flow from investment activities</b>	<u>1,643,178</u>	<u>1,248,292</u>
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Dividends paid	-	(171,085)
Issuance/(redemption) of debt securities	(3,283,192)	(1,553,544)
Interest paid on bonds issued and other	(116,114)	(148,730)
Interest paid on subordinated liabilities	(125)	(244)
<b>Net cash flow from financing activities</b>	<u>(3,399,431)</u>	<u>(1,873,603)</u>
 <b>Net Increase / (Decrease) in cash and cash equivalents</b>	<u>(7,111)</u>	<u>191,706</u>
 Cash and cash equivalents at the start of the period	744,799	553,091
Entry of entities in the consolidation perimeter	-	2
Cash and cash equivalents at the end of the period	737,688	744,799

The accompanying notes form an integral part of the consolidated statement of cash flow  
for the year ended December 31, 2012.

## Notes to the Consolidated Financial Statements

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## 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, Lisboa. The Bank was nationalized in 1975 and transformed into a government owned corporation in 1990. On December 2, 1992 the Bank’s capital was re-privatized 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 2012 and 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 Financeiro 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.

The Bank’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 633 branches (659 branches as at December 31, 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 are made for conversion to the IAS/IFRS.

In 2012, the Bank adopted the amendment to IFRS 7 – “Financial instruments: Disclosures”, which increased the disclosure requirements involving the transfer of financial assets. The adoption of this amendment in the case of the Bank did not require additional disclosures.

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At December 31, 2012, the following standards (new and revised) and interpretations, already endorsed by the European Union, were available for early adoption:

- IAS 1 (Amendment) - "Presentation of financial statements" – The amendment to this standard includes some modifications to the way in which comprehensive income is presented, being mandatory for reporting periods beginning on or after July 1, 2012.
- IAS 19 (Amendment) - "Employee Benefits" - This amendment introduced some alterations related to the reporting of defined benefit plans, namely: (i) actuarial gains/losses are fully recognised by corresponding entry to equity (the corridor approach is no longer allowed); (ii) a single interest rate will be applied to calculate the current value of liabilities and for the estimated income from the assets of the plan. The difference between the real return from the fund's assets and the single interest rate is reflected as actuarial gains/losses; (iii) the costs reflected in the income statement correspond only to current service cost and net interest cost. This amendment is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 11 – "Joint arrangements" - This standard replaces IAS 31 – "Joint ventures" and SIC 13 – "Jointly controlled entities – non-monetary contributions by venturers". The new standard establishes that the parties involved in a joint venture should determine the type and manner for recording joint ventures through assessment of the rights and obligations arising from the operation. The joint venture may be classified as a joint operation, in cases whereby the parties involved have joint rights over the assets and obligations over the liabilities relating to the arrangement, or as a joint venture in cases whereby the parties involved have rights to the net assets of the arrangement. This standard eliminates the possibility of using the proportional consolidation method for recording interests in joint ventures. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.
- IFRS 12 – "Disclosures of interests in other entities" - This standard requires the disclosure of information which allows users of the financial statements of an entity to evaluate the nature and the risks relating to the interests that the entity may have in other entities (subsidiaries, joint arrangements, associated companies and non-consolidated entities), namely, the effect of these interests on its financial position and performance and on its cash flow. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.
- IFRS 13 – "Fair Value Measurement" – This standard replaces the guidelines in the various IFRS relating to fair value measurement. It is applicable when another IFRS standard requires or allows measurements or disclosures of fair value. The standard defines fair value and establishes a framework for its determination. It also establishes a "fair value hierarchy", in accordance with the inputs used in valuation models. The standard also requires disclosures relating to fair value determination. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2013.
- IAS 27 (Amendment) – "Separate financial statements" – This amendment restricts the scope of application of IAS 27 to separate financial statements. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.
- IFRS 10 - "Consolidated financial statements" - This standard establishes the requirements relating to the presentation of consolidated financial statements by a parent company, replacing, with regard to these matters, standard IAS 27 – Consolidated and separate financial statements and "SIC 12 – Consolidation – Special purpose entities". This standard also introduces new rules regarding the definition of control and the determination of the consolidation perimeter. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.

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- IAS 28 (Amendment) “Investments in associated companies and jointly controlled entities” - This amendment ensures consistency between IAS 28 – “Investments in associated companies” and the new standards, in particular IFRS 11 – “Joint arrangements”. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.
- IFRS 7 (Amendment) - “Financial instruments: disclosures” - This amendment requires additional disclosures in terms of financial instruments, namely information relating to those that are subject to compensating and similar agreements. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2013.
- IAS 32 (Amendment) – “Financial instruments: presentation” - This amendment clarifies certain aspects of the standard relating to the offsetting of financial assets and liabilities. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.

Although these standards are endorsed by the European Union, they were not adopted by the Bank at December 31, 2012, as their application was not yet mandatory. The Board of Directors believes that their application will not have a significant impact on the financial statements.

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

- IFRS 9 – “Financial instruments” – This standard establishes the requirements for the classification and measurement of financial assets. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2015.
- Improvements to the IFRS (2009-2011 period) – This includes, among others, amendments to the following standards:
  - IAS 1 – Clarifies the disclosure requirements of comparative information.
  - IAS 32 – Clarifies that the tax effect of a distribution to holders of an equity instruments should be accounted for in accordance with IAS 12 – Income tax.
  - IAS 34 – Clarifies the requirements for interim disclosure of assets by segments so as to be more consistent with the requirements of IFRS 8 – Operating Segments.Applications of these amendments is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 10, IFRS 11 and IFRS 12 (Amendments) – The amendments to these standards include clarifications concerning the obligation to disclose comparative information, eliminating the requirement to present comparative information for periods immediately prior to the reference period. Application of these standards is mandatory for reporting periods beginning on or after January 1, 2013.
- IFRS 10, IFRS 12 and IAS 27 (Amendments) – Investment entities – The amendments to these standards create an exception for the preparation of consolidated financial statements by investment entities.

These standards have not yet been endorsed by the European Union and so were not applied by the Bank in the year ended December 31, 2012.

The Bank's financial statements for the year ended December 31, 2012 are still awaiting approval from the General Shareholders' Meeting. Nevertheless, the Bank's Board of Directors believes that they will be approved without significant amendments.

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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 the majority 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. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in 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. Participations in associated companies are recorded in accordance with the equity method of accounting, from the time the Bank has significant influence until the date it ceases.

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

Goodwill is measured as 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, 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 to shareholders' equity in compliance with the former accounting policy. 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 acquisition 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 amortized. Furthermore, whenever 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.



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With the application of 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. Goodwill is calculated on a given date as the difference between total acquisition cost and the proportion in the fair value of associate's assets and liabilities. Similarly, by the application 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 (January 1, 2004), the reserve resulting from foreign exchange differences arising out from the translation 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 expressed in foreign currencies are translated to Euros using the 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 translated to Euros at the average exchange rates of the month in which they are recognised.

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

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).

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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 includes loans to costumers, as well as other securitized loans (commercial paper), not intended to be sold in the short term, being initially recorded at fair value, less any commission included in the effective interest rate, plus all the external costs directly attributable to the operations.

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

Commissions and external costs attributable to the underlying operations included in this category, as well interests 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".

Impairment

The Group periodically analyses the loans and advances granted to customers and other amounts receivable in order to identify objective 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.

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

- Credit granted greater than tEuros 5,000;
- Credit granted greater than tEuros 500 that are 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 judgement.

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

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

Objective 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, 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.

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. PI corresponds to the probability of one transaction, operation or client becoming overdue during an emergence period. The emergence 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 emergence period of 6 months.

If there is evidence that the Group has incurred in an impairment loss on credits or other receivables, the impairment loss corresponds to the difference between the book value of those assets and the present value of the estimated future cash flows, discounted at the original interest 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 by corresponding charge in the income statement.

In accordance with the Group's current impairment model for the 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.

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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 by a corresponding charge in the income statement.

Write off of principal and interest

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

Interest on mortgage loans or on loans granted with other real guarantees are not reversed 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.

Finance leasing

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 Leasing are recorded in accordance with the following criteria:

i) As lessee

Assets purchased under finance leases are recorded at their fair value in tangible assets and in liabilities and the corresponding depreciation is recognised. 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

Leased assets 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.

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

Income from services and commission obtained in the execution of a significant act, for example a commission from syndicating loans operations, is recognised in the income statement when the significant service 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 financial assets and liabilities are recognised and measured 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.

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 variable yield securities traded on active markets 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 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 measurement are recognised in the income statement.

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

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

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The fair value of financial assets held for trading and traded on active markets is their bid-price or their closing price on the balance sheet date. If the market price is not available, fair value of the instrument is estimated based on valuation techniques, that include price valuation models or discounted cash flow techniques.

When discounted cash flow techniques are used, the future cash flows are estimated in accordance with management's expectations and the discount rate used corresponds to the market rate for financial instruments with similar characteristics. Data used in price valuation models correspond to market prices information.

The fair value of the derivatives that are not traded on a stock exchange is estimated based on the amount that would be received or paid to settle the contract on that date, considering the current market conditions as well as the credit quality of the counterparties.

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 and whose fair value cannot be reliably measured, which are recorded at cost. Subsequent gains or losses resulting from changes in fair value are reflected in a specific equity caption "Fair value reserve" until they are disposed of (or until impairment losses are recognised), when they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are directly recognised in the income statement.

Interest on available-for-sale financial assets is calculated in accordance with the effective rate method and recorded in the income statement caption "Interest and similar income".

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

Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008 in Standard IAS 39 - "Financial instruments: Classification and measurement", the Bank can 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 the purpose of sale or repurchase in the short term), removing it from the category of fair value through profit or loss, if some 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 relating to financial assets and the recognition of the difference between acquisition cost and nominal value (premium or discount) is calculated in accordance with the effective interest 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 their original securities portfolio. Funds received are recorded on the settlement date in a specific liability account, while interest is accrued.

v) Impairment of financial instruments

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

For quoted securities, objective evidence of impairment exists when there is a significant or prolonged decline in fair value. Objective 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 it can be reliably estimated.

The Group considers the specific nature and features of the assets being valued in its periodic impairment tests. In terms of objective impairment criteria, the Group considers a 24 month period to be adequate for the prolonged devaluation of financial instruments in relation to their acquisition cost. The Group also 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 due to a specific event, the previously recognised impairment loss is directly reverted through an adjustment to the impairment loss account. The amount of the reversal is recognised directly in the income statement.

When there is objective evidence of impairment of available for sale financial assets as a result of a significant or prolonged decline in the fair value of the security or of financial difficulties of the issuer, the accumulated loss of the fair value reserve is reclassified from equity to the income statement. Impairment losses 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 equity instruments cannot be reverted and so any unrealised capital gain arising after recognition of an impairment loss are recorded in the fair value reserve. In the case of equity instruments for which impairment losses have been recognised, subsequent reductions in fair value are always recognised in the income statement.

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For financial assets recorded at cost namely unquoted equity instruments whose fair value cannot be measured reliably, the Bank also carries out periodic impairment tests. 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 a similar the asset.

vi) Other financial liabilities

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

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

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

Embedded derivatives in debt securities are recorded separately in the captions "Financial assets and liabilities at fair value through profit or loss", being revalued 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", "Financial assets at fair value through profit or loss" and "Financial assets available for sale" are measured 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) Prices (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.



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Amortised cost

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

Whenever the estimate of payments or charges associated with financial instruments measured at amortized cost is revised, the carrying amount is adjusted to reflect the new expected cash flows. The new amortized cost results from the present value of the revised future cash flows discounted at the original effective interest rate of the financial instrument. The adjustment in amortized cost by a corresponding charge in the income statement.

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.

Embedded derivatives 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 recorded at fair value with changes in fair value recognised in profit or loss.

BST uses derivative financial instruments to hedge the interest rate risk resulting from financing and investing 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, being all changes in their fair value recorded by a corresponding entry 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, hedge accounting is applicable only when the following requirements are cumulatively met:

- There is formal documentation 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 hedging effectiveness and subsequent monitoring.
- Initial expectation that the hedging relationship is highly effective; and
- Throughout the life of the operation, the hedging effectiveness 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.

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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 early terminated, the gains or losses in the valuation of the hedged item relating to the risk being hedge, recognised as value adjustments of the hedged items, are amortized over the remaining period. If the asset or liability being hedged is sold or settled, the amounts recognised as result of the valuation of the hedged risk are reclassified to the income statement and the derivative is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognised as value adjustments to the hedged items are amortized through the income statement over the remaining period.

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

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 to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

The application of cash flow hedge accounting is also subject to the previously mentioned hedge accounting requirements and implies the following records:

- 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 is recorded in the income statement.

In addition, the gain or loss in the hedging instrument recognised in equity corresponds to the lower of the following 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 equity is included in profit or loss.

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is early terminated, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that recognised in equity 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.

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g) Other tangible assets

Tangible assets used by the Bank in its operations are stated 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

Non recoverable expenditure capitalized on leasehold buildings is amortised over a period compatible with that of their expected useful life or of the lease contract, if shorter, which on average corresponds to a period of ten years.

As permitted by IFRS 1, tangible assets acquired up to January 1, 2004 have been recorded at their book value at 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 charge resulting from such revaluations is not tax deductible, the resulting deferred tax liability being recognised accordingly.

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

The criteria followed in the valuations of the buildings normally use a 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 expenses of acquiring software, in both cases where the impact extends beyond the financial year in which the cost is incurred. 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.

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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, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the caption "Other assets" (Note 17). These assets are recorded at the amount agreed under negotiation or court decision, plus the estimate sale costs or their forced sale value, if lower. Property recovered following the termination of finance lease contracts is recorded in assets at the amount of the outstanding principal on the date the contract is terminate.

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

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

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

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 valuation methods adopted are appropriate and reflect the market situation.

j) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) arising from past obligation event relating to which there will be a probable future outflow 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 at the balance sheet date. Whenever the outflow of resources is not probable, a contingent liability exists. Contingent liabilities need only to be disclosed unless the probability of their payment is remote.

This caption includes the provisions to cover specific post-employment benefits of members of the Board of Directors, restructuring plans, tax contingencies, legal processes and other losses 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.

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

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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.

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, it was published in 2011 the Decree-Law No. 1-A/2011, dated January 3, 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 and 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.

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 the disability pensions and the survival pensions along with any healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

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, still in 2011, 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 vacation (14<sup>th</sup> month) and Christmas subsidies.

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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 ("Serviços de Assistência Médica Social – 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 pension for children;
- v) the survival pension for children and living spouse, provided it refers to the same employee; and
- 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 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 assets to be transferred should 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 December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities;
- ii) By June 30, 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 used to calculate the amount of the transfer.

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 December 31, 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 to be transferred to the Social Security determined as per the above assumptions and the liabilities determined based on updated actuarial assumptions as adopted by the Group, was recorded under the caption "Staff Costs" in the income statement (Notes 39 and 43).

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

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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 terms of credit risk, 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 of 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 the 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", for the amount of tEuros 1,044 (Note 43).

Application of IAS 19

On January 1, 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 was 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 change in accounting policy has been applied retrospectively, as required by IAS 8.

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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 as due to early retirement.

The liability for retirement pensions, less the fair value of the assets of the Pension Fund is recorded in the captions “Other assets” or “Other liabilities”, depending on whether there is financial surplus or deficit (Notes 17 and 24).

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.

At December 31, 2012 and 2011, the rate of coverage of the full amount of the liability for employee benefits, including SAMS, was 98.80% and 100.9%, respectively (Note 43).

l) Long service bonus

In compliance with the ACT, BST assumed the commitment to pay serving employees with fifteen, twenty-five and thirty years of good and effective service, 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 bonus liabilities are recorded in the caption “Charges payable relating to staff – Long service bonus” (Note 24).

m) 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 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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With the wording used in the State Budget Law for 2011 (Law no. 55-A/2010, of December 3), in accordance with article 92 of the Corporation 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 Corporation 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. 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 resulted in the tax rate used for the computation of deferred taxes on tax losses carried forward being 25% being a tax rate of 29% applied to other temporary differences generated in the recognition of the income tax for the year. This state surcharge has been applicable since 2011.

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, of December 30), the companies that present higher taxable income on the period and on the two following years are subject to higher state surcharge rates. 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 tEuros 8,500 and a rate of 5% to the exceeding remaining taxable income. Consequently, the tax rate used in the year 2012 was 26.5% up to tEuros 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 years 2011 and 2012.

The tax losses for the years 2011 and 2012 can be carried forward for four and five years, respectively. However, within the terms allowed in the State Budget Law for 2012, the deduction of the losses in each year cannot exceed 75% of the respective taxable profit, although the remaining 25% continue to be deductible up to the end of the four or five year periods.

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 calculated and approved by taxpayers deducted from own funds (Tier 1) and supplementary own funds (Tier 2) and deducted from the deposits under the Deposits Guaranteed Fund coverage. The following are 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.
- b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, with the exception of hedge derivatives or with open symmetric risk positions.

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

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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 gains and losses related to pension liabilities following the change in accounting policy (Note 1.3. k)).

n) 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 recording of such plans correspond to 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 in reporting periods of 2012 and 2011 is included in Note 46.

o) Insurance brokerage services rendered

Income from commissions associated with insurance brokerage services rendered is recorded on an accrual basis. Income is recorded as it is generated, irrespective of when it is received. Amounts receivable are subject to impairment analysis.

p) Cash and cash equivalents

In preparing cash flow statement, the Bank considers "Cash and cash equivalents" to be the total of the captions "Cash and deposits at Central Banks" and "Balances due from other banks".

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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 merger reserve. The impact of the merger on the shareholders' equity of the Bank can be shown as follows:

Shareholder's 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 for 2012 and 2011 are not directly comparable, as in 2011 there are three months of activity of the former Totta IFIC that are not reflected in the costs and income captions.

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 can 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 (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's Board of Directors regarding 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 on 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.

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Determination of loans impairment losses

Loans impairment losses have been determined as explained in Note 1.3 c) above. Consequently, impairment assessment performed 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 collateral received, 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 default and recoverability.

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

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

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.

In the case of debt instruments recorded in this caption, unrealised capital losses are transferred from the caption "Revaluation reserve" to the income for the year whenever there are indications that default might occur, 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.

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 2012 and 2011, in accordance with their interpretation by the Bank.

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3. SEGMENT REPORTING

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 of the Bank:

**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 attracting of funds from private customers and businesses with a turnover of lower 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, and also includes liquidity management, balance sheet hedging and Group funding.

The income statement by segment as at December 31, 2012 is made up as follows:

	2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	77,148	307,299	166,108	-	(9,021)	541,534
Income from equity instruments	-	-	-	-	1,698	1,698
<b>Financial margin</b>	<b>77,148</b>	<b>307,299</b>	<b>166,108</b>	<b>-</b>	<b>(7,323)</b>	<b>543,232</b>
Net commissions	55,052	252,197	23,186	5,847	(5,474)	330,808
Other results from banking activity	-	2,785	-	12	(15,557)	(12,760)
<b>Commercial margin</b>	<b>132,200</b>	<b>562,281</b>	<b>189,294</b>	<b>5,859</b>	<b>(28,354)</b>	<b>861,280</b>
Results from financial operations	12,786	(355)	(372)	-	113,769	125,828
<b>Net income from banking activities</b>	<b>144,986</b>	<b>561,926</b>	<b>188,922</b>	<b>5,859</b>	<b>85,415</b>	<b>987,108</b>
Operating costs	(18,649)	(329,346)	(42,190)	(4,947)	-	(395,132)
Depreciation and amortization	(2,943)	(56,947)	(3,735)	(248)	-	(63,873)
<b>Net operating income</b>	<b>123,394</b>	<b>175,633</b>	<b>142,997</b>	<b>664</b>	<b>85,415</b>	<b>528,103</b>
Impairment and provisions, net of reversals	(23,632)	(265,638)	(91,083)	(1,353)	(84,903)	(466,609)
Result from associates	-	-	10,808	-	1,056	11,864
<b>Income before taxes</b>	<b>99,762</b>	<b>(90,005)</b>	<b>62,722</b>	<b>(689)</b>	<b>1,568</b>	<b>73,358</b>
Taxes	(28,931)	26,401	(15,054)	200	32,094	14,710
<b>Net income for the year</b>	<b>70,831</b>	<b>(63,604)</b>	<b>47,668</b>	<b>(489)</b>	<b>33,662</b>	<b>88,068</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

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

	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	-	15,788,523	-	-	-	15,788,523
Consumer credit	-	1,433,532	-	-	-	1,433,532
Other loans	2,024,753	3,309,047	4,423,794	-	-	9,757,594
Total allocated assets	2,024,753	20,531,102	4,423,794	-	-	26,979,649
Total non-allocated assets						11,547,594
<b>Total assets</b>						<b>38,527,243</b>
<b>Liabilities</b>						
<b>Resources in the balance sheet</b>						
Customers' accounts and other resources	415,014	18,193,057	2,889,103	-	-	21,497,174
Debt securities issued	-	353,878	328,165	-	3,271,476	3,953,519
	415,014	18,546,935	3,217,268	-	3,271,476	25,450,693
<b>Guarantees and other sureties given (Note 28)</b>	206,332	189,279	824,119	-	-	1,219,730
<b>Investment funds</b>	-	1,261,600	641,874	813,723	-	2,717,197

The income statement by segment as at December 31, 2011 is made up as follows:

	2011					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	42,146	418,179	122,785	-	(39,577)	543,533
Income from equity instruments	-	-	-	-	1,278	1,278
<b>Financial margin</b>	<b>42,146</b>	<b>418,179</b>	<b>122,785</b>	<b>-</b>	<b>(38,299)</b>	<b>544,811</b>
Net commissions	65,932	255,333	18,177	9,414	(5,997)	342,859
Other results from banking activity	(6)	6,675	-	(84)	(20,629)	(14,044)
<b>Commercial margin</b>	<b>108,072</b>	<b>680,187</b>	<b>140,962</b>	<b>9,330</b>	<b>(64,925)</b>	<b>873,626</b>
Results from financial operations	16,116	(1,074)	519	-	(84,602)	(69,041)
<b>Net income from banking activities</b>	<b>124,188</b>	<b>679,113</b>	<b>141,481</b>	<b>9,330</b>	<b>(149,527)</b>	<b>804,585</b>
Operating costs	(20,313)	(372,780)	(45,602)	(4,796)	-	(443,491)
Depreciation and amortization	(2,748)	(56,641)	(3,613)	(360)	-	(63,362)
<b>Net operating income</b>	<b>101,127</b>	<b>249,692</b>	<b>92,266</b>	<b>4,174</b>	<b>(149,527)</b>	<b>297,732</b>
Impairment and provisions, net of reversals	(4,918)	(153,932)	(21,694)	(25,846)	(86,650)	(293,040)
Result from associates	-	-	9,409	-	3,484	12,893
<b>Income before taxes</b>	<b>96,209</b>	<b>95,760</b>	<b>79,981</b>	<b>(21,672)</b>	<b>(232,693)</b>	<b>17,585</b>
Taxes	(27,901)	(27,656)	(20,466)	6,285	99,221	29,483
Minority interests	-	-	-	-	53	53
<b>Net income for the year</b>	<b>68,308</b>	<b>68,104</b>	<b>59,515</b>	<b>(15,387)</b>	<b>(133,419)</b>	<b>47,121</b>

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31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

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

	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
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>						<b>40,115,314</b>
<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
	576,672	17,048,316	3,074,905	-	6,538,076	27,237,969
<b>Guarantees and other sureties given (Note 28)</b>	336,364	198,533	953,558	-	-	1,488,455
<b>Investment funds</b>	-	1,448,516	580,001	778,619	-	2,807,136

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

The information by geographic area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as at December 31, 2012, by geographic segments was as follows:

	2012						Intra Group balances	Consolidated
	Portugal	Ireland	International operations			Total		
			Angola	Puerto Rico	Other			
<b>Assets</b>								
Cash and deposits at central banks	352,365	-	-	-	-	-	-	352,365
Balances due from other banks	384,850	11,366	-	6,039	396	17,801	(17,328)	385,323
Financial assets held for trading	2,265,493	-	-	-	-	-	2	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	-	-	-	-	93,735
Available-for-sale financial assets	3,489,864	1,311,876	-	-	-	1,311,876	(1,311,876)	3,489,864
Loans and advances to credit institutions	3,097,194	50,001	-	465,202	311,790	826,993	(826,765)	3,097,422
Loans and advances to customers	26,979,649	-	-	-	-	-	-	26,979,649
Hedging derivatives	284,850	-	-	-	-	-	-	284,850
Non-current assets held for sale	206,840	-	-	-	-	-	-	206,840
Other tangible assets	336,047	-	-	-	34	34	3	336,084
Intangible assets	65,842	-	-	-	-	-	-	65,842
Investments in associated companies	31,710	-	111,284	-	-	111,284	-	142,994
Current tax assets	4,001	-	-	-	-	-	245	4,246
Deferred tax assets	631,578	-	-	-	-	-	-	631,578
Other assets	190,010	3	-	1,996	942	2,941	(1,995)	190,956
<b>Total Net Assets</b>	<b>38,414,028</b>	<b>1,373,246</b>	<b>111,284</b>	<b>473,237</b>	<b>313,162</b>	<b>2,270,929</b>	<b>(2,157,714)</b>	<b>38,527,243</b>
<b>Liabilities</b>								
Resources of central banks	5,837,242	-	-	-	-	-	-	5,837,242
Financial liabilities held for trading	2,048,741	-	-	-	-	-	2	2,048,743
Resources of other credit institutions	1,949,574	1,013,953	-	4,227	-	1,018,180	(1,018,180)	1,949,574
Resources of customers and other debts	21,323,190	-	-	171,022	-	171,022	2,962	21,497,174
Debt securities	3,953,519	-	-	-	-	-	-	3,953,519
Hedging derivatives	455,906	-	-	-	-	-	5	455,911
Provisions	72,271	-	-	-	-	-	-	72,271
Current tax liabilities	3,702	-	-	-	-	-	985	4,687
Deferred tax liabilities	57,911	-	-	-	-	-	17,392	75,303
Subordinated liabilities	4,311	-	-	-	-	-	-	4,311
Other liabilities	302,838	-	-	3,313	191	3,504	(2,925)	303,417
<b>Total Liabilities</b>	<b>36,009,205</b>	<b>1,013,953</b>	<b>-</b>	<b>178,562</b>	<b>191</b>	<b>1,192,706</b>	<b>(999,759)</b>	<b>36,202,152</b>
<b>Shareholders' equity</b>								
Shareholders' equity attributable to shareholders	2,404,071	359,293	111,284	21,824	14,414	506,815	(1,157,955)	1,752,931
Minority interests	752	-	-	272,851	298,557	571,408	-	572,160
<b>Total shareholders' equity</b>	<b>2,404,823</b>	<b>359,293</b>	<b>111,284</b>	<b>294,675</b>	<b>312,971</b>	<b>1,078,223</b>	<b>(1,157,955)</b>	<b>2,325,091</b>
<b>Total liabilities and shareholders' equity</b>	<b>38,414,028</b>	<b>1,373,246</b>	<b>111,284</b>	<b>473,237</b>	<b>313,162</b>	<b>2,270,929</b>	<b>(2,157,714)</b>	<b>38,527,243</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

	2011						Intra Group balances	Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total		
<b>Assets</b>								
Cash and deposits at central banks	387,837	-	-	-	-	-	-	387,837
Balances due from other banks	356,249	16,739	-	9,137	610	26,486	(25,773)	356,962
Financial assets held for trading	1,995,784	-	-	-	-	-	-	1,995,784
Financial assets at fair value through profit or loss	80,121	-	-	-	-	-	-	80,121
Available-for-sale financial assets	4,439,605	1,020,104	-	-	-	1,020,104	(1,020,104)	4,439,605
Loans and advances to credit institutions	2,689,956	52,723	-	430,376	311,790	794,889	(791,934)	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 associated companies	(25,918)	-	158,970	-	-	158,970	-	133,052
Current tax assets	17,632	-	-	-	-	-	-	17,632
Deferred tax assets	714,817	-	-	-	-	-	-	714,817
Other assets	175,327	-	-	1,318	1,123	2,441	(1,312)	176,456
<b>Total Net Assets</b>	<b>39,951,466</b>	<b>1,089,566</b>	<b>158,970</b>	<b>440,831</b>	<b>313,604</b>	<b>2,002,971</b>	<b>(1,839,123)</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	1,663,299
Resources of other credit institutions	3,455,964	620,352	-	2,005	-	622,357	(466,789)	3,611,532
Resources of customers and other debts	19,706,992	-	-	135,306	-	135,306	1,806	19,844,104
Debt securities	7,393,865	-	-	-	-	-	-	7,393,865
Hedging derivatives	282,889	-	-	-	-	-	-	282,889
Provisions	75,482	-	-	-	-	-	-	75,482
Current tax liabilities	4,673	-	-	-	-	-	1,872	6,545
Deferred tax liabilities	64,037	-	-	-	-	-	2,935	66,972
Subordinated liabilities	4,328	-	-	-	-	-	-	4,328
Other liabilities	289,116	5,514	-	2,924	242	8,680	(8,207)	289,589
<b>Total Liabilities</b>	<b>37,853,826</b>	<b>625,866</b>	<b>-</b>	<b>140,235</b>	<b>242</b>	<b>766,343</b>	<b>(468,330)</b>	<b>38,151,839</b>
<b>Shareholders' equity</b>								
Shareholders' equity attributable to shareholders	2,096,890	463,700	158,970	22,367	14,821	659,858	(1,370,793)	1,385,955
Minority interests	750	-	-	278,229	298,541	576,770	-	577,520
<b>Total shareholders' equity</b>	<b>2,097,640</b>	<b>463,700</b>	<b>158,970</b>	<b>300,596</b>	<b>313,362</b>	<b>1,236,628</b>	<b>(1,370,793)</b>	<b>1,963,475</b>
<b>Total liabilities and shareholders' equity</b>	<b>39,951,466</b>	<b>1,089,566</b>	<b>158,970</b>	<b>440,831</b>	<b>313,604</b>	<b>2,002,971</b>	<b>(1,839,123)</b>	<b>40,115,314</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

In the reporting periods ending on December 31, 2012 and 2011, the income statement by geographic segments was as follows:

	2012						Intra Group balances	Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total		
Interest and similar income	1,648,133	74,042	-	24,542	-	98,584	(98,569)	1,648,148
Interest and similar charges	(1,100,401)	(3,767)	-	(5,941)	-	(9,708)	3,495	(1,106,614)
<b>Financial margin</b>	<b>547,732</b>	<b>70,275</b>	<b>-</b>	<b>18,601</b>	<b>-</b>	<b>88,876</b>	<b>(95,074)</b>	<b>541,534</b>
Income from equity instruments	1,698	-	-	-	-	-	-	1,698
Income from services and commission	384,701	-	-	-	-	-	-	384,701
Charges with services and commission	(53,651)	-	-	(1)	(241)	(242)	-	(53,893)
Result of assets and liabilities at fair value through profit or loss	37,172	-	-	-	-	-	11	37,183
Result of available-for-sale financial assets	(2,696)	-	-	-	-	-	-	(2,696)
Result of foreign exchange revaluation	5,639	-	-	13	-	13	-	5,652
Result from sale of other assets	85,691	-	-	-	(2)	(2)	-	85,689
Other operating results	(12,679)	-	-	(5)	(78)	(83)	2	(12,760)
<b>Net income from banking activities</b>	<b>993,607</b>	<b>70,275</b>	<b>-</b>	<b>18,608</b>	<b>(321)</b>	<b>88,562</b>	<b>(95,061)</b>	<b>987,108</b>
Staff costs	(256,632)	(176)	-	(200)	(628)	(1,004)	-	(257,636)
General administrative costs	(136,747)	(421)	-	(129)	(307)	(857)	108	(137,496)
Depreciation in the year	(63,846)	-	-	-	(27)	(27)	-	(63,873)
Provisions net of cancellations	(22,821)	-	-	-	-	-	-	(22,821)
Loan impairment net of reversals and recoveries	(378,147)	-	-	-	-	-	-	(378,147)
Impairment of other financial assets net of reversals and recoveries	(16,504)	-	-	-	-	-	-	(16,504)
Impairment of other assets net of reversals and recoveries	(49,137)	-	-	-	-	-	-	(49,137)
Result from associates	2,296	-	9,568	-	-	9,568	-	11,864
<b>Income before taxes and minority interests</b>	<b>72,069</b>	<b>69,678</b>	<b>9,568</b>	<b>18,279</b>	<b>(1,283)</b>	<b>96,242</b>	<b>(94,953)</b>	<b>73,358</b>
Current taxes	(20,614)	(8,958)	-	(4)	(22)	(8,984)	5	(29,593)
Deferred taxes	44,303	-	-	-	-	-	-	44,303
<b>Income after taxes and before minority interests</b>	<b>95,758</b>	<b>60,720</b>	<b>9,568</b>	<b>18,275</b>	<b>(1,305)</b>	<b>87,258</b>	<b>(94,948)</b>	<b>88,068</b>
Minority interests	-	-	-	-	-	-	-	-
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>95,758</b>	<b>60,720</b>	<b>9,568</b>	<b>18,275</b>	<b>(1,305)</b>	<b>87,258</b>	<b>(94,948)</b>	<b>88,068</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

	2011						Intra Group balances	Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other	Total		
Interest and similar income	1,692,164	3,618	-	21,193	-	24,811	(24,281)	1,692,694
Interest and similar charges	(1,140,920)	(13,283)	-	(3,879)	-	(17,162)	8,921	(1,149,161)
<b>Financial margin</b>	<b>551,244</b>	<b>(9,665)</b>	<b>-</b>	<b>17,314</b>	<b>-</b>	<b>7,649</b>	<b>(15,360)</b>	<b>543,533</b>
Income from equity instruments	1,278	-	-	-	-	-	-	1,278
Income from services and commission	397,185	-	-	-	-	-	-	397,185
Charges with services and commission	(54,090)	-	-	(1)	(235)	(236)	-	(54,326)
Result of assets and liabilities at fair value through profit or loss	1,915	902	-	-	-	902	(922)	1,895
Result of available-for-sale financial assets	(77,237)	118,910	-	-	-	118,910	(118,910)	(77,237)
Result of foreign exchange revaluation	5,236	-	-	44	-	44	15	5,295
Result from sale of other assets	999	-	-	-	7	7	-	1,006
Other operating results	(13,937)	-	-	-	(103)	(103)	(4)	(14,044)
<b>Net income from banking activities</b>	<b>812,593</b>	<b>110,147</b>	<b>-</b>	<b>17,357</b>	<b>(331)</b>	<b>127,173</b>	<b>(135,181)</b>	<b>804,585</b>
Staff costs	(295,595)	(178)	-	(192)	(668)	(1,038)	(1)	(296,634)
General administrative costs	(146,009)	(583)	-	(105)	(339)	(1,027)	179	(146,857)
Depreciation in the year	(63,327)	-	-	-	(35)	(35)	-	(63,362)
Provisions net of cancellations	(14,297)	-	-	-	-	-	-	(14,297)
Loan impairment net of reversals and recoveries	(227,826)	-	-	-	-	-	-	(227,826)
Impairment of other financial assets net of reversals and recoveries	(10,439)	-	-	-	-	-	-	(10,439)
Impairment of other assets net of reversals and recoveries	(40,478)	-	-	-	-	-	-	(40,478)
Result from associates	3,546	-	9,347	-	-	9,347	-	12,893
<b>Income before taxes and minority interests</b>	<b>18,168</b>	<b>109,386</b>	<b>9,347</b>	<b>17,060</b>	<b>(1,373)</b>	<b>134,420</b>	<b>(135,003)</b>	<b>17,585</b>
Current taxes	3,342	(13,673)	-	(855)	(17)	(14,545)	2	(11,201)
Deferred taxes	42,962	-	-	-	(7)	(7)	(2,271)	40,684
<b>Income after taxes and before minority interests</b>	<b>64,472</b>	<b>95,713</b>	<b>9,347</b>	<b>16,205</b>	<b>(1,397)</b>	<b>119,868</b>	<b>(137,272)</b>	<b>47,068</b>
Minority interests	53	-	-	-	-	-	-	53
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>64,525</b>	<b>95,713</b>	<b>9,347</b>	<b>16,205</b>	<b>(1,397)</b>	<b>119,868</b>	<b>(137,272)</b>	<b>47,121</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

4. GROUP COMPANIES AND TRANSACTIONS DURING THE YEAR

As at December 31, 2012 and 2011, the subsidiaries and associated companies and their most 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 year	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
BANCO SANTANDER TOTTA , S.A.	-	-	100.00	100.00	38,501,791	45,639,291	1,212,474	746,961	(9,180)	22,289
BANCO CAIXA GERAL TOTTA DE ANGOLA <sup>(3)</sup>	-	-	24.99	24.99	1,864,889	1,507,229	229,836	159,186	44,023	36,842
TOTTA & AÇORES FINANCING <sup>(1)(5)</sup>	100.00	100.00	100.00	100.00	311,789	311,790	311,789	311,788	12,360	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	33,736	33,994	33,717	33,973	401	240
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,187	1,344	1,013	1,121	(88)	113
TOTTA IRELAND, PLC <sup>(4)</sup>	100.00	100.00	100.00	100.00	1,373,246	1,089,565	359,293	463,700	4,040	6,700
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	101,468	102,948	74,865	75,827	4,293	5,693
TOTTA URBE - Emp.Admin. e Construções, S.A. <sup>(2)</sup>	100.00	100.00	100.00	100.00	112,634	121,003	109,225	117,281	2,474	2,166
BENIM - Sociedade Imobiliária, 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	41,656	50,308	41,633	49,732	1,331	9,582
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	-	-	100.00	100.00	26,426	25,258	22,270	22,294	11	(20,266)
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1)(6)</sup>	100.00	100.00	100.00	100.00	473,237	440,831	294,675	300,596	18,276	16,204
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	55,043	55,004	54,963	55,000	(37)	(5,307)
PARTANG, SGPS <sup>(3)</sup>	0.49	0.49	49.00	49.00	139,611	113,535	130,108	112,384	21,433	16,653
SANTANDER PENSÕES	-	-	100.00	100.00	3,685	4,064	3,607	3,862	769	1,000
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. <sup>(3)</sup>	21.50	21.50	21.50	21.50	305,005	307,856	84,595	73,375	11,256	8,745
HIPOTOTTA nº 1 PLC	-	-	-	-	215,728	238,832	(3,423)	(2,923)	(2,061)	(1,800)
HIPOTOTTA nº 4 PLC	-	-	-	-	1,220,666	1,299,458	(20,466)	(17,616)	(8,699)	(5,633)
HIPOTOTTA nº 5 PLC	-	-	-	-	1,021,215	1,076,745	(12,215)	(8,857)	(5,081)	(4,382)
HIPOTOTTA nº 7 Ltd	-	-	-	-	1,258,561	1,319,559	(17,739)	(12,110)	(5,684)	(6,067)
LEASETOTTA nº 1 Ltd	-	-	-	-	569,976	724,957	(23,142)	709,099	(15,292)	-
HIPOTOTTA nº 1 FTC	-	-	-	-	202,335	228,332	201,123	226,181	(2,282)	(2,145)
HIPOTOTTA nº 4 FTC	-	-	-	-	1,182,405	1,276,937	1,178,445	1,263,330	(9,982)	(9,746)
HIPOTOTTA nº 5 FTC	-	-	-	-	1,004,670	1,068,126	1,001,819	1,059,767	(7,814)	(5,927)
HIPOTOTTA nº 7 FTC	-	-	-	-	1,226,920	1,303,213	1,228,066	1,291,479	(13,001)	(8,257)
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11) <sup>(7)</sup>	-	-	-	-	-	1,881,452	-	100,452	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12) <sup>(7)</sup>	-	-	-	-	-	1,253,838	-	75,254	-	-
LEASETOTTA nº 1 FTC	-	-	-	-	485,651	724,936	506,336	704,235	(15,108)	(4,864)
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº 1) <sup>(7)</sup>	-	-	-	-	-	2,028,717	-	98,179	-	-
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº 1) <sup>(7)</sup>	-	-	-	-	-	962,218	-	111,278	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

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	Equity Method
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 <sup>(4)</sup>	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS	Holding company	Madeira	Full
TOTTA URBE - Emp.Admin. and Construções, S.A. <sup>(2)</sup>	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A. <sup>(3)</sup>	Real estate	Portugal	Equity Method
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Portugal	Full
SANTANDER, ASSET MANAGEMENT, SGFIM, SA	Investment management	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO <sup>(1) (6)</sup>	Banking	Puerto Rico	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
PARTANG, SGPS <sup>(3)</sup>	Holding company	Portugal	Equity Method
SANTANDER PENSÕES	Pension fund management	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. <sup>(3)</sup>	Credit Card Management	Portugal	Equity Method
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
LEASETOTTA nº 1 Ltd PLC	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
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 11) <sup>(7)</sup>	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (HIPOTOTTA nº 12) <sup>(7)</sup>	Securitized loans company	Portugal	Full
LEASETOTTA nº 1 Ltd	Securitized loans fund	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (BST SME nº 1) <sup>(7)</sup>	Securitized loans company	Portugal	Full
TAGUS - Soc. Titularização de Créditos, S.A. (TOTTA CONSUMER nº 1) <sup>(7)</sup>	Securitized loans company	Portugal	Full

- (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 December of each year, as this entity closes its financial year on 30 November. In the periods from January 1 to November 30, 2012 and 2011, the net income of Totta Ireland, Plc. amounted to tEuros 56,680 and tEuros 89,013, respectively.
- (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 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

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, as the Group holds in its portfolio bonds issued with a higher degree of subordination (Note 44). These entities are referred to above as Leasetotta Ltd, Hipotottas FTC (securitised loans funds) and Hipotottas PLC or Ltd. (entities which acquired the participating units issued by the securitised loan funds).

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Cash	210,763	186,707
Demand deposits at Central Banks:		
European Central Bank	141,602	201,130
	-----	-----
	352,365	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.

6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Balances due from domestic banks		
Cheques for collection	62,074	80,789
Demand deposits	490	332
Interest receivable	-	3
Balances due from foreign banks		
Demand deposits	321,138	273,985
Cheques for collection	1,621	1,853
	-----	-----
	385,323	356,962
	=====	=====

The caption "Balances due from foreign banks – Demand deposits" at December 31, 2011 included tEuros 118,600 referring to deposits which were given as pledge, as established in the "Reserve Loans Agreements" of Hipototta no. 12 and of BST SME no. 1. These pledge deposits were released in March and June of 2012, respectively, following early settlement of the securitization operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
<u>Financial assets held for trading</u>		
Derivatives with positive fair value	2,031,856	1,708,752
Securities - Participating units	233,639	287,032
	-----	-----
	2,265,495	1,995,784
	=====	=====
<u>Financial liabilities held for trading</u>		
Derivatives with negative fair value	( 2,048,743 )	( 1,663,299 )
	-----	-----
Net balance of the fair value of derivative financial instruments	( 16,887 )	45,453
	=====	=====

As at December 31, 2012 and 2011, the caption “Securities - Participating units” refers essentially to security and real estate investment funds managed by Santander Group entities, as follows:

	<u>2012</u>	<u>2011</u>
Securities investment funds	233,613	221,036
Special investment funds	26	23
Real estate investment funds	-	65,973
	-----	-----
	233,639	287,032
	=====	=====

The caption “Real estate investment funds” at December 31, 2011 corresponded to the market value of the participating units held in the real estate investment funds “Novimovest” and “Lusimovest”. In on first semester of 2012, the Bank reclassified these participating units to the caption “Available-for-sale financial assets” (Note 9).

On December 31, 2012 and 2011 the caption of derivative financial instruments is made up as follows:

	<u>2012</u>			<u>2011</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
			(Note 12)			(Note 12)
FRA's	227	-	227	109	-	109
Forwards	576	746	(170)	544	9	535
Swaps						
Currency swaps	3,179	18,900	(15,721)	28,998	-	28,998
Interest rate swaps	1,687,138	1,689,107	(1,969)	722,934	703,704	19,230
Equity swaps	113,516	112,843	673	1,232	3,836	(2,604)
Options	22,343	22,343	-	80,637	80,644	(7)
Caps & Floors	204,877	204,804	73	874,298	875,106	(808)
	<u>2,031,856</u>	<u>2,048,743</u>	<u>(16,887)</u>	<u>1,708,752</u>	<u>1,663,299</u>	<u>45,453</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On December 31, 2012 and 2011 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 income statement caption “Results 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:

2012								
	Acquisition Cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total		
						(Note 25)	(Note 22)	
Debt instruments								
Issued by residents								
Treasury Bonds	1,612,565	25,395	155,226	461	(229,662)	(229,201)	(252)	1,563,733
Other Portuguese Government entities	420,456	3,385	-	-	(9,442)	(9,442)	-	414,399
Other residents								
Acquired in securitization operations	93,047	88	-	-	(27,688)	(27,688)	-	65,447
Unsubordinated debt	170,285	579	-	-	(25,481)	(25,481)	(230)	145,153
Subordinated debt	127,294	28	-	-	(10,808)	(10,808)	(15,674)	100,840
Issued by non-residents								
Foreign government entities	1,007,573	23,111	166,351	294	(207,771)	(207,477)	-	989,558
Equity instruments								
Issued by residents								
Valued at fair value	234,432	-	-	670	(2,939)	(2,269)	(36,114)	196,049
Valued at cost	20,192	-	-	-	-	-	(5,967)	14,225
Issued by non-residents								
Valued at cost	1,206	-	-	-	-	-	(746)	460
	<u>3,687,050</u>	<u>52,586</u>	<u>321,577</u>	<u>1,425</u>	<u>(513,791)</u>	<u>(512,366)</u>	<u>(58,983)</u>	<u>3,489,864</u>
2011								
	Acquisition Cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total		
						(Note 25)	(Note 22)	
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	271,867	3,358	-	-	(47,029)	(47,029)	-	228,196
Other residents								
Acquired in securitization operations	134,096	197	-	-	(22,798)	(22,798)	-	111,495
Unsubordinated debt	809,458	7,280	-	1,495	(24,924)	(23,429)	(231)	793,078
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-resident								
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 cost	21,648	-	-	-	-	-	(5,947)	15,701
Issued by non-residents								
Valued at fair value	1,016	-	-	328	-	328	-	1,344
Valued at cost	1,150	-	-	-	-	-	(746)	404
	<u>5,150,459</u>	<u>83,631</u>	<u>210,141</u>	<u>2,448</u>	<u>(942,404)</u>	<u>(939,956)</u>	<u>(64,670)</u>	<u>4,439,605</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

As at December 31, 2012 and 2011, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 321,577 and tEuros 210,141, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

Description	2012					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												
. Maturing in one year	50,676	747	-	460	-	51,883	5,617	24	-	(2)	-	5,639
. Maturing between one and three years	771,722	5,906	28,518	(28,560)	-	777,586	825,852	6,635	28,427	(244,873)	-	616,041
. Maturing between three and five years	114,678	1,009	-	(7,666)	-	108,021	-	-	-	-	-	-
. Maturing between five and ten years	675,000	17,728	126,708	(193,435)	-	626,001	790,657	18,687	82,522	(443,167)	-	448,699
Treasury bills - Portugal	-	-	-	-	-	-	508,440	-	-	(316)	-	508,124
Other	489	5	-	-	(252)	242	487	6	-	-	(373)	120
	1,612,565	25,395	155,226	(229,201)	(252)	1,563,733	2,131,053	25,352	110,949	(688,358)	(373)	1,578,623
Treasury bonds - Spain												
. Maturing in one year	-	-	-	-	-	-	5,596	23	-	62	-	5,681
. Maturing between three and five years	-	-	-	-	-	-	625,354	24,231	-	(10,774)	-	638,811
. Maturing between five and ten years	1,000,000	23,028	166,351	(207,771)	-	981,608	1,000,000	22,966	99,192	(146,412)	-	975,746
Other	7,573	83	-	294	-	7,950	7,716	86	-	460	-	8,262
	1,007,573	23,111	166,351	(207,477)	-	989,558	1,638,666	47,306	99,192	(156,664)	-	1,628,500
	2,620,138	48,506	321,577	(436,678)	(252)	2,553,291	3,769,719	72,658	210,141	(845,022)	(373)	3,207,123

At December 31, 2012 and 2011, the Bank held in its portfolio Treasury Bonds of Portugal and Spain, amounting of tEuros 1,115,614 and tEuros 1,558,315 respectively, used as collateral in financing operations (Note 19). At December 31, 2012, the fair value of the securities used as collateral in financing operations amounted to tEuros 1,130,071.

On December 31, 2012 and 2011, the caption “Debt instruments – Other residents” includes, among others, the following securities:

Description	2012					2011				
	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value
Acquired in securitization operations										
ENERGY ON NO.2 CLASS A NOTES 2025	92,998	88	(27,673)	-	65,413	99,111	154	(22,227)	-	77,038
TAGUS ROSE-07 1 SEC NOTES DEC/2012	-	-	-	-	-	34,935	43	(571)	-	34,407
Other	49	-	(15)	-	34	50	-	-	-	50
	<u>93,047</u>	<u>88</u>	<u>(27,688)</u>	<u>-</u>	<u>65,447</u>	<u>134,096</u>	<u>197</u>	<u>(22,798)</u>	<u>-</u>	<u>111,495</u>
Unsubordinated debt										
BANCO ESPIRITO SANTO 3.75% JAN/2012	-	-	-	-	-	77,171	2,750	(480)	-	79,441
SONAE DISTRIBUICAO SET 2007/2015	70,000	235	(10,290)	-	59,945	70,000	501	(10,701)	-	59,800
BERWIND II P- CONSULTORIA SENIO A	32,078	30	(1,482)	-	30,626	33,967	59	170	-	34,196
OBRIGAÇÕES ZON MULTIMÉDIA 2014	24,300	47	(1,011)	-	23,336	24,300	63	(1,195)	-	23,168
EDIA 2010/2030	19,250	248	(11,144)	-	8,354	19,250	336	(8,627)	-	10,959
AUTO SUECO 2009/2014	15,000	3	(1,202)	-	13,801	15,000	5	(1,552)	-	13,453
BANCO INTL DO FUNCHAL SA 3.25%	-	-	-	-	-	59,994	1,268	(1,713)	-	59,549
BANCO COMERC PORTUGUES 3.625%	-	-	-	-	-	23,605	813	(142)	-	24,276
Commercial Paper	-	-	-	-	-	475,961	1,460	769	-	478,190
Other	9,657	16	(352)	(230)	9,091	10,210	25	42	(231)	10,046
	<u>170,285</u>	<u>579</u>	<u>(25,481)</u>	<u>(230)</u>	<u>145,153</u>	<u>809,458</u>	<u>7,280</u>	<u>(23,429)</u>	<u>(231)</u>	<u>793,078</u>
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	110,492	24	-	(15,674)	94,842	-	-	-	-	-
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	1	(8,428)	-	5,573	14,000	2	(785)	-	13,217
Other	2,802	3	(2,380)	-	425	2,759	6	(1,323)	-	1,442
	<u>127,294</u>	<u>28</u>	<u>(10,808)</u>	<u>(15,674)</u>	<u>100,840</u>	<u>16,759</u>	<u>8</u>	<u>(2,108)</u>	<u>-</u>	<u>14,659</u>

The operations of commercial paper held in 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”.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

As at December 31, 2012 and 2011, the caption “Equity instruments “ includes the following securities:

Description	2012				2011			
	Acquisition cost	Fair value reserve	Impairment	Book value	Acquisition cost	Fair value reserve	Impairment	Book value
Valued at fair value								
NOVIMOVEST - F.I. IMOBILIÁRIO	125,910	649	-	126,559	-	-	-	-
LUSIMOVEST - F.I. IMOBILIÁRIO	26,379	(461)	-	25,918	-	-	-	-
FUNDO RECUPERAÇÃO FCR	25,014	(2,478)	-	22,536	18,356	-	-	18,356
FUNDO SOLUÇÃO ARRENDAMENTO	15,000	-	-	15,000	-	-	-	-
GARVAL - SOC.DE GARANTIA MUTUA S.A.	2,086	-	-	2,086	2,506	-	-	2,506
Banco BPI, S.A.	-	-	-	-	27,782	-	(22,031)	5,751
F.I.I. FECHADO IMORENDIMENTO II	-	-	-	-	18,663	-	-	18,663
Other	6,628	21	(2,699)	3,950	9,905	328	(3,292)	6,941
Securities with 100% impairment losses	33,415	-	(33,415)	-	32,050	-	(32,050)	-
	<u>234,432</u>	<u>(2,269)</u>	<u>(36,114)</u>	<u>196,049</u>	<u>109,262</u>	<u>328</u>	<u>(57,373)</u>	<u>52,217</u>
Valued at cost								
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.								
(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 S.A. (ex-AENOR)	3,749	-	(404)	3,345	3,749	-	(404)	3,345
Securities with 100% impairment losses	4,281	-	(4,281)	-	5,027	-	(5,027)	-
Other	6,158	-	(2,028)	4,130	6,812	-	(1,262)	5,550
	<u>21,398</u>	<u>-</u>	<u>(6,713)</u>	<u>14,685</u>	<u>22,798</u>	<u>-</u>	<u>(6,693)</u>	<u>16,105</u>

In the last quarter of 2012, the Bank acquired Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by the Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its market value. Following this operation, impairment losses of the same amount were recorded.

During 2012, the Bank subscribed 3,002,028 participating units of “Solução Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional” amounting to tEuros 15,000. The share capital was paid up in cash for the amount of tEuros 2,000 and the remainder was covered by buildings.

At December 31, 2011, the Group held 11,956,434 shares of the Bank BPI, S.A. at a cost of tEuros 27,882. In 2011, the impairment for these securities was increased by tEuros 9,604. In 2012 and 2011, the Bank sold 11,956,434 and 2,360,640 shares of the Bank BPI for tEuros 6,318 and tEuros 2,870, respectively, using the impairment recorded for the purpose (Note 22).

In the years 2012 and 2011, the Bank responded to capital calls of the Fundo de Recuperação, FCR, in the amounts of tEuros 6,658 and tEuros 6,540, respectively. At December 31, 2012, the Bank held in its portfolio 25,010 participating units, corresponding to 4.13% of the capital of the fund on that date.

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 the results and in the fair value reserve was the following:

Book value on the date of reclassification:	
. Participating units	50,289
. Credit rights of the Fund Lusimovest (Note 17)	15,890
	-----
	66,179
	-----
Fair value of the participating units reclassified on December 31, 2012	50,015
	-----
Fair value reserve of the participating units reclassified in 2012 (excluding tax effect)	( 274 )
	=====

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(Translation of notes originally issued in Portuguese – Note 49)

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

In October of 2012 the Bank reclassified the credit rights held over Fund Lusimovest from “Available-for-sale financial assets” to “Other assets – Other debtors”, which at that date amounted to tEuros 24,500 (Note 17).

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 Fundo Fechado de Investimento Imobiliário – 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.

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

2012					
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	2,297,157	33,638	194,869	(265,195)	2,260,469
. Between 25% and 50%	778,551	17,817	126,708	(223,703)	699,373
. Over 50%	36,052	252	-	(21,954)	14,350
	<u>3,111,760</u>	<u>51,707</u>	<u>321,577</u>	<u>(510,852)</u>	<u>2,974,192</u>
Equity Instruments					
. Between 0% and 25%	51,393	-	-	(2,939)	48,454
	<u>3,163,153</u>	<u>51,707</u>	<u>321,577</u>	<u>(513,791)</u>	<u>3,022,646</u>
2011					
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	2,940,006	54,486	99,192	(214,661)	2,879,023
. Between 25% and 50%	1,051,519	9,603	28,427	(335,379)	754,170
. Over 50%	675,000	17,680	82,522	(392,364)	382,838
	<u>4,666,525</u>	<u>81,769</u>	<u>210,141</u>	<u>(942,404)</u>	<u>4,016,031</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Loans and advances - Bank of Portugal	900,000	1,150,000
	-----	-----
Loans and advances to other Portuguese banks		
Loans	46,581	57,428
Interest receivable	261	953
Purchase operations with resale agreements	-	368,711
Deferred income	-	( 150 )
	-----	-----
	46,842	426,942
	-----	-----
Loans and advances to other foreign banks		
Deposits	1,192,627	918,705
Other applications	709,874	102,345
Very short term loans and advances	216,402	65,215
Interest receivable	31,677	29,704
	-----	-----
	2,150,580	1,115,969
	-----	-----
	3,097,422	2,692,911
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

11. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Unsecuritised credit		
Domestic loans		
To corporate clients		
Loans	4,148,746	3,325,033
Current account loans	1,195,764	1,334,775
Factoring	905,312	1,231,364
Finance leasing	455,646	526,117
Overdrafts	337,700	438,299
Discount and credit securities	137,300	184,867
Other credits	26,898	39,165
To individuals		
Mortgage loans	11,745,561	9,141,345
Consumer credit and other loans	1,798,911	1,255,346
Foreign loans		
To corporate clients		
Loans	124,141	82,077
Factoring	42,147	91,558
Current account loans	9,558	12,240
Finance leasing	3,276	4,239
Overdrafts	2,559	5,294
Other credits	1,541	3,432
Discount and credit securities	85	49
To individuals		
Mortgage loans	377,167	397,570
Consumer credit and other loans	39,894	22,035
	-----	-----
	21,352,206	18,094,805
	-----	-----
Loans represented by securities		
Non-subordinated debt securities		
Commercial paper	1,451,055	40,000
	-----	-----

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

	<u>2012</u>	<u>2011</u>
Non-derecognised securitised assets (Note 44)		
Companies		
Finance leasing		
. Leasetotta no. 1	462,375	652,910
Loans		
. BST SME no. 1	-	1,327,390
. Totta Consumer no. 1	-	36,331
Loans represented by securities – Commercial paper		
. BST SME no. 1	-	615,200
To individuals		
Loans		
Mortgage loans		
. Hipototta no. 1	200,164	225,469
. Hipototta no. 4	1,177,349	1,255,543
. Hipototta no. 5	997,032	1,049,819
. Hipototta no. 7	1,217,069	1,275,981
. Hipototta no. 11	-	1,736,471
. Hipototta no. 12	-	1,216,021
Consumer credit		
. Totta Consumer no. 1	-	747,758
Finance leasing		
. Leasetotta no. 1	685	1,803
	-----	-----
	4,054,674	10,140,696
	-----	-----
Overdue loans and interest		
Up to 90 days	45,689	47,748
More than 90 days	891,127	539,251
Non-derecognised securitised assets	89,771	94,737
	-----	-----
	1,026,587	681,736
	-----	-----
	27,884,522	28,957,237
	-----	-----
Interest receivable		
Unsecuritised credit	52,626	58,915
Loans represented by securities	4,161	1,541
Non-derecognised securitised assets	6,852	31,981
Deferred expenses	89,526	100,227
Commissions associated with amortised cost (net)	( 98,476 )	( 111,287 )
Value adjustment of hedged assets	6,100	5,327
	-----	-----
	60,789	86,704
	-----	-----
	27,945,311	29,043,941
Impairment of loans and advances to customers (Note 22)	( 965,662 )	( 671,914 )
	-----	-----
	26,979,649	28,372,027
	=====	=====

In 2012 and 2011, the Bank has sold mortgage loans and company loans portfolios, most of which had already been written off. As a result of these operations, net gains were recorded in 2012 and 2011 amounting to tEuros 4,117 and tEuros 1, respectively (Note 37).

On December 31, 2012 and 2011, the caption “Domestic loans - Mortgage loans” includes loans allocated to the autonomous patrimony of the covered bonds issued by the Bank totalling tEuros 7,675,686 and tEuros 7,567,003, respectively (Note 21).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1 were liquidated in March, May, June and August of 2012, respectively.

Changes in impairment of loans and advances to customers during 2012 and 2011 are presented in Note 22.

On December 31, 2012 and 2011, overdue loans and interest are made up as follows:

	<u>2012</u>	<u>2011</u>
Up to three months	46,934	54,267
Between three and six months	97,166	97,880
Between six months and one year	247,703	176,115
Between one year and three years	515,542	258,491
More than three years	119,242	94,983
	-----	-----
	1,026,587	681,736
	=====	=====

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

	<u>2012</u>			
	<u>Performing</u>	<u>Overdue</u>	<u>Total</u>	<u>%</u>
Agriculture and forestry	196,186	10,979	207,165	0.74%
Fishing	22,465	885	23,350	0.08%
Mining	76,740	3,341	80,081	0.29%
Manufacturing:				
Food, beverage and tobacco	377,099	12,505	389,604	1.40%
Textiles, leather and clothing	367,730	17,189	384,919	1.38%
Wood and cork	87,374	5,657	93,031	0.33%
Paper and publishing	253,911	4,114	258,025	0.93%
Chemical industry	139,790	1,108	140,898	0.51%
Ceramics, glass and cement	227,827	3,158	230,985	0.83%
Metal-working	140,131	7,236	147,367	0.53%
Machines and vehicles	234,778	11,074	245,852	0.88%
Electricity, water and gas	269,065	4,332	273,397	0.98%
Construction and public works	1,535,568	204,745	1,740,313	6.24%
Commerce and hotels				
Wholesale trading	622,867	39,232	662,099	2.37%
Retail sale	668,126	44,678	712,804	2.56%
Restaurants and hotels	397,555	43,092	440,647	1.58%
Transport and communications	614,601	15,413	630,014	2.26%
Non-monetary financial institutions	449,620	4,232	453,852	1.63%
Government administration	653,341	7,028	660,369	2.37%
Other service companies	1,495,854	86,876	1,582,730	5.68%
Loans to individuals	16,782,550	459,107	17,241,657	61.83%
Foreign loans	369,628	4,588	374,216	1.34%
Holding companies	738,732	31,100	769,832	2.76%
Other loans	136,397	4,918	141,315	0.50%
	<u>26,857,935</u>	<u>1,026,587</u>	<u>27,884,522</u>	<u>100.00%</u>

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

	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 trading	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%
Holding companies	375,251	4,166	379,417	1.31%
Other loans	193,074	2,655	195,729	0.67%
	<u>28,275,501</u>	<u>681,736</u>	<u>28,957,237</u>	<u>100.00%</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

On December 31, 2012 and 2011, the overdue and performing loans, with and without objective evidence of impairment, considering the segmentation for the purpose of calculating impairment losses, are made up as follows:

	2012		
	Overdue <u>loans</u>	Performing <u>loans</u>	Total <u>loans</u>
Loans to companies			
. Without objective evidence of impairment	-	9,254,210	9,254,210
. With objective evidence of impairment	547,969	217,601	765,570
	-----	-----	-----
	547,969	9,471,811	10,019,780
	-----	-----	-----
Mortgage loans			
. Without objective evidence of impairment	-	14,823,138	14,823,138
. With objective evidence of impairment	303,252	701,747	1,004,999
	-----	-----	-----
	303,252	15,524,885	15,828,137
	-----	-----	-----
Consumer credit			
. Without objective evidence of impairment	-	1,048,143	1,048,143
. With objective evidence of impairment	37,458	62,869	100,327
	-----	-----	-----
	37,458	1,111,012	1,148,470
	-----	-----	-----
Loans granted through credit cards			
. Without objective evidence of impairment	-	248,211	248,211
. With objective evidence of impairment	31,912	12,159	44,071
	-----	-----	-----
	31,912	260,370	292,281
	-----	-----	-----
Other loans to individuals			
. Without objective evidence of impairment	-	412,022	412,022
. With objective evidence of impairment	105,996	77,835	183,831
	-----	-----	-----
	105,996	489,857	595,853
	-----	-----	-----
	1,026,587	26,857,935	27,884,522
	=====	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

	2011		
	Overdue <u>loans</u>	Performing <u>loans</u>	Total <u>loans</u>
Loans granted to companies			
. Without objective evidence of impairment	-	9,670,386	9,670,386
. With objective evidence of impairment	302,396	409,940	712,336
	-----	-----	-----
	302,396	10,080,326	10,382,722
	-----	-----	-----
Mortgage loans			
. Without objective evidence of impairment	-	15,384,875	15,384,875
. With objective evidence of impairment	249,306	779,278	1,028,584
	-----	-----	-----
	249,306	16,164,153	16,413,459
	-----	-----	-----
Consumer credit			
. Without objective evidence of impairment	-	1,111,840	1,111,840
. With objective evidence of impairment	31,771	88,956	120,727
	-----	-----	-----
	31,771	1,200,796	1,232,567
	-----	-----	-----
Loans granted through credit cards			
. Without objective evidence of impairment	-	262,819	262,819
. With objective evidence of impairment	25,535	11,696	37,231
	-----	-----	-----
	25,535	274,515	300,050
	-----	-----	-----
Other loans to individuals			
. Without objective evidence of impairment	-	435,914	435,914
. With objective evidence of impairment	72,728	119,797	192,525
	-----	-----	-----
	72,728	555,711	628,439
	-----	-----	-----
	681,736	28,275,501	28,957,237
	=====	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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12. HEDGING DERIVATIVES

This caption is made up as follows:

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	90,407	370,277	(279,870)	63,427	253,052	(189,625)
Equity swaps	50,522	14,273	36,249	13,286	21,039	(7,753)
AutoCallable options	2,656	71,361	(68,705)	3,897	8,798	(4,901)
Cash flow hedges						
Interest rate swaps	141,265	-	141,265	86,692	-	86,692
	<u>284,850</u>	<u>455,911</u>	<u>(171,061)</u>	<u>167,302</u>	<u>282,889</u>	<u>(115,587)</u>

On December 31, 2012 and 2011, derivatives were broken down as follows:

Type of financial Instruments	Book Value	2012						Notional amounts	
		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	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased		27,327	15,579	3,176	-	-	46,082	14,566	31,516
. Sold	(170)	27,428	15,603	3,168	-	-	46,199	24,243	21,956
Currency swaps									
. Purchased		1,258,038	38,379	-	-	-	1,296,417	19,393	1,277,024
. Sold	(15,721)	1,273,385	38,371	-	-	-	1,311,756	1,292,770	18,986
Interest rate swaps									
Other	(1,969)	572,113	961,321	1,761,715	3,356,906	4,874,011	11,526,066	11,420,878	105,188
Equity swaps	673	6,223	1,646	6,415	479,683	170,714	664,681	652,815	11,866
FRA's	227	44,800	20,000	80,000	20,000	-	164,800	164,800	-
Currency options									
. Purchased		16,955	2,445	-	-	-	19,400	-	19,400
. Sold	-	16,955	2,445	-	-	-	19,400	-	19,400
Interest rate options									
. Purchased	-	812	619	993	191	800,558	803,173	800,791	2,382
. Sold	-	762	619	810	191	-	2,382	-	2,382
Caps	142	6,456	9,343	73,214	231,706	1,387,886	1,708,605	1,708,605	-
Floors	(69)	-	-	30,000	64,903	535,041	629,944	597,457	32,487
	(16,887)	3,251,254	1,106,370	1,959,491	4,153,580	7,768,210	18,238,905	16,696,318	1,542,587
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	83,928	32,081	1,008,950	197,190	1,110,756	270,106	2,619,083	2,585,397	33,686
. Financial assets available for sale	(363,798)	-	-	-	400,000	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(68,705)	70,745	12,662	152,725	241,453	-	477,585	477,585	-
Equity swaps	36,249	159,592	52,006	158,633	2,389,435	57,458	2,817,124	2,678,041	139,083
Cash flow hedges									
Interest rate swaps									
. Cash flow	141,265	300,000	250,000	-	1,200,000	1,200,000	2,950,000	2,950,000	-
	(171,061)	562,418	1,323,618	508,548	5,341,644	3,202,564	10,938,792	10,766,023	172,769

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

Type of financial Instruments	2011								
	Book Value	Notional amounts						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	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	535	24,970	13,224	65,692	-	-	103,886	41,739	62,147
. Sold		24,771	13,095	65,429	-	-	103,295	58,873	44,422
Currency swaps									
. Purchased	28,998	1,299,485	-	-	-	-	1,299,485	-	1,299,485
. Sold		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	34	26,929	46,255	60,430	10,796	-	144,410	155	144,255
. Sold		26,929	46,255	60,430	10,796	-	144,410	155	144,255
Equity options									
. Purchased	(34)	100	9,409	-	-	-	9,509	9,509	-
. Sold		100	9,409	-	-	-	9,509	9,509	-
Interest rate options									
. Purchased	(7)	1,522	1,657	2,289	2,662	885,631	893,761	887,684	6,077
. Sold		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	1,398,153	526,245	2,142,006	1,969,989	172,017
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	5,817,664	3,686,532	10,320,470	10,140,647	179,823

13. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	2012	2011
Property received as settlement of defaulting loans	245,156	177,737
Own property for sale	31,428	26,525
Participating units	18,663	-
Equipment	5,558	3,982
Other properties	100	100
	300,905	208,344
Impairment (Note 22)	( 94,065 )	( 67,181 )
	206,840	141,163

In 2011, following a debt settlement agreement receivable referring to a loan granted, the Bank received 2,748,238 participating units of Fundo de Investimento Imobiliário Fechado - Imorendimento II for an amount of tEuros 18,663. These participating units were initially recorded in the caption "Financial assets available for sale". In the first semester of 2012, the Bank reclassified these participating units to this caption as it considers that they are available for immediate sale in their present condition and that the sale is probable within the period of one year (Note 9).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

Changes in these captions for the years ending December 31, 2012 and 2011, may be presented as follows:

2012											
	December 31 2011		Increases	Sales	Transfers (Notes 9 and 14)	Impairment (Note 22)			December 31 2012		
	Gross amount	Accumulated impairment				Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	177,737	(53,639)	178,631	(111,213)	-	(38,106)	4,328	16,339	245,155	(71,078)	174,077
. Own property for sale	26,625	(10,757)	55	(507)	5,355	(5,024)	292	76	31,528	(15,413)	16,115
Equipment	3,982	(2,785)	2,808	(1,231)	-	(1,485)	610	86	5,559	(3,574)	1,985
Participating units	-	-	-	-	18,663	(4,000)	-	-	18,663	(4,000)	14,663
	<u>208,344</u>	<u>(67,181)</u>	<u>181,494</u>	<u>(112,951)</u>	<u>24,018</u>	<u>(48,615)</u>	<u>5,230</u>	<u>16,501</u>	<u>300,905</u>	<u>(94,065)</u>	<u>206,840</u>
2011											
	December 31 2010		Increases	Sales	Transfers (Note 14)	Impairment (Note 22)			December 31 2011		
	Gross amount	Accumulated impairment				Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	114,013	(36,052)	132,403	(85,506)	(39)	(28,705)	2,314	13,228	177,737	(53,639)	124,098
. Own property for sale	20,788	(9,626)	90	(4,291)	10,038	(7,259)	4,823	1,305	26,625	(10,757)	15,868
Equipment	-	-	3,019	(1,601)	-	(1,519)	310	94	3,982	(2,785)	1,197
	<u>134,801</u>	<u>(45,678)</u>	<u>135,512</u>	<u>(91,398)</u>	<u>9,999</u>	<u>(37,483)</u>	<u>7,447</u>	<u>14,627</u>	<u>208,344</u>	<u>(67,181)</u>	<u>141,163</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions for the years ended on December 31, 2012 and 2011 are as follows:

2012																			
Transfers																			
31/12/2011					Write-offs		From/to assets held for sale (Note 13)		Between fixed assets		Amortization of the year			Foreign exchange differences		31/12/2012			
Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation		Impairment (Note 22)	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount	
Tangible assets																			
Property																			
. Property for own use	415,472	120,714	2,486	351	1,548	3	(6,914)	(1,602)	144	(164)	7,786	1,389	-	(3)	-	408,502	126,731	3,875	277,896
. Leasehold expenditure	134,230	105,217	-	912	-	1,470	(166)	(166)	(713)	163	6,429	-	-	(7)	(3)	134,256	110,170	-	24,086
. Other property	347	1	43	-	41	-	-	-	-	-	1	-	(23)	-	2	306	4	20	282
Tangible assets in progress																			
. Property for own use	240	-	-	336	-	-	-	-	(445)	-	-	-	-	-	-	131	-	-	131
. Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
	550,290	225,932	2,529	1,599	1,589	1,473	(7,080)	(1,768)	(14)	(1)	14,216	1,389	(23)	(10)	(1)	543,196	236,905	3,895	302,396
Equipment																			
. Furniture and fixtures	23,160	17,689	-	192	133	133	-	-	-	-	1,732	-	-	-	(1)	23,219	19,287	-	3,932
. Machinery and tools	3,922	3,817	-	57	13	13	-	-	-	-	52	-	-	-	(2)	3,966	3,854	-	112
. Computer hardware	124,015	107,115	-	1,524	814	678	-	-	-	-	6,627	-	-	-	-	124,725	113,064	-	11,661
. Interior installations	912,688	82,545	-	2,153	1,031	1,029	(59)	(16)	14	1	2,621	-	-	1	(2)	92,346	84,120	-	8,226
. Vehicles	18,482	11,002	-	2,070	2,841	2,629	-	-	-	-	3,597	-	-	(3)	-	17,708	11,970	-	5,738
. Security equipment	27,805	26,737	-	59	272	272	-	-	-	-	439	-	-	1	-	27,593	26,904	-	689
. Other equipment	5,663	3,359	-	178	41	41	-	-	-	-	692	-	-	1	(2)	5,801	4,008	-	1,793
	294,316	252,264	-	6,233	5,145	4,795	(59)	(16)	14	1	15,760	-	-	-	(7)	295,358	263,207	-	32,151
Other tangible assets																			
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Work of Art	1,535	-	-	-	-	-	-	-	-	-	-	-	-	2	-	1,537	-	-	1,537
	1,816	281	-	-	-	-	-	-	-	-	-	-	-	2	-	1,818	281	-	1,537
	846,421	478,477	2,529	7,832	6,734	6,268	(7,139)	(1,784)	-	-	29,976	1,389	(23)	(8)	(8)	840,372	500,393	3,895	336,084
Intangible assets																			
. Software purchased	317,482	243,252	-	13,933	-	-	-	-	11,576	-	33,897	-	-	-	-	342,991	277,149	-	65,842
. Intangible assets in progress	-	-	-	11,576	-	-	-	-	(11,576)	-	-	-	-	-	-	-	-	-	-
. Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
. Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	321,096	246,866	-	25,509	-	-	-	-	-	-	33,897	-	-	-	-	346,605	280,763	-	65,842

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

	2011																			
	Transfers																			
	Charges in the consolidation perimeter						Write-offs and sales					From/to assets held for sale (Note 3)			Amortization of the year	Foreign exchange differences		12/31/2011		
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Gross amount	Accumulated depreciation	Aquisições	Gross amount	Accumulated depreciation	Impairment (Note 22)	Gross amount	Accumulated depreciation	Transfers between fixed assets	Gross amount	Accumulated depreciation		Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount	
Tangible assets																				
Property																				
. Property for own use	423,263	115,791	2,486	4,076	477	1,179	-	-	-	(13,426)	(3,531)	380	7,977	-	-	415,472	120,714	2,486	292,272	
. Leasehold expenditure	133,393	99,187	-	-	-	1,379	-	-	-	(549)	(549)	1	6,574	6	5	134,230	105,217	-	29,013	
. Other property	1,542	295	697	-	-	1	654	40	654	(315)	(255)	(227)	1	-	-	347	1	43	303	
Tangible assets in progress																				
. Property for own use	3	-	-	-	-	392	-	-	-	-	-	(155)	-	-	-	240	-	-	240	
. Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1	
	558,202	215,273	3,183	4,076	477	2,951	654	40	654	(14,290)	(4,335)	(1)	14,552	6	5	550,290	225,932	2,529	321,829	
Equipment																				
. Furniture and fixtures	22,908	5,617	-	107	107	380	236	237	-	-	-	-	2,201	1	1	23,160	17,689	-	5,471	
. Machinery and tools	4,028	3,864	-	18	18	27	52	52	-	-	-	-	86	1	1	3,922	3,817	-	105	
. Computer hardware	119,884	99,703	-	371	351	4,829	1,029	902	-	-	-	(40)	7,963	-	-	124,015	107,115	-	16,900	
. Interior installations	89,482	79,619	-	115	114	1,968	35	35	-	(262)	(218)	-	3,065	-	-	91,268	82,545	-	8,723	
. Vehicles	18,389	10,139	-	428	334	3,064	3,403	3,290	-	-	-	-	3,815	4	4	18,482	11,002	-	7,480	
. Security equipment	27,777	26,343	-	2	2	188	152	160	-	-	-	-	552	-	-	27,805	26,737	-	1,068	
. Other equipment	5,486	2,617	-	-	-	179	2	2	-	-	-	-	744	-	-	5,663	3,359	-	2,304	
	287,954	237,902	-	1,041	926	10,635	5,019	4,778	-	(262)	(218)	(40)	18,426	6	6	294,315	252,264	-	42,051	
Other tangible assets																				
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-	
. Works of Art	1,525	-	-	10	-	-	-	-	-	-	-	-	-	-	-	1,535	-	-	1,535	
. Other	39	39	-	-	-	-	39	39	-	-	-	-	-	-	-	-	-	-	-	
	1,845	320	-	10	-	-	39	39	-	-	-	-	-	-	-	1,816	281	-	1,535	
	848,001	453,495	3,183	5,127	1,403	13,586	5,712	4,857	654	(14,552)	(4,553)	(41)	32,978	12	11	846,421	478,477	2,529	365,415	
Intangible assets																				
Software purchased	286,849	213,918	-	2,153	1,695	31,185	2,745	2,745	-	-	-	40	30,384	-	-	317,482	243,252	-	74,230	
Intangible assets in progress	1,444	-	-	-	-	(1,444)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-	
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-	
	291,907	217,532	-	2,153	1,695	29,741	2,745	2,745	-	-	-	40	30,384	-	-	321,096	246,866	-	74,230	

The caption “Software purchased” at December 31, 2012 and 2011 includes software acquired from Santander Tecnologia y Operaciones A.E.I.E., a european economic interest group owned by Santander Group, amounting to, net of depreciation, tEuros 64,273 and tEuros 72,054, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

15. INVESTMENTS IN ASSOCIATED COMPANIES

On December 31, 2012 and 2011, this caption was made up as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Effective participation (%)</u>	<u>Book value</u>	<u>Effective participation (%)</u>	<u>Book value</u>
Investments in associates				
Domestic				
· Partang, SGPS, S.A.	49.00	111,284	49.00	103,470
· Unicre - Instituição Financeira de Crédito, S.A	21.50	30,168	21.50	27,756
· Benim - Sociedade Imobiliária, S.A	25.81	2,202	25.81	2,326
		-----		-----
		143,654		133,552
		-----		-----
Impairment of investments in associates (Note 22)				
· Benim – Sociedade Imobiliária, S.A.		( 660 )		( 500 )
		-----		-----
		142,994		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).

Under the terms of the agreement signed in August 2008 between Caixa Geral de Depósitos, S.A. (CGD) and BST, on June 4, 2009, Santotta and BST founded Partang, SGPS, S.A (Partang) through delivery of shares of Banco Caixa Geral Totta de Angola, S.A. ("BCGTA"), previously called Banco Totta de Angola, S.A., corresponding to 50.5% and 0.5% of its share capital, respectively. Under the terms of the referred to agreement, on July 2, 2009 CGD subscribed the total amount of Partang's capital increase. After this operation Partang was 50% owned by CGD and 50% by the Santander Group (of which 49.51% was held by the subsidiary of Banco Santotta – Internacional SGPS, S.A. (Santotta) and 0.49% was held directly by BST).

On December 31, 2012 and 2011, Partang, SGPS, S.A. owned 51% of Banco Caixa Geral Totta de Angola.

Under the terms of the agreement entered into between BST and CGD, on July 5, 2010 CGD exercised its purchase option over 1% of Partang's share capital. Following this operation, the BST Group owned 49% of the share capital of Partang, having lost its joint control over the BCGTA. In accordance with IAS 27, the Bank measured the remaining participating interest at the date when joint control was lost at fair value. Following this operation the participation was recognised in accordance with equity method of accounting.

The Group has a put option to sell its participation in Partang to the CGD, exercisable during the period of 4 years starting July 2, 2011. Additionally, the CGD has a second call option on the Group's participation in Partang, with a limit of 80% of Partang's share capital and voting rights, to be exercised in the first month of the fifth anniversary of the date of the capital increase of Partang (July 2, 2009).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

On December 31, 2012 and 2011, these captions were made up as follows:

	<u>2012</u>	<u>2011</u>
Current tax assets:		
. Corporate income tax receivable	3,889	17,613
. Other	357	19
	-----	-----
	4,246	17,632
	=====	=====
Current tax liabilities:		
. Corporate income tax payable from previous years	2,789	1,501
. Other	1,898	5,044
	-----	-----
	4,687	6,545
	=====	=====
Deferred tax assets		
. Relating to temporary differences	604,209	701,127
. Tax losses carried forward	27,369	13,690
	-----	-----
	631,578	714,817
	=====	=====
Deferred tax liabilities		
. Relating to temporary differences	71,442	62,863
. Relating to tax credits	3,861	4,109
	-----	-----
	75,303	66,972
	=====	=====

On December 31, 2012 and 2011, income tax for the year was made up as follows:

	<u>2012</u>	<u>2011</u>
Current tax		
. Of the year	( 23,715 )	( 17,777 )
. Special contribution of the banking sector	( 11,842 )	( 13,303 )
. Consortiums ("ACE's")	( 1,482 )	( 1,624 )
. Other	7,446	21,503
	-----	-----
	( 29,593 )	( 11,201 )
	-----	-----
Deferred tax		
. Increases and reversals of temporary differences	44,803	26,997
. (Expense)/Income for tax credits	( 500 )	13,687
	-----	-----
	44,303	40,684
	-----	-----
	14,710	29,483
	=====	=====

Following the change in the accounting policy relating to liabilities with pensions, in 2011, the Bank recorded deferred tax asset amounting to tEuros 61,992.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

Changes in deferred tax assets and liabilities for the years ending on December 31, 2012 and 2011 were as follows:

	2012				
	Balances on 31/12/2011	Shareholders' equity	Income Statement	Other	Balances on 31/12/2012
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	180,675	-	54,369	-	235,044
Liabilities relating to potential capital losses	(8,324)	-	2,569	-	(5,755)
Revaluation of tangible assets	(4,109)	-	248	-	(3,861)
Pensions:					
Early retirement pensions	19,543	-	7,774	-	27,317
Retirement pensions	34,614	-	(15,446)	-	19,168
Transfers of pension liabilities to the Social Security	6,047	-	(605)	-	5,442
Actuarial variations	159,238	-	(15,924)	-	143,314
Long service bonus	7,471	-	400	-	7,871
Pension Fund - London Branch	193	-	(193)	-	-
Securitization operations:					
. Premium/discount on debt issued	(439)	-	156	-	(283)
. Recognition of accrual of interest from notes w with greater subordination	(8,622)	-	(228)	-	(8,850)
. Results on intra-Group securities purchases	(17,130)	-	(904)	-	(18,034)
Tax losses carried forw ard	13,690		13,679		27,369
Valuation temporarily not accepted for tax purposes:					
Tangible and intangible fixed assets	77	-	(77)	-	-
Cash flow hedges	(16,978)	(11,874)	-	-	(28,852)
Financial assets available for sale	272,587	(124,000)	-	-	148,587
Deferred commissions	2,663	-	622	-	3,285
Capital gains	(1,854)	-	39	-	(1,815)
Application of the equity method in the valuation of investments in associated companies	(402)	(420)	(59)	420	(461)
Long-term incentives	3,098	-	470	-	3,568
Investments in subsidiaries, associates and joint ventures	5,809	-	(2,583)	-	3,226
Other	(2)	-	(4)	1	(5)
	<u>647,845</u>	<u>(136,294)</u>	<u>44,303</u>	<u>421</u>	<u>556,275</u>

	2011					
	Balances on 31/12/2010	Totta IFIC merger	Shareholders' equity	Income Statement	Other	Balances on 31/12/2011
Provisions/Impairment temporarily not accepted for tax purposes						
Assets	143,243	7,235	387	31,634	(1,824)	180,675
Liabilities relating to potential capital losses	-	-	-	(8,324)	-	(8,324)
Revaluation of tangible assets	(4,515)	-	-	229	177	(4,109)
Pensions:						
Early retirement pensions	19,841	-	-	(298)	-	19,543
Retirement pensions	44,427	-	-	(9,813)	-	34,614
Transfers of pension liabilities to the Social Security	-	-	-	6,047	-	6,047
Actuarial variations	97,247	-	61,992	-	(1)	159,238
Long service bonus	7,894	-	-	(423)	-	7,471
Pension Fund - London Branch	386	-	-	(193)	-	193
Securitization operations:						
. Premium/discount on debt issued	(496)	-	-	57	-	(439)
. Recognition of accrual of interest from notes with greater subordination	(6,897)	(717)	-	(1,008)	-	(8,622)
. Results on intra-Group securities purchases	(30,406)	-	-	13,276	-	(17,130)
Tax losses carried forw ard	-	-	-	12,503	1,187	13,690
Valuation temporarily not accepted for tax purposes:						
Tangible and intangible fixed assets	148,969	-	123,563	-	55	272,587
Cash flow hedges	715	-	-	(630)	(8)	77
Financial assets available for sale	5,809	-	-	-	-	5,809
Deferred commissions	5,855	-	-	(3,192)	-	2,663
Capital gains	2,316	-	-	782	-	3,098
Application of the equity method in the valuation of investments in associated companies	(1,874)	-	(15,104)	-	-	(16,978)
Long-term incentives	(1,892)	-	-	38	-	(1,854)
Investments in subsidiaries, associates and joint ventures	(401)	-	-	(1)	-	(402)
Other	(416)	-	-	-	414	(2)
	<u>429,805</u>	<u>6,518</u>	<u>170,838</u>	<u>40,684</u>	<u>-</u>	<u>647,845</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

In 2012 and 2011, the reconciliation between the nominal and effective income tax rate is as follows:

	2012		2011	
	Income Tax Rate	Amount	Income Tax Rate	Amount
Income before income tax		73,358		17,585
Income tax based on the current tax rate				
in Portugal and countries where the subsidiaries are established	-28.84%	(21,154)	-113.67%	(19,989)
Insufficiency/(excess) of tax estimate of the previous year	3.30%	2,421	-45.10%	(7,931)
Impact on the effective tax rate of income from associated companies	-4.69%	(3,438)	-21.26%	(3,739)
Constitution/(reversal) of taxed provisions	5.13%	3,761	5.73%	1,008
Deductible tax losses (consortiums)	-0.44%	(323)	-2.78%	(489)
Tax exempt dividends	-0.42%	(307)	0.00%	-
Tax benefits	-0.46%	(341)	-1.63%	(287)
Non tax deductible costs	2.71%	1,987	8.13%	1,430
Special contribution of the banking sector	16.14%	11,842	75.65%	13,303
Autonomous taxation	5.07%	3,720	14.59%	2,566
Tax losses of previous years that became recoverable	-0.43%	(318)	0.00%	-
Other	-17.12%	(12,560)	-87.32%	(15,355)
Income tax for the year	-20.05%	(14,710)	-167.66%	(29,483)

Tax authorities may review the Bank's tax situation during a period of four years, except in the case of reportable tax losses, as well as of any other tax deduction or credit, in which case the right to corrections expires in the year of this right.

The Bank was subject to tax inspections for the years up to 2010, inclusive. As a result of the inspection for 2010, the Bank was subject to an additional assessment of Corporation Income Tax. The corrections made relate to several matters, including, adjustments to the tax base relating to impairment of non-financial assets and the limitation of losses in equity and corrections to the calculation of the tax relating to the autonomous taxation of bonuses and premiums paid to Directors of the Bank, as well as relating to the limitation of the use of tax benefits. Some of these corrections are merely temporary, namely those relating to the non-deductible impairment for non-financial assets.

As regards the additional assessments received in recent years, the Bank has paid the full amount or part of the amount of these additional tax assessments or, where applicable, has given a bank guarantee. However, the Bank has challenged the majority of the additional tax assessments.

BST 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 FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

17. OTHER ASSETS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Other available funds	333	353
Debtors and other applications		
Debtors resulting from operations with futures	3,895	2,580
VAT recoverable	548	548
Debtors for loan interest subsidy	5,939	8,345
Other debtors	47,850	24,515
Debtors and other applications - overdue capital	528	528
Debtors - unrealised capital	38	38
Shareholders' loans:		
Fafer - Empreendimentos Urbanísticos Construção, S.A.	364	364
Gestinsua - Aquisições e Aliações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda	2,443	2,443
Gold, other precious metals, coins and medals	2,465	2,459
Promises and other assets received as settlement of defaulting loans	104,672	89,888
Income receivable	25,314	33,802
Other income receivable - securitization	10,767	18,523
Deferred costs on participations in consortiums		
NORTREM - Aluguer Material Ferroviário ACE	2,762	2,281
TREM - Aluguer Material Circulante ACE	137	220
TREM II - Aluguer Material Circulante ACE	443	682
Deferred costs	7,893	5,760
Liabilities with pensions		
Total liabilities	-	( 780,387 )
Fair value of the Pension Fund's assets	-	783,684
Over-the-counter transactions pending settlement	28	-
Asset transactions pending settlement	253	1,354
Other transactions pending settlement	-	3
	-----	-----
	216,798	198,109
	-----	-----
Impairment losses (Note 22):		
Shareholders' loans	( 2,042 )	( 2,042 )
Assets received as settlement of defaulting loans	( 22,921 )	( 18,456 )
Debtors and other applications	( 879 )	( 1,155 )
	-----	-----
	( 25,842 )	( 21,653 )
	-----	-----
	190,956	176,456
	=====	=====

The caption "Debtors resulting from operations with futures" corresponds 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).

The balance of the caption "Other debtors" at December 31, 2012, includes the amount of the credit rights held over Fund Lusimovest totalling tEuros 24,500, relating to redemptions settled on account of the Fund.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

On December 31, 2012 and 2011, the caption “Other income receivable - securitization” corresponds to the amount receivable on swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization companies. The amount payable relating to these transactions is recorded in the caption “Other liabilities – Other charges payable” (Note 24).

On December 31, 2012 and 2011 the caption “Income receivable” includes essentially commission receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. for the sale of its products.

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Resources of the European Central Bank		
Sales with repurchase agreement	5,837,226	4,913,227
Resources of other Central Banks		
Demand deposits	16	7
	-----	-----
	5,837,242	4,913,234
	=====	=====

On December 31, 2012 and 2011, the caption of “Resources of the European Central Bank – Sales with repurchase agreement” corresponds to the taking of funds from the Eurosystem, BST using part of its eligible assets portfolio. On those dates, of the total eligible assets portfolio, the assets relating to the European Central Bank were as follows:

Type of asset	2012				
	Principal	Total interest	Deferred costs	Total	Maturity
Bonds issued in securitization operations and covered bonds	1,860,000	44,021	(31,685)	1,872,336	February 2015
Public debt and loans	740,000	17,513	(12,605)	744,908	February 2015
	2,600,000	61,534	(44,290)	2,617,244	
Bonds issued in securitization operations	1,610,000	14,390	(1,031)	1,623,359	January 2013
Public debt and loans	1,590,000	7,162	(539)	1,596,623	January 2013
	3,200,000	21,552	(1,570)	3,219,982	
	5,800,000	83,086	(45,860)	5,837,226	

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

19. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Resources of domestic credit institutions		
Deposits	31,778	191,740
Interest payable	47	999
Other resources	2	2,762
Sale operations with repurchase agreement	-	368,899
Deferred expenses	-	( 250 )
	-----	-----
	31,837	564,150
	-----	-----
Resources of foreign credit institutions		
Sale operations with repurchase agreement	1,115,715	1,880,953
Deposits	745,391	777,401
Very short term resources	48,976	41,168
Other resources	7,236	8,402
Consigned resources	-	339,000
Interest payable	419	458
	-----	-----
	1,917,737	3,047,382
	-----	-----
	1,949,574	3,611,532
	=====	=====

On December 31, 2011, the underlying assets in the caption of “Resources of domestic credit institutions – Sale operations with repurchase agreement”, were bonds issued under the Bank’s securitization transactions that were in its portfolio.

On December 31, 2012 and 2011, the caption of “Resources of foreign credit institutions – Sale operations with repurchase agreement”, is made up as follows, by type of underlying asset:

<u>2012</u>				
Assets	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	146,305	46	(9)	146,342
Treasury Bonds - Spain	969,309	123	(59)	969,373
	<u>1,115,614</u>	<u>169</u>	<u>(68)</u>	<u>1,115,715</u>
<u>2011</u>				
Assets	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 BST Group	316,217	858	(111)	316,964
	<u>1,874,532</u>	<u>9,791</u>	<u>(3,370)</u>	<u>1,880,953</u>

On December 31, 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. These loans were repaid early during 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Translation of notes originally issued in Portuguese – Note 49)

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

20. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Term deposits	14,431,667	12,758,347
Demand deposits	4,890,448	5,034,181
Structured deposits	1,764,839	1,668,085
Savings deposits	55,081	116,103
Advance notice deposits	21,365	25,609
	-----	-----
	21,163,400	19,602,325
	-----	-----
Interest payable	171,186	141,682
Cheques and orders payable	117,294	99,636
Value adjustments of hedging operations	45,294	461
	-----	-----
	333,774	241,779
	-----	-----
	21,497,174	19,844,104
	=====	=====

21. DEBT SECURITIES

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Bonds in circulation		
Covered bonds		
Issued	5,880,000	5,630,000
Repurchased	( 4,003,450 )	( 3,580,750 )
Interest from covered bonds	23,576	21,666
Bonds issued in securitization operations		
Issued	4,270,551	4,972,943
Repurchased	( 3,004,781 )	( 2,748,088 )
Interest payable	( 1,597 )	2,882
Cash bonds		
Issued	660,960	740,376
Repurchased	( 33,446 )	( 10,691 )
Interest payable	9,782	4,348
	-----	-----
	3,801,595	5,032,686
	-----	-----
Other		
EMTN Program	160,530	2,289,570
Repurchased	-	( 22,920 )
Interest payable	1,123	31,661
	-----	-----
	161,653	2,298,311
	-----	-----
Value adjustments of hedging operations	( 9,729 )	62,868
	-----	-----
	3,953,519	7,393,865
	=====	=====

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

In 2012 and 2011 the Group repurchased bonds issued in securitization operations, recording capital gains of tEuros 84,193 and tEuros 2,103, respectively (Note 37).

Between May of 2008 and July of 2012, BST made eight issues of Covered Bonds under the “€ 12,500,000,000 Covered Bonds Programme”. As at December 31, 2012 and 2011, the covered bonds had an autonomous pool of assets comprised by:

	<u>2012</u>	<u>2011</u>
Loans and advances to customers (Note 11)	7,675,686	7,567,003
Interest on loans	8,888	15,150
Commissions	( 34,574 )	( 37,605 )
Deferred expenses	14,552	18,364
	<u>7,664,552</u>	<u>7,562,912</u>
Hedging derivatives	42,106	24,413
	<u>7,706,658</u>	<u>7,587,325</u>
	<u>=====</u>	<u>=====</u>

Changes in the debt issued by the Bank during the years 2011 and 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>
Balances on December 31, 2010	4,423,858	(194,069)	2,470,420	-
. Issues made	3,991,502	(250,000)	740,010	-
. Issues repaid	(2,044,984)	-	(920,860)	-
. Issues repurchased	-	(3,147,372)	-	(22,920)
Balances on December 31, 2011	6,370,376	(3,591,441)	2,289,570	(22,920)
. Issues made	250,000	-	900	-
. Issues repaid	(79,416)	8,332	(2,129,940)	800,790
. Issues repurchased	-	(453,787)	-	(777,870)
Balances on December 31, 2012	<u>6,540,960</u>	<u>(4,036,896)</u>	<u>160,530</u>	<u>-</u>

Changes in bonds issued in securitization operations during 2012 were as follows:

	<u>Bonds</u>	
	<u>Issued</u>	<u>Repurchased</u>
Balances on December 31, 2011	4,972,943	(2,748,088)
Redemption	(702,392)	68,117
Repurchases:		
- Hipototta No. 1 - Class A	-	(26,140)
- Hipototta No. 4 - Class A	-	(241,122)
- Hipototta No. 5 - Class A2	-	(57,548)
	-	<u>(324,810)</u>
Balances on December 31, 2012	<u>4,270,551</u>	<u>(3,004,781)</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

In 2012 the caption "Issues repaid" includes the early repayment of bonds issued under the EMTN program, in the amount of tEuros 739,860.

On December 31, 2012, the Bank had the following bonds issued under the Euro Medium Term Notes Programme:

Bonds with remuneration indexed to baskets of shares	
. Maturity between one and three years	109,530
Bonds with remuneration indexed to Euribor	
. Maturity between three and five years	32,300
Fixed rate bonds	
. Maturity up to one year	18,700
	-----
	160,530
	=====

22. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment in the years 2012 and 2011 is as follows:

	2012					31/12/2012
	31/12/2011	Increases	Reversals	Utilizations	Other	
Provisions for tax contingencies (Note 16)	16,683	263	-	-	(11,700)	5,246
Provision for pensions and other charges	29,957	14,049	-	(12,160)	-	31,846
Impairment and provisions for guarantees and other sureties given	8,254	15,570	(8,931)	-	-	14,893
Other provisions	20,588	7,749	(5,879)	(2,172)	-	20,286
	<u>75,482</u>	<u>37,631</u>	<u>(14,810)</u>	<u>(14,332)</u>	<u>(11,700)</u>	<u>72,271</u>

	2011						31/12/2011
	31/12/2010	Entry and/or exit from the consolidation perimeter	Increases	Reversals	Utilizations	Other	
Provisions for tax contingencies	32,982	-	1,169	-	(2,468)	(15,000)	16,683
Provision for pensions and other charges	9,565	-	20,392	-	-	-	29,957
Impairment and provisions for guarantees and other sureties given	32,993	-	2,880	(27,619)	-	-	8,254
Other provisions	28,653	3,380	31,875	(14,400)	(28,920)	-	20,588
	<u>104,193</u>	<u>3,380</u>	<u>56,316</u>	<u>(42,019)</u>	<u>(31,388)</u>	<u>(15,000)</u>	<u>75,482</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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2012						
	12/31/2011	Impairment losses	Reversal of impairment losses	Utilizations	12/31/2012	Impairment recovery
Impairment of loans and advances to customers (Note 11):						
Domestic loans	219,831	142,063	(40,966)	(1,265)	319,663	-
Foreign loans	869	1,251	-	-	2,120	-
Non-derecognized securitized loans	67,955	2,580	(47,793)	-	22,742	-
Other securitized loans and receivables	3,094	366	-	-	3,460	-
Impairment of overdue loans and interest (Note 11):						
Domestic loans	325,816	336,800	(29,683)	(89,582)	543,351	(8,544)
Foreign loans	10,095	8,405	(913)	(318)	17,269	(96)
Non-derecognized securitized loans	44,203	23,302	(11,151)	(1,874)	54,480	-
Other securitized loans and receivables	51	2,526	-	-	2,577	-
	671,914	517,293	(130,506)	(93,039)	965,662	(8,640)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 9)	64,670	17,280	(936)	(22,031)	58,983	-
Impairment of investments in associated companies (Note 15)	500	160	-	-	660	-
	65,170	17,440	(936)	(22,031)	59,643	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 13)	67,181	48,615	(5,230)	(16,501)	94,065	-
Tangible assets (Note 14)	2,529	1,389	(23)	-	3,895	-
Other assets (Note 17)	21,653	9,196	(4,810)	(197)	25,842	-
	91,363	59,200	(10,063)	(16,698)	123,802	-
	828,447	593,933	(141,505)	(131,768)	1,149,107	(8,640)

2011							
	12/31/2010	Entry and/or exit from the consolidation perimeter	Impairment losses	Reversal of impairment losses	Utilizations	Other	12/31/2011
Impairment of loans and advances to customers (Note 11):							
Domestic loans	162,074	19,252	110,529	(67,406)	(4,618)	-	219,831
Foreign loans	1,860	-	240	(1,231)	-	-	869
Non-derecognized securitized loans	53,894	8,322	42,321	(36,582)	-	-	67,955
Other securitized loans and receivables	7,680	-	-	(4,586)	-	-	3,094
Impairment of overdue loans and interest:							
Domestic loans	215,928	6,592	217,266	(13,638)	(100,332)	-	325,816
Foreign loans	5,277	-	6,299	(851)	(630)	-	10,095
Non-derecognized securitized loans	49,665	5,124	37,914	(46,350)	(2,150)	-	44,203
Other securitized loans and receivables	779	-	-	(728)	-	-	51
	497,157	39,290	414,569	(171,372)	(107,730)	-	671,914
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 9)	59,148	-	10,547	(108)	(4,917)	-	64,670
Impairment of investments in associated companies (Note 15)	500	-	-	-	-	-	500
	59,648	-	10,547	(108)	(4,917)	-	65,170
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	45,678	6,094	37,483	(7,431)	(14,627)	(16)	67,181
Tangible assets (Note 14)	3,183	-	-	-	(654)	-	2,529
Other assets (Note 17)	11,227	-	12,486	(2,060)	-	-	21,653
	60,088	6,094	49,969	(9,491)	(15,281)	(16)	91,363
	616,893	45,384	475,085	(180,971)	(127,928)	(16)	828,447

On December 31, 2012 and 2011, the provision for pensions and other charges is made up as follows:

	2012	2011
Restructuring plans	18,111	20,271
Supplementary pension plan of the Board of Directors (Note 45)	13,735	9,686
	-----	-----
	31,846	29,957
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

On December 31, 2012 and 2011 the caption “Other provisions” includes:

- Provision for lawsuits filed by customers and Bank employees, in the amounts of tEuros 3,358 and tEuros 6,438, respectively. The legal Department of the Bank estimates the expected loss for each process, based on its evolution as reported by the lawyer responsible for the respective process; and
- Other provisions in the amounts of tEuros 16,928 and tEuros 14,149, respectively. On December 31, 2012 and 2011 these include provisions for contingencies relating to operational risk (fraud, operations pending confirmation, open items and fines) amounting to tEuros 13,601 and tEuros 13,023, respectively.

23. SUBORDINATED LIABILITIES

This caption is made up as follows:

	<u>2012</u>	<u>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	36	53
	-----	-----
	4,311	4,328
	=====	=====

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

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

24. OTHER LIABILITIES

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Creditors and other resources		
Creditors resulting from operations with futures	3,895	2,580
Other resources		
Secured account resources	42,912	28,026
Collateral account resources	892	994
Other resources	1,411	1,365
Public sector		
VAT payable	7,828	8,455
Withholding taxes	24,073	17,344
Social Security contributions	3,873	3,886
Other	12	9
Collections on behalf of third parties	161	163
Interest, dividends and other remuneration from capital payable		
Remuneration from participating bonds	54	54
Dividends	191	191
Contributions to other health systems	1,526	1,534
Other creditors		
Creditors under factoring contracts	36,178	38,249
Creditors for the supply of goods	1,635	1,914
Other creditors	8,398	9,151
Accrued costs:		
Banking services provided by third parties	27	57
For transactions carried by third parties	23	3,005
Relating to personnel		
Long service bonus	27,140	25,762
Vacation and vacation subsidy	31,559	30,846
Other variable remuneration	17,592	26,336
Other personnel costs	789	859
General administrative costs	33,828	33,308
Relating to swap agreements (Note 17)	10,526	18,823
Other	6,384	3,141
Liabilities with pensions:		
Total liabilities	829,811	-
Fair value of the Pension Fund's assets	( 816,279 )	-
Other deferred income	1,977	1,733
Amounts to be settled with banks and customers		
Liability operations to be settled	2,865	4,548
Other	24,136	27,256
	-----	-----
	303,417	289,589
	=====	=====

On December 31, 2012 and 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 FOR THE YEAR ENDED 31 DECEMBER 2012

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

25. SHAREHOLDERS' EQUITY

As indicated in the Introduction and in Note 1.4., the merger by incorporation of Totta IFIC was recorded on April 1, 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)	5	1
Number of shares	6,912,535	620,052,218
Independent valuation of the shareholders' equity (in Euros)	<u>318,666,145</u>	<u>4,488,702,452</u>
Value per share (in Euros)	46.10	7.24
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><u>29,686,673</u></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 by 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, has been recorded in the merger reserve, which has been determined as explained in Note 1.4.

Consequently, on December 31, 2012 and 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>2012</u>		
	<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
Treasury shares	125,169	0,02	125
Other	735,180	0,11	735
	-----	-----	-----
	656,723,284	100,00	656,723
	=====	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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		2011	
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97,65	641,270
Taxagest, SGPS, S.A.	14,593,315	2,22	14,593
Treasury shares	98,930	0,02	99
Other	761,419	0,11	761
	-----	-----	-----
	656,723,284	100,00	656,723
	=====	=====	=====

On May 27, 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.

On December 31, 2012 and 2011, the revaluation reserves were made up as follows:

	2012	2011
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Financial assets available for sale (Note 9)	( 512,366 )	( 939,956 )
Financial assets available for sale of companies under the equity method	2,521	1,100
Cash flow hedging instruments	99,490	58,546
Actuarial gains and losses (Note 43)	( 589,360 )	( 554,267 )
Actuarial gains and losses of companies under the equity method	( 1,349 )	( 1,374 )
Foreign exchange differences in consolidation	( 5,857 )	( 6,116 )
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	-----	-----
	( 983,676 )	( 1,418,822 )
	-----	-----

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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	<u>2012</u>	<u>2011</u>
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation		
Financial assets available for sale	148,587	272,587
Financial assets available for sale of companies under the equity method	( 622 )	( 210 )
Cash flow hedging instruments	( 28,852 )	( 16,978 )
Tax impact of actuarial gains and losses	169,416	159,238
Tax impact from the change in accounting policy of companies under the equity method	391	399
Relating to the revaluation of tangible assets	( 4,314 )	( 4,543 )
Relating to the revaluation of tangible assets of companies under the equity method	( 132 )	( 132 )
	-----	-----
	284,474	410,361
	-----	-----
	( 699,202 )	( 1,008,461 )
	=====	=====

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.

On December 31, 2012 and 2011, the caption of “Other reserves and retained earnings” was made up as follows:

	<u>2012</u>	<u>2011</u>
Legal reserve	245,862	243,633
	-----	-----
Other reserves		
Reserves of consolidated companies	190,849	194,447
Reserves of companies valued under the equity method	74,727	70,463
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	1,737	2,296
	-----	-----
	934,572	934,465
	-----	-----
Retained earnings	241,078	226,484
	-----	-----
	1,421,512	1,404,582
	=====	=====

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Legal reserve

In accordance with the provisions of Decree Law no. 298/92, of 31 December, amended by Decree Law no. 201/2002, of 26 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 the 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 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.

26. CONSOLIDATED NET INCOME FOR THE YEAR

Consolidated net income for 2012 and 2011 may be summarised as follows:

	2012		2011	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of BST on an individual basis	(9,180)	(9,180)	22,289	22,289
Net income of the other Group companies:				
Serfin International Bank & Trust (SIBT)	401	401	240	240
Totta Ireland, Plc. <sup>(1)</sup>	60,720	60,720	95,713	95,713
Santotta - Internacional, SGPS	4,293	4,293	5,693	5,693
Partang, SGPS	21,433	10,502	16,653	8,160
Banco Caixa Geral Totta de Angola (BCGTA)	44,023	11,001	36,842	9,207
Totta Urbe	2,474	2,474	2,166	2,166
Santander Gestão de Activos, SGPS, S.A.	1,331	1,331	9,582	9,582
Santander Asset Management, SGFIM, S.A.	11	11	(20,266)	(20,266)
Santander Pensões	769	769	1,000	1,000
Totta & Açores, Financing, Ltd (TAF)	12,360	12,360	12,360	12,360
BST International Bank, Inc	18,276	18,276	16,204	16,204
Unicre	11,256	2,420	8,745	1,880
Totta & Açores, Inc. - Newark	(88)	(88)	113	113
Taxagest	(37)	(37)	(5,307)	(5,254)
	177,222	124,433	179,738	136,798
Elimination of dividends:				
Totta Ireland, Plc.	(63,380)	(63,380)		(93,651)
Santander Gestão de Activos, SGPS, S.A.	(9,430)	(9,430)		-
Santander Asset Management, SGFIM, S.A. and Santander Pensões	(1,000)	(1,000)		(13,000)
Santotta - Internacional, SGPS	(8,216)	(8,216)		(4,800)
Partang, SGPS	(4,018)	(4,018)		(5,390)
Banco Caixa Geral Totta Angola	(4,411)	(4,411)		(3,879)
Unicre	(1,036)	(1,036)		(1,574)
		(91,491)		(122,294)
Adjustments related with the merger of Totta IFIC in BST		(93)		6,159
Elimination of the valuation by Partang of the participation in BCGTA		(6,534)		(5,094)
Gains on the repurchase by the Group of bonds issued in mortgage securitization operations (Note 37)		84,193		2,103
Other adjustments related with securitization operations		(17,176)		(9,204)
Other		3,916		16,364
Consolidated net income for the year		88,068		47,121

- (1) The amount reflected corresponds to the net result for the month of December, as this entity closes its financial year on November 30, plus the net result for the period from January 1 to November 30 of 2012 and 2011, which amounted to tEuros 56,680 and tEuros 89,013, respectively.



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27. MINORITY INTERESTS

Third party participation in Group's companies in 2012 and 2011 was as follows by entity:

	<u>2012</u>		<u>2011</u>	
	<u>Balance sheet</u>	<u>Income statement</u>	<u>Balance sheet</u>	<u>Income statement</u>
Preference shares of BST				
International Bank, Inc	272,851	-	278,229	-
Preference shares of TAF	300,000	-	300,000	-
Dividends received in advance	( 1,443 )	-	( 1,459 )	-
Taxagest	550	-	550	( 54 )
Other	202	-	200	1
	-----	----	-----	----
	572,160	-	577,520	( 53 )
	=====	==	=====	==

On June 30, 2006 BST International Bank, Inc (BST Puerto 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, from June 30, 2016 at 100,000 USD per share plus the amount of the dividend accrued monthly since the last payment made.

On June 29, 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.

The above-mentioned 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.

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28. OFF-BALANCE SHEET ITEMS

Off-Balance Sheet items are made up as follows:

	<u>2012</u>	<u>2011</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,219,730	1,488,455
Documentary credits	125,913	570,363
Assets pledged as guarantee		
Bank of Portugal	122,829	121,723
Deposit Guarantee Fund	84,425	70,345
Investor Indemnity System	4,864	4,079
On loans of securities	478,249	-
Other contingent liabilities	6	6
	-----	-----
	2,036,016	2,254,971
	=====	=====
Commitments		
Credit lines		
Revocable	4,502,905	4,792,257
Irrevocable	1,496,610	1,217,742
Term deposit contracts	-	85,933
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	2,625	3,119
Other irrevocable commitments	11,235	16,141
Other revocable commitments	478,466	27,751
	-----	-----
	6,545,933	6,197,035
	=====	=====
Liabilities for services rendered		
Deposit and custodial services	51,506,012	55,382,093
Amounts received for collection	131,479	130,762
Assets managed by the Bank		
Other	7,656,254	7,264,208
	-----	-----
	59,293,745	62,777,063
	=====	=====

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 amortized 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 (Note 38). 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 accumulated unpaid amount of this commitment as at December 31, 2012 amounted to tEuros 54,092. Assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet accounts at market value. In 2012 the Bank paid 100% of the annual contribution amounting to tEuros 4,906 (Note 38).

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Investor Indemnity System (SII)

The liability 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, part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. As at December 31, 2012 and 2011 this liability amounted to tEuros 2,625 and tEuros 3,119, respectively.

In accordance with a regulation of the CMVM, an extraordinary payment of tEuros 4,163 was made by the Bank to the SII in 2011, regarding the Banco Privado Português case (Note 38).

29. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	1,719	4,522
In credit institutions	221	821
Interest on applications		
In domestic credit institutions		
In the Bank of Portugal	999	2,595
In other credit institutions	7,281	21,756
In foreign credit institutions	49,809	59,716
Interest on loans and advances to customers		
Domestic loans	708,390	679,304
Foreign loans	18,739	21,024
Other loans and receivables (commercial paper)	47,200	26,026
Income from commission received associated to amortised cost	42,468	40,772
Interest from securitized assets not derecognised	158,077	291,147
Interest on overdue credit (Note 47)	8,087	8,521
Interest and similar income on other financial assets		
Financial assets held for trading	-	2
Financial assets available for sale	198,167	162,624
Other financial assets at fair value through profit or loss	4,267	4,206
Hedging derivatives	302,753	255,370
Debtors and other applications	16	6
Other interest and similar income		
Swap agreements	98,656	112,519
Other	1,299	1,763
	-----	-----
	1,648,148	1,692,694
	=====	=====

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30. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
Interest on customers' deposits		
Public sector	23,299	16,139
Emigrants	21,462	17,695
Other-residents	406,696	344,376
Non-residents	27,208	20,799
	-----	-----
	478,665	399,009
	-----	-----
Interest on other customers' resources	7,225	2,305
Interest on resources of Central Banks		
Bank of Portugal	52,015	46,667
Other Central Banks	-	13
Interest on resources of credit institutions		
Domestic	8,448	24,557
Foreign	30,425	112,408
Interest on debt securities issued		
Bonds	86,421	115,110
EMTN	81,761	96,803
Commission	30	1,161
Euro Commercial Paper	-	208
Interest on hedging derivatives	261,123	234,116
Interest and commission on other subordinated liabilities	202	316
Commissions paid associated with amortized cost of credit	246	1,862
Other interest and similar charges		
Swap agreements	100,053	114,626
	-----	-----
	627,949	750,152
	-----	-----
	1,106,614	1,149,161
	=====	=====

31. INCOME FROM EQUITY INSTRUMENTS

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

	<u>2012</u>	<u>2011</u>
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	1,075	1,072
Fundo Imorendimento II	355	-
Unicampus	87	-
PME Investimentos	88	-
Finangest	16	57
Visa	16	9
Other	61	140
	-----	-----
	1,698	1,278
	=====	=====

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32. INCOME FROM SERVICES AND COMMISSION

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
On guarantees given		
Guarantees and sureties	16,704	15,317
Documentary credits	3,202	3,450
On commitments to third parties		
Revocable	4,822	3,268
Irrevocable	2,369	2,200
On services rendered		
Card transactions	71,042	67,945
Credit operations	53,281	56,424
Real estate and mutual fund management	25,475	31,517
Annuities	14,067	14,289
Asset management and collection	13,602	13,843
Other	9,866	9,544
On operations carried out on behalf of third parties		
On securities	31,899	27,657
Other	482	490
Other commission received		
Insurance companies	93,589	101,923
Demand deposits	20,361	15,789
Cheques	14,517	14,934
Booklets	9,381	16,498
Specialized credit	-	721
Other	42	1,376
	-----	-----
	384,701	397,185
	=====	=====

33. CHARGES WITH SERVICES AND COMMISSION

This caption is made up as follows:

	<u>2012</u>	<u>2011</u>
On guarantees received		
Guarantees and sureties	1,083	1,275
On commitments assumed by third parties		
Revocable commitments	1,734	-
On banking services rendered by third parties		
Credit operations	12,050	14,345
Funds for collection and management	3,813	4,872
Customer transactions	26,065	24,557
Other	4,736	3,297
On operations carried out by third parties		
Securities	2,378	2,912
Other	1,209	1,862
Other commission paid	825	1,206
	-----	-----
	53,893	54,326
	=====	=====

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

These captions are made up as follows:

	<u>2012</u>	<u>2011</u>
Financial assets held for trading:		
Equity instruments	12,629	( 5,662 )
Debt instruments	-	183
Derivative instruments:		
. FRA's	410	( 36 )
. Swaps:		
Currently swaps	( 117 )	213
Interest rate swaps	4,244	20,687
Equity swaps	3,219	342
Other	2,593	126
. Options:		
Foreign exchange rate contracts	( 329 )	147
Interest rate contracts	104	3
Equity contracts	474	( 425 )
Other	-	( 1 )
. Interest rate guarantee contracts	( 48 )	375
Financial assets and liabilities at fair value through profit or loss	14,230	( 12,466 )
	-----	-----
	37,409	3,486
	-----	-----
Hedging derivatives:		
Swaps		
. Interest rate swaps	( 90,993 )	( 131,561 )
. Equity swaps	( 2,568 )	( 26,182 )
. "Auto-callable" options	( 64,328 )	2,714
Value adjustments of hedged assets and liabilities:		
. Loans and advances to customers	774	1,020
. Available-for-sale financial assets	111,437	137,104
. Resources of customers and other debts	( 44,747 )	( 12,575 )
. Debt securities	90,199	27,889
	-----	-----
	( 226 )	( 1,591 )
	-----	-----
	37,183	1,895
	=====	=====