

2012 Annual Report

 Santander Totta



2012 Annual Report

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Main Indicators

	Dec-12	Dec-11	Var.
Balance Sheet and Results (million euro)			
Net Assets	38,527	40,115	-4.0%
Net Loans	26,980	28,372	-4.9%
Customers' Resources	28,892	27,922	+3.5%
Own Funds + Minority Interests + Subordinated Liabilities	2,329	1,968	+18.4%
Net Interest Income (excluding dividends)	541.5	543.5	-0.4%
Fees and Other Income	318.0	328.8	-3.3%
Operating Income	987.1	804.6	+22.7%
Net Operating Income	528.1	297.7	+77.4%
Income Before Taxes & Minority Interests	73.4	17.6	>200%
Net Income	88.1	47.1	+86.9%
Ratios			
ROE	6.4%	2.6%	+3.8 p.p.
ROA	0.2%	0.1%	+0.1 p.p.
Efficiency Ratio (including depreciation)	46.5%	63.0%	-16.5 p.p.
Solvency Ratio*	11.4%	10.3%	+1.1 p.p.
Tier I*	11.4%	10.3%	+1.1 p.p.
Core Capital *	9.9%	9.1%	+0.8 p.p.
Non Performing Loans (+ 90 days) Ratio	3.51%	2.16%	+1.4 p.p.
NPL and Doubtful Loans Ratio	3.54%	2.21%	+1.3 p.p.
Credit at Risk Ratio	4.32%	2.84%	+1.5 p.p.
NPL Coverage (+ 90 days)	98.4%	107.1%	-8.7 p.p.
NPL and Doubtful Loans Coverage Ratio	97.4%	104.5%	-7.1 p.p.
Credit at Risk Coverage Ratio	79.7%	80.5%	-0.8 p.p.
Loan-to-Deposit Ratio**	126.6%	138.8%	-12.2 p.p.
Rating			
FitchRatings			
short term	F3	F1	
long term	BBB-	A	
Moody's			
short term	NP	P-2	
long term	Ba1	Baa2	
Standard & Poor's			
short term	B	A-3	
long term	BB	BBB-	
DBRS			
short term	R-1 (low)	-	
long term	BBB (high)	-	
Other Data			
Employees	5,663	5,774	-111
Employees in Portugal	5,613	5,720	-107
Branches	667	715	-48
Total Branches and Corporate Centers in Portugal	652	681	-29

* With results net of payout

** According the definition in the "Memorandum of Understanding"

Governing Bodies

BANCO SANTANDER TOTTA, S.A.

General Meeting

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

Board of Directors

Chairman	Matias Pedro Rodriguez Inciarte
Members	António José Sacadura Vieira Monteiro ⁽¹⁾ Carlos Manuel Amaral de Pinho Eduardo José Stock da Cunha João Baptista Leite José Carlos Brito Sítima José Gruel Moura Leite Maia José Manuel Alves Elias da Costa Luís Filipe Ferreira Bento dos Santos Pedro Aires Coruche Castro e Almeida

Audit Board

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

Auditor

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

Executive Committee

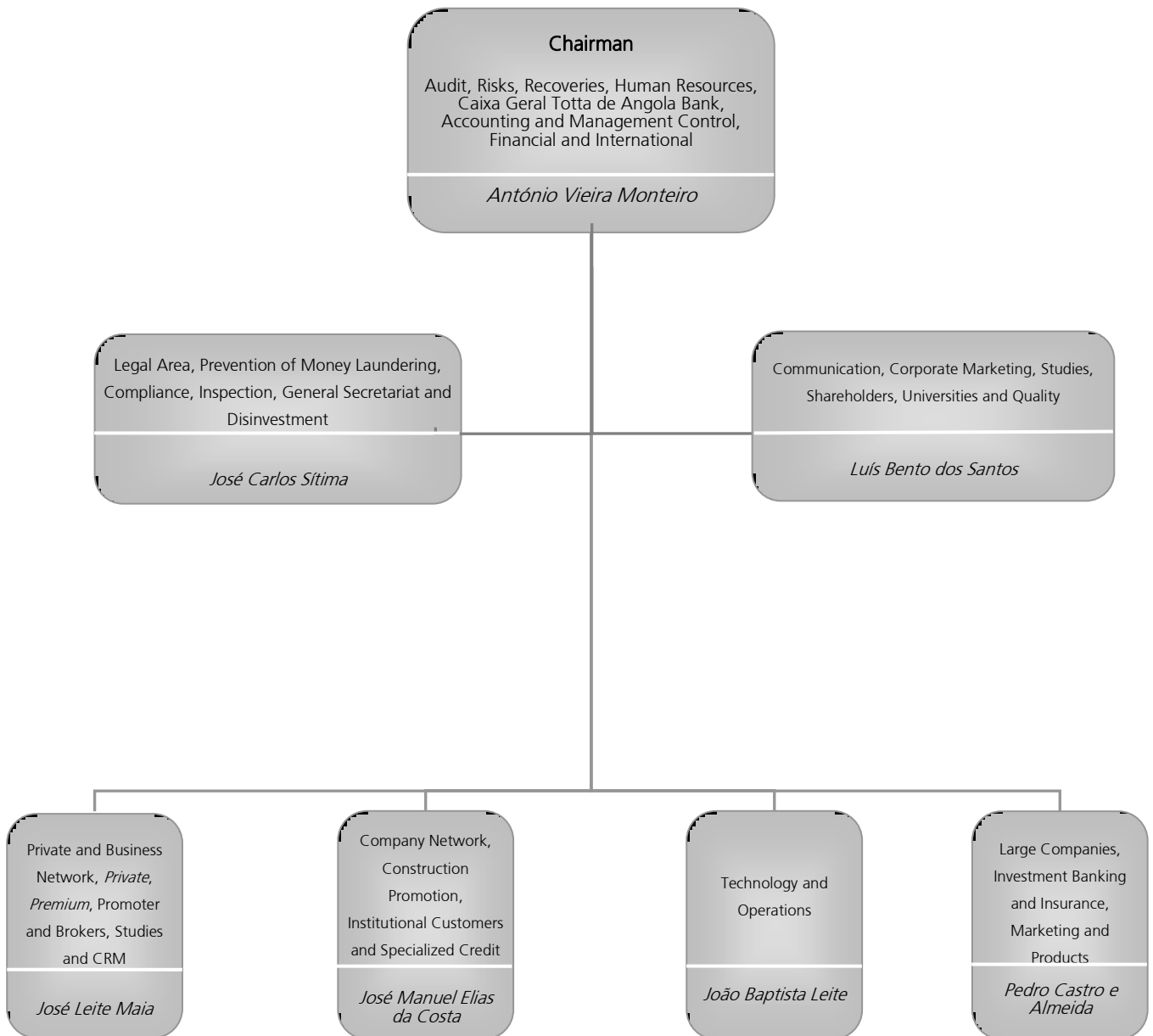
Chairman	António José Sacadura Vieira Monteiro ⁽¹⁾
Members	José Carlos Brito Sítima João Baptista Leite José Manuel Alves Elias da Costa José Urgel Moura Leite Maia Luís Filipe Ferreira Bento dos Santos Pedro Aires Coruche Castro e Almeida

Company Secretary

Effective	António Miguel Leonetti Terra da Motta
Alternate	Luís Manuel Baptista Figueiredo

(1) Appointed Chairman of the Executive Committee on 31/01/12

Functional Organization Chart of the Executive Committee – 31/12/12



Relevant facts in 2012

Prizes awarded in 2012

Main awards

Bank of the Year in Portugal – *The Banker*

Best Bank in Portugal - *Euromoney*

Best Bank in Portugal - *Global Finance*

Sounder Large Bank - *Exame*



Other recognitions

Better *Private Banking* - *Euromoney*

And in service categories "Specialized Asset Services", "Customer Relationship Management", "Privacy and Security", "Scope of Products and Services" and "Family Office Services" and "Best Bank in the *Super Affluent* segment (\$500,000- \$1,000,000 Dollars)" "Best Bank in the *High Net Worth* segment (\$1,000,000-\$10,000,000 Dollars)".

Best Foreign Exchange Provider 2013 in Portugal - *Global Finance*

Best *Contact Centre* of the Banking Sector - *APCC*

Best Distributor of Structured Products and in the sub-category, Best Distributor in Sales - *Euromoney and StructuredRetail Products.com*

Other relevant facts in 2012

January

- António Vieira Monteiro appointed executive chairman of Santander Totta
- Santander Totta and ISEG develop internationalization course for entrepreneurs

February

- Euromoney Magazine elects Santander Totta *Private Banking* as the best in Portugal
- Santander Totta is the only large Bank to show positive results in 2011

March

- Completion of the Special Inspection Programme by the *Troika* and Bank of Portugal (WS3) – Santander Totta Group obtains jointly with another financial institution the best assessment qualification
- Santander Totta elected the "Best Bank in Portugal" by Global Finance magazine
- Santander Totta promotes debate with Universities concerning the Intelligent University Card
- Eduardo Lourenço awarded Lisbon University Prize
- Registrations open for House of Latin America / Santander Totta Scientific Prize

April

- Santander Totta / Nova University Scientific Merit Prize awarded to research on tuberculosis
- Santander Totta celebrates the Internationalization of Coimbra University with the award of 30 scholarships on international mobility
- Launching of structured plan to aid families experiencing difficulties in credit payments

May

- Santander Totta Porto University develop competition on Business Ideas for entrepreneurs
- Santander Totta distinguishes mobility students in Porto University
- Award of Prize for Economic Journalism

June

- Santander Totta wins prize for “Best Contact Centre of the Banking Sector”, awarded by the Portuguese Association of Contact Centres
- Santander Totta comes under the surveillance of the DBRS Canadian rating agency, and is singled out with the best classification for the sector
- Employees cycle from Lisbon to Porto on behalf of a fraternal cause
- RedEmprendia launches competition on business ideas for undergraduate students
- Student in the Porto Faculty of Economy wins 9th edition of the *Primus Inter Pares* prize

July

- Santander elected “Best Bank in the World” and Santander Totta “Best Bank in Portugal” Euromoney magazine

September

- Santander Totta concludes agreement with the Faculty of Medical Sciences of Lisbon’s Nova University
- Euromoney elects Santander Totta as the “Best Distributor of Structured Products in Portugal”

October

- Santander Totta launches Activation Plan to support Portuguese economy
- Bank brings together exporting companies in the Conference Exports – “Experiences and Opportunities”

November

- Bank Santander Totta signs agreement with Beja Polytechnic Institute
- Santander Totta rewards scientific research in Beira Interior University
- Santander Totta is the “Soundest Bank in Portugal”, in the category of Large Banks, in the Exame magazine awards
- “The Banker” magazine elects Santander Totta as the “Bank of the Year in Portugal”

December

- Registrations open for *Primus Inter Pares*
- Results of the Programme of On-Site Inspections exhibiting construction and real estate promotion sectors, singles out Santander Totta as the only large Bank that, in September 2012 did not require recording any further imparity
- 9th Edition of the event “Everyone’s Bread” brings together 400 volunteer employees, with compensation of carbon emissions
- Santander Totta sets up Sustainability Committee

Corporate Data

Santander is a commercial bank with head offices in Spain and present in 10 main markets. Santander is the largest Bank in the Euro Zone in terms of market capitalisation. Founded in 1857, it has €1.388 billion in managed funds, 102 million customers, and 14,392 branches – more than any other international bank – and 187,000 employees at the end of 2012. It is the main financial group in Spain and in Latin America, with relevant positions in the United Kingdom, Portugal, Germany, Poland, and in the Northwest of the United States of America. Santander obtained an income before provisions of 23.559 million euros in 2012, 2% greater than in the previous year.

Santander Totta, in line with the Santander Group, is ruled by the following corporate values:

Dynamism

Initiative and agility to discover and exploit business opportunities ahead of its competitors and flexibility to adapt to market changes

Soundness

The soundness of the balance sheet and the diligence in risk management are the best guarantees of capacity for growth and for the generation of long term value for the shareholders.

Leadership

Vocation for leadership with the best teams and keeping constant guidelines for the Customer and for results

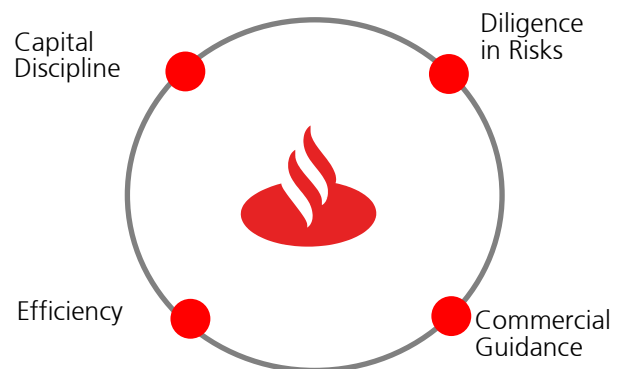
Innovation

Constant search for products and services that answer Customers' new requirements allowing increases in profitability exceeding those of our competitors

Commercial guidance and professional ethics

Continuous improvement in the strategy for the capture, satisfaction and binding of Customers through a wide offer of products and services and of an improved quality of service

The Customer is the fundamental pivot of Santander Totta's business model



Social and Corporate Responsibility

Introduction

Santander Totta's policy of social responsibility, aligned with that of the Santander Group, has as its main pivot the support for learning, promotion of knowledge, merit and entrepreneurship, especially in Higher Education, through the 45 cooperation agreements it concluded with Portuguese Universities and Polytechnic institutions. It is the Bank's belief that Higher Education is one of the prime movers for the development of society and that the academic communities are the main productive and mustering driving forces in the medium term.

The Bank also keeps to an active policy in the areas of social solidarity, through supports and the involvement of employee volunteers in the environment, through the adoption and promotion of measures to combat climate change and sustainable development. Support for culture, promotion of health and welfare and sports, are also relevant areas in the policy for social responsibility, with the objective to increase the corporate social conscience of economic players, thus promoting a fairer and more fraternal society.

In 2012, total investment in Portugal in activities directly related to corporate social responsibility amounted to approximately 5.3 million euros.

A Sustainability Committee was set up in order to include sustainability at the highest level of the Bank's governance structure and to respond to the new challenges being faced.

Universities

The Bank has currently 45 cooperation agreements signed with Higher Education Institutions. Two new cooperation agreements were signed in 2012, with the Faculty of Medical Sciences of Lisbon's Nova University and with the Beja Polytechnic Institute.

During 2012, within the scope of the partnerships instituted out with the Universities, several initiatives were held, of which the following are singled out:

- **Internationalization Day of Porto University**

In the Internationalization Day of Porto University, Bank Santander Totta paid tribute to the 70 students that took part, in 2012, in the programme of international mobility

between Porto University and Universities in South America.

In all, since the beginning of the Programme, in 2007, more than 400 students from both sides of the Atlantic benefited from the protocol of cooperation between Santander and Porto University. 163 students from Porto University have already carried out a mobility period in universities in South America, especially in Brazil and Argentina, while 253 South-American youths travelled the other way as scholarship holders of the Santander Universities Programme.



- **Internationalization Day of Coimbra University**

Within the scope of the celebration of the internationalization day of the University, 30 international scholarships were provided for the participants in several mobility programmes with the Portuguese-Brazilian scholarship and the Iberian-American scholarships awarded to students, lecturers and researchers.



- **III Workshop of the Intelligent University Card (TUI)**

The III TUI (Tarjeta Universitária Inteligente) workshop was held in Porto University with the objective to present the project to Universities that do not yet have the card and to share experiences with its use. Present at the event were Porto, Coimbra and Beira Interior Universities, Porto Polytechnic Institute and two Spanish universities, those of Santiago de Compostela and Salamanca.



- **Business Ideas Competition in Porto University Porto - iUP25K (3rd edition)**

In its third edition, the Business Ideas Prize recognizes innovation in scientific and technological projects at the same time as it promotes entrepreneurship and the setting up of new companies.

The 1st prize was awarded to the project “TerMonitor – Thermography for Medical Applications”, which received 10,000 euros of share capital required to set up a company and 5,000 euros to finance the consultancy procedure for its business plan.



- **Santander Totta/Nova University Scientific Merit Prize (5th edition)**

In its 5th edition, prizes distinguished researchers Pedro Viana Baptista and Miguel Viveiros, upon having set up a faster and cheaper innovatory system for diagnosing tuberculosis. The project named “Nano TB Nanodiagnosics for XDRT at a point-of-need” received a 25,000 euro prize.

- **Lisbon University/Santander Totta Prize (6th edition)**

The prize was awarded this year to Eduardo Lourenço, author of “a wide and rich literary work, capable of inspiring the paths of the future in the difficult times the Country is crossing”, in the words of the jury relative to the philosopher, justifying this distinction for its “originality and deep reflection over the significance of culture and of the Portuguese historic constant values, in their insertion in the wider spaces of Europe and the Portuguese speaking world population”.

- **Coimbra University/Santander Totta Prize (9th edition)**

António Pinho Vargas, musician and researcher was distinguished for his work with a 25,000 euro prize.

- **Beira Interior University/Santander Totta Scientific Merit Prize (3rd edition)**

These prizes are awarded to researchers and lecturers from the five BIU faculties who carry out learning and research activities, singled out by their scientific merit and by a relevant and innovative intervention.

- **Lisbon Technical University/Santander Totta Scientific Prizes (6th edition)**

Scientific prizes from LTU and Santander Totta distinguish lecturers and researchers that are singled out for remarkable level scientific work in the several faculties comprised in LTU, with works of great impact in international scientific magazines.

Eleven prizes and fourteen honourable mentions were awarded in 2012. Each prize has a pecuniary value of 3,000 euros and includes an initiation to research scholarship for a six month period.

Prizes were also awarded to the best LTU students: those that were singled out in the context of their global training, in the scientific, academic, cultural and civic fields.

- **Lisbon Nova University/Santander Totta Prize for Economic Journalism (6th edition)**

The work “What if Portugal should leave the Euro?”, from Jornal de Negócios newspaper, was the great winner of the 6th edition of PEJ, and was also the winner in the Financial Markets category. The article “It is worth while working in local authority enterprises” from Expresso newspaper, was the winner in the Management of Companies and Businesses category, whilst the work “The strength of the third sector”, from Visão magazine, was awarded in the Entrepreneurial Sustainability category.

- **Primus Inter Pares Prize**

Launched in 2003, by Bank Santander Totta and Expresso newspaper, this prize once again distinguished the three best university students in the Economy, Management or Engineering courses.

The winning students will have the opportunity of attending an MBA course in an internationally and nationally prestigious Business School – IESE, in Barcelona, the Instituto de Empresa, in Madrid, the Lisbon MBA (Catholic University and Nova University), the ISCTE, the ISEG and this year, for the first time, the Porto Business School. Those placed 4th and 5th will receive a post graduate course.

The winners in the 9th edition were, placed 1st, André Campos and, in 2nd and 3rd place, respectively, Inês Relvas and Patrícia Viseu.



- **Latin American House / Santander Totta Scientific Prize**

The objective of the Santander Totta/Latin American House University Prize is to reward merit and stimulate the training of Latin-American university students in Portugal, contributing towards the development of a culture of strictness and excellence.

In 2012, 30 candidacies participated in the prize, the winners being the theses of students Carlos Rafael Borges Mendes, of Portuguese origin, in the Technologies and Natural Sciences category, and Mércia Carréra de Medeiros, of Brazilian origin, in the Social Sciences and Humanities category.

Universia

The plan for Universia activities is based on 4 strategic guidelines: cooperation between university and enterprise, employment for university graduates, dissemination of knowledge and the future of higher education.

- **2012/13 Santander Universities Registration Action**

Universia provided support to Bank Santander Totta in this action, which had the objective, in addition to the issue of cards, to establish a strong presence with the Universities, in order to be placed nearer to students when they become undergraduates.

170 promoters were contracted for this initiative that, jointly with the Universia and Santander Totta teams were instrumental in the support for this action's implementation.

- **Implementation of the "Working in Portugal" network**

Universia commenced the implementation this year in Portugal of a unique employment platform that intends being common to all Universities, enabling a greater and more effective and efficient share of information. This platform allows the sharing of contents so that offers of employment and the students' CVs may be shared. This new solution does not hinder any University from keeping

its own image or losing the absolute control of the employment offers it has received.

- **Universia Recruitment and Selection**

Universia has a specialized team available for the complete following up of the recruitment procedures, from the pre-selection to the contracting of candidates.

In November 2012, Universia established a presence in university exhibitions held in Porto Faculty of Engineering and in ISEG (Lisbon Technical University) to exhibit this service and support finalists in the choice of careers.

- **CIVEP**

The Iberian-American Virtual Campus for Post-Graduate Courses (CIVEP) was created in 2012. Available in this platform is all the information required concerning Iberian-American universities and institutions that offer such courses, in order that students may enlarge their academic training, with the knowledge of all the training opportunities existing in the Universia Network. In the Portuguese version the platform is already implemented in 12 stands.

- **Miami Seminars**

Throughout 2012, the Universia Network carried out five seminars directed to vice-chancellors, directors, managers and other officers in the Universities comprised in the network. These seminars were held in Miami and had the support of institutions with international prestige. With 200 registrations from more than 15 countries, the satisfaction indices were very high: 99% stated they would recommend the course to their peers.

- **Lisbon Seminar**

"Methodology of University Ranking – How to build a University of international grade" was the topic of a seminar organized by Universia and CRUP. The seminar was held in the chancellery building of Lisbon Nova University, with the main objective to approach the most recent technological advances on methodologies for the classification and measurement in the most prestigious university rankings in the world, with relevance for the Higher Education Institutions in Portugal.

- **Universia Classified Advertisements**

A new site was developed for Universia classified advertisements, with a more attractive design and new available functions, facilitating the purchase and sale of goods and services to university students.

- **International Mobility Guide**

The International Mobility Guide was launched, with two features. The first feature of the Guide is available in Portuguese and Spanish, and is directed towards students registered in the 23 countries covered by the Universia Network, that wish to attend courses in the United States, United Kingdom and China. The second feature is available in Portuguese, Spanish, English and Chinese, and is directed towards members of the university communities of these three countries who may wish to study in a university belonging to the Universia Network.

Social Activity

- **"Everyone's Bread"**

For the 9th consecutive year in Lisbon, and 3rd year in Porto, Santander Totta and CAIS (Association for the Support for the Homeless and to the Needier Population), organized this event of social solidarity, which is already considered a tradition in the Christmas festivities in these two cities and a project of successful volunteering promoted by the Bank.

"Carbon Free" Bread – As a novelty this year, the event had an increased environmental concern, and "Everyone's Bread" was free from carbon emissions. The measurement of carbon emissions produced was carried out, and compensation obtained through investment in projects that reduce emissions and protect the environment. Also promoted were several initiatives of environmental protection, such as the CAIS Recycle Project – that consists in obtaining products based on recyclable materials, recovery of products for recycling, lectures, amongst others.

In this edition's topic, "Together we will multiply sharing", more than 400 volunteering Bank employees produced and distributed bread, together with hot chocolate and good humour, to all passers by who visited the tent of "Everyone's Bread".



- **Ritinha's Home**



This was the fraternal initiative chosen and promoted in the "You Are Santander Week". An internal cause that intended providing help to build a home for a small girl suffering from cerebral paralysis.

The challenge to sell Ritinha's Home key-rings was joined by employees from the branches, from central services and from

nine volunteer cyclists from the Bank, which pedalled from Lisbon to Porto to disseminate the cause. A lottery with a bicycle as a prize was also held during Christmas to help this fraternal initiative. The objective achieved 15,000 euros to help towards the building of Ritinha's Home.

Complementarily, and in order to provide the project with a social dimension, the Maria Rita Association of Support to Carers was set up with the objective to help people that care for the handicapped such as Ritinha, with a free service reverting to society and which will operate from this same Home.

- **2012 BIPP Christmas Fair**



Santander Totta was present, with more than 50 employee volunteers, in the BIPP (Information Bank from Parents to Parents) Christmas Fair, during two days. BIPP is a social solidarity private institution, which aims towards the full

inclusion in society of people with special needs.

- **Christmas in a shoebox**

For the 4th consecutive year employees and their families again joined this fraternal initiative, to distribute gifts to needy children and youths that live in sheltering institutions.

It was a simple challenge: each child of an employee filled a shoebox with toys he had no further need and which was distributed to a male or female child of the same age that lived in an institution.

This initiative had the strong involvement of the Bank's commercial managements that identified in each of the regions they covered the institutions to be supported. In 2012 the initiative comprised more than 2,100 children and youths in the more than 65 institutions covered.

- **Fraternal Corner**

During “You Are Santander Week”, an area dedicated to social solidarity was opened in the Santander Totta central building. The objective of this area is to promote initiatives of social solidarity. Institutions such as “Make a Wish” were thus able to promote their mission with the employees.

- **Santander Totta Mini Marathon**



Within the area of its support for sports and healthy living habits Santander Totta again supported, in 2012, the “Sportzone” Half Marathon and the Mini Marathon, held in the city of Porto, one of the best accepted medium distance competitions in the country. More than 500 employees and family members took part in the competition.

Running was also supporting a social cause. The Bank allied itself to the fraternal features of the competition that annually supports a social project, and this year each registration donated 1€ to the Association “In the Midst of Nothing” an institution that provides support to parents and families living in pre-natal and paediatric intensive care.

- **CEBI Foundation**

Santander Totta is a founder member of the CEBI Foundation since 1995 and supports this social solidarity private institution, the objective of which is to aid needier children, youths, aged people and families, attending its Founders’ Meetings and being a member of its Board of Directors.

Standing out within its activities is the promotion of education, comprising 1,800 students, from kindergarten to the 9th year of schooling, of which approximately 400 benefit from activity and social promotion scholarships. Also relevant is the support provided for more than 250 aged people and approximately 400 daily physiotherapy sessions.

- **Donation of computer equipment to Entrajuda**



Within the scope of the protocol concluded with the Institution, the Bank delivered 150 computers to Entrajuda – Bank of Donated Goods, thus contributing to this institution’s project for

the re-equipment of social solidarity institutions with material or information technology.

- **Donation of equipment for Health Institutions**

Santander Totta supported the Porto branch of the Portuguese Oncology Institute, through the donation of furniture, and the São João de Deus Institute with aid towards the acquisition of material for a continuous care unit with a capacity for 35 patients.

- **Fundraising Seminar**

Santander Totta sponsored the participation of five third sector institutions in the 4th fundraising seminar organized by the *Call to Action*. The main objective of the seminar was to provide the participating companies with the capability for sustainable management and to adequately enlist its resources.

- **Other supports**

Within the scope of its corporate social responsibility project, the Bank closely support the third sector through the granting of aids, sponsorships and donations to Social Solidarity Institutions, Associations and NGO’s.

- **Heading on financial literacy in the social networks**

Considering the new communications channels with the community and the relevance of transparent information with its interest groups, the Bank launched, in 2012, a heading on financial literacy in the “facebook” site of Santander Universities. The objective of this heading is to explain economic and financial contents, through videos produced with university students, in a simple and attractive form.

- **“Route of Vocations for the Future”**

Within the scope of support provided to the EPIS (Entrepreneurs for Social Inclusion) Association, Santander Totta received a group of 70 secondary education students included in the “Route of Vocations for the Future”, developed by EPIS and by the CEBI Foundation, to aid young students in discovering their professional vocation, providing them with the opportunity to contact different professions during one week, through visits to companies in the most diverse fields.



- **SME Internationalization Course**

In 2012, Santander Totta promoted with its customers courses on Internationalization, Company – International Business, the objective of which was to provide its customers with greater theoretical and practical knowledge on this important topic, aiming to facilitate the expansion of the international business of Portuguese enterprises. The 1st^t course was held in Lisbon, in partnership with ISEG – Higher Institute of Economy and Management, and the 2nd in Porto, in partnership with the Porto Faculty of Economy.

- **Institute of Social Entrepreneurship (IES)**

Santander Totta is a founder member of IES, which resulted from a partnership between a group of social entrepreneurs with INSEAD and Cascais County Council. It intends supporting social entrepreneurs by powering the impact of its initiatives to respond to the growing social and environmental challenges.

Culture

- **The book “Everything is connected”**

The Bank edited the book “Everything is connected” which comprised the three editions of the conferences held over the same topic within the scope of *Greenfest*. One only book that includes the speeches delivered by the several speakers who, throughout three days, shared unique visions and interpretations on the theme on how everything is connected.

The book’s editing also included a fraternal feature. For each book sold, 1€ reverted in favour of the Association “1 Euro Movement”, the objective of which is to support financing for associations and social institutions that develop work in diverse areas such as the economy, health, environment, culture and education.

Environment

- **Green Festival**

For the 5th consecutive year, Santander Totta has supporting the holding of Greenfest, the largest sustainability festival in Portugal, which this year promoted private initiative coupled with an environmentally sustainable attitude.

The Bank organized two workshops. “From the idea to the market: how to finance the launching of your micro business?”, where entrepreneurship and the setting up of the business itself was promoted, and the workshop “Young micro entrepreneurs – Barriers to entering”, organized in partnership with Deloitte, the objective of which was to alert entrepreneurs to several initial barriers

encountered by small businesses, as well as several means of mitigating them.



- **Campaign “Give the Planet a pause”**

Throughout the whole year and following on the campaign launched in 2011, “Give the Planet a pause”, promotion was continued in the internal channels for the adoption of best sustainable practices in the workplace.

- **“Clean Desk” Campaign**

The Departments of Technological and Operational Risk Management and the Coordination of Human Resources Management developed a Clean Desk campaign, with the objective to improve efficiency and to transmit to customers an image of trust and effectiveness, and to reduce the volume of paper, toners and printing ink used on a day-to-day basis,

This campaign was also accompanied by promoting paper recycling with the topic “Let’s Recycle and Save the Forest”.

- **Measures of energy efficiency and reduction of energy consumption**

In 2012, Santander Totta continued developing efforts for the improvement of infrastructure efficiency and for the development of consumption reduction devices.

Investment amounted to 1.4 million euros which resulted in an annual energy saving of 2,742,249 kWh, with the following initiatives singled out:

- In the branches: (1) presence detectors were installed in meeting rooms, offices, washrooms, back-offices, record stores and storerooms to disconnect lighting when the locations are not used (191 branches); (2) obsolete air conditioning systems were replaced by new less powerful systems (6 branches); and (3) change of illuminated indicators by LED systems (150 branches).
- In the central buildings: (1) free cooling systems were installed to operate with external temperatures below 20°C, disconnecting the air conditioning system; (2) shading was carried out with vinyl film installed on the south and southwest façades of the central building; and (3) lighting control was automated and luminaries installed with light flow regulation to take advantage of natural light.

Business Environment

International Economy

The slowdown in world economy in 2012 was more pronounced than expected, as a result of a deeper worsening of economic confidence, following (i) the worsening of the sovereign debt crisis in the euro zone, and its contamination to the world economy and, simultaneously, (ii) the fears associated to the “fiscal cliff”, in the USA. Also, in addition, there are also the negative effects related to the geopolitical instability in several regions of the Globe.

The trend in slowdown was relatively uniform throughout the year, in terms of homologous variation, with a progressive general slowdown in the rates of GDP growth. The slowdown in activity became more visible during the second half year, especially in Europe, with the contamination of the sovereign debt affecting the “core” countries, jointly with the impact of the slowdown in the emerging markets.

At year end, differing growth dynamics were visible, with the euro zone in a recessive situation, resulting from the worsening of the crisis, whilst the USA recovered their growth potential. In the emerging markets, indicators continued showing growth stabilization, at rates below historical averages.

World Economic Growth			
	2010	2011	2012
World	5.1	3.9	3.2
Advanced Economies	3.0	1.6	1.3
USA	2.4	1.8	2.3
Euro Area	2.0	1.4	-0.4
United Kingdom	1.8	0.9	-0.2
Japan	4.5	-0.6	2.0
Developing Countries	7.4	6.3	5.1
Africa	5.3	5.3	4.8
Asia	9.5	8.0	6.6
China	10.4	9.3	7.8
Central and Eastern Europe	4.6	5.3	1.8
Middle East	5.0	3.5	5.2
Latin America	6.2	4.5	3.0
Brazil	7.5	2.7	1.0

Source: IMF (January 2013)

Emerging markets were particularly affected by the slowdown, with growth falling below the average of recent past years, a trend that was more visible in Brazil. This resulted from the restrictive policies adopted in the past, in order to avoid risks of overheating and to control

possible credit bubbles, to which accrued the impacts of moderation in demand from the developed economies.

Public investment in China also showed moderation, once the programmes of economic stimulus adopted after the 2008/09 crisis were concluded.

Later, stimulus measures were adopted in several countries, including lowering of interest rates, as well as public investment policies.

In China, the central bank decreased its reference interest rates for the first time in several years, after successive climbs and increases in the cash reserves coefficient, with the objective to put a brake on credit growth.

In Brazil, the central bank was more aggressive in the adoption of expansionist policies, by decreasing the reference interest rate by 500 bp to 7.25%, at the same time as it adopted versatility in some of the macro-prudential criteria to stimulate credit concession.

In the USA, economic growth remained moderate, even recording a slight slowdown during the summer period, with unemployment stabilizing at 8%, well above the average of the past years and of the levels considered as consistent with full employment (approximately 6%, according to market consensus). As a result, and due to the higher risks for the North-American economy placed by the European crisis, the Federal Reserve advanced the possibility of the adoption of new non-conventional stimulating measures. In the summer, and in spite of investors anticipating a new wave in the acquisition of public debt (*quantitative easing*), the Federal Reserve only lengthened the “*Twist*” operation, in which it reinvests in longer maturities the applications it already has in North-American public debt.

Already in the 4th quarter, the Federal Reserve made monetary policy still more dependent from the development of the labour market, in spite of the lowering of the unemployment rate to 7.8%. This level is considered very high, its estimated “natural” level is approximately 6.5%. As such, it made known that its reference interest rates should remain at historical minima until 2015, and made public a strengthening of its public debt acquisition programme (*quantitative easing*), in line with which it acquires an additional monthly amount of 45 billion dollars, to which is added the acquisition of 40 billion dollars in securitised mortgage credits, also on a monthly basis.

Throughout the 2d half year, the environment in the USA was affected by the discussion surrounding the “fiscal cliff”, the name given to the automatic device for the correction of the budgetary imbalance, should the ceiling of the public debt (currently set at 16.4 trillion dollars) not be increased. Negotiations are currently being held to increase that limit, within the framework of a structural reduction in the budgetary deficit, which is still at approximately 8.5% of GDP. Should this agreement not be reached, taxes on income will be automatically raised, and cuts carried out on expenditure, which could have a negative effect on the economy of approximately 2pp of GDP.

In the United Kingdom, economic growth was also weak, only benefiting casually from the positive effects of the Jubilee of Queen Elizabeth II and of the Olympic and Paralympics Games. Endeavouring to aid the recovery in the activity, within the context of budgetary restrictive policies, the Bank of England kept its reference interest rates at historical minimums (0.5%) and expanded its programme of *quantitative easing* to 375 billion sterling. Simultaneously it launched the programme “Funding for Lending”, under which banks may submit new credits to companies as collateral in financing operations with the central bank. The greater the volume of new loans, the lower the financing rate at the BoE will be. At year end, the Bank of England considered its *quantitative easing* programme as completed, advising that it would also assess its impact on the economy. Since the programme started, in January 2009, the Bank of England acquired the equivalent of approximately one third of the medium and long term public debt (“Gilts”).

In the euro zone economic confidence worsened, resulting from the successive shock waves associated to the sovereign debt crisis. Although, in an initial stage, confined to the countries now designated as “peripheral”, these shock waves have now contaminated the “core” countries, as well as other geographic and economic areas, as previously referred.

This increase in uncertainty became materialized in a generalized reduction in expenditure, with a consequent decrease in private consumption and investment.

	GDP	Inflation
Euro Area	-0.4	2.5
Germany	0.9	2.1
France	0.2	2.2
Spain	-1.4	2.4
Italy	-2.1	3.3

Source: IMF (January 2013)

The euro zone would thus end 2012 in a recession, with perspectives signalling continuing depressed rates of

activity until the 2nd half of 2013, when gradual beginning of recovery in activity could commence.

Contagion became more pronounced in the 1st quarter, with the crisis spreading to Spain and Italy, and being reflected in an increase in interest rates demanded by investors in the several medium and long term public debt auctions then held.

In Spain, pressures worsened after the Government revealed, on the one hand, that the 2011 budget deficit was greater than initially estimated, due to the expenditure overrun in the autonomous regions and, on the other, that the rate of consolidation would be more gradual than had been initially anticipated.

Later, and following the announcement of new difficulties in the credit portfolio of Banco Bankia (created from the merger of several savings banks), a stress test was carried out on the Spanish financial system. This exercise, developed by consultants Roland Berger and Oliver Wyman, estimated the capital needs of the banking sector at an amount between 51 and 62 billion euros, below the 100 billion euros agreed with the European authorities, within a programme of financial support for the restructuring and recapitalization of the sector. The audit’s final results, conducted by consultant Oliver Wyman, confirmed capital requirements at 59.3 billion euros, thus within the initial estimate. Banks Santander, BBVA and LaCaixa have no recapitalization requirements, and Banco Popular concluded this process with recourse to private funds.

In an initial stage, this programme shall be carried out by loans to the Spanish State but, later, the European funds EFSF/ESM will be able to directly support the banks, once the setting up is completed of a sole mechanism for banking supervision at European level, which will also include the ECB.

In Greece the programme for the restructuring of the Country’s public debt was completed (“PSI – private sector involvement”), the large majority of private investors accepting the terms of trade, with an associated loss equivalent to 53.5% of its nominal value (75% of the value invested) and which, on the one hand, unblocked the approval of the second bailout package, amounting to 180 billion euros and, on the other, should contribute towards the decrease of the Greek public debt which, in percentage terms, may be lowered to 124% of GDP by 2020.

After a first election that resulted in the absence of a stable governing majority, the second electoral process resulted in a parliamentary majority supported by the New Democracy, PASOK and DIMAR, with the Government committed not just to comply with the agreements concluded with the international institutions,

but also to solicit flexibility of the targets that would allow a not so harsh adjustment for the economy.

At year end, the new support programme for Greece was finally agreed, within the scope of which new support measures were adopted: (i) reduction by 100bp in the interest rates applicable to the bilateral loans of the first programme; (ii) reduction of 10bp in guarantee commissions; (iii) extension of the maturity of the EFSF loans by 15 years and 10 years interest grace period; and (iv) handing Greece the gains achieved with the Greek public debt portfolio held by the central banks of the Eurosystem.

These decisions substantially reduce the risks of Greece abandoning the euro zone in the short term, revealing the existing commitment to support countries in greater difficulties (obviously subject to compliance with the objectives agreed in the adjustment programmes). These risks had seemed to be particularly high in the first half of the year.

In the 2nd half year, the European Commission also submitted its proposal of a "road map" for the deepening of the Economic and Monetary Union, through the setting up of a true Banking Union. The objective is, in time, to cancel the currently existing risks derived from the connections between the banking sector and the respective sovereign, which contributes towards the fragmentation of the European financial markets.

This union has three features: (i) the sole mechanism of banking supervision, with ECB performing the fundamental role. The ECB will be responsible for supervising banks with assets in excess of 30 billion euros or that represent more than 20% of the country's banking system; (ii) sole mechanism and authority for banking resolution, that defines the criteria for the restructuring and/or resolution of banks in a critical situation; and (iii) a common fund to guarantee deposits, that breaks down the current existing relationship with the sovereign. This fund will not be implemented on an immediate basis.

The European authorities have adopted a number of economic support measures, aiming to achieve shorter term support, whilst structural mechanisms are adopted for crisis resolutions.

The European Council held on 28/29 June decided to strengthen the measures of support for economic growth, with an increase in the share capital of the EIB – European Investment Bank, with the reallocation of community funds and the creation of "project bonds", a common debt issued by the EU to finance investment projects, for a total amount of 130 billion euros, or approximately 1% of European GDP.

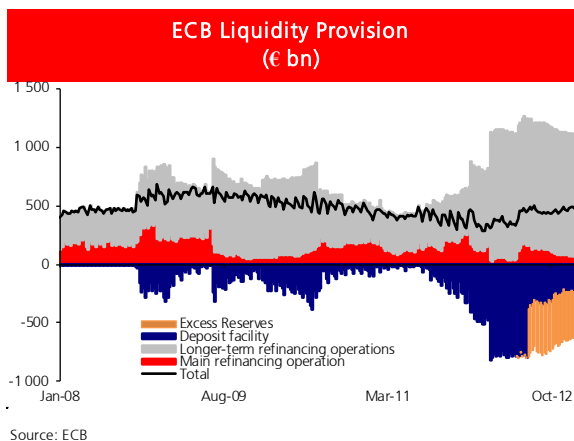
The ECB, reacting to the worsening signs of European recession, lowered the reference interest rates, setting the main supply rate at 0.75% and the deposit rate at 0%, which was reflected by a lowering in the market interest rates. Even then, the ECB recognizes that such measures will have a limited effect on the European economy.

At the end of July, the President of the ECB, in a conference held in London, stated that the ECB would carry out whatever was necessary within its remit to defend the euro, and that this "would be sufficient". In the August meeting, it was advised that ECB would study means of intervention, jointly with the European bailout funds, but the countries that require such intervention would have to request formal support, subject to conditions, from the EFSF/ESM European funds.

The European Central Bank announced the details of its programme of acquisition of public debt, the "*Outright Monetary Transactions*". This programme aims to replace normality in the process of transmission of monetary policy, while eliminating the risk of convertibility that resulted in a pronounced increase of the public debt spreads in Spain and Italy. In general terms, the ECB's intervention will be preceded by a formal request from the most affected countries and subject to conditionality. Once this formality completed, the ECB will intervene without limits over the shorter terms of the yield curve (up to 2 years).

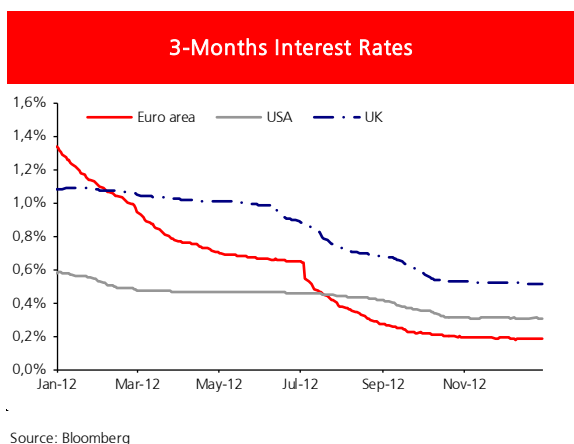
For countries already undergoing adjustment programmes, such as Portugal, ECB relinquishes the possibility of intervention when access to the market becomes a reality.

Throughout the year, ECB kept the unlimited liquidity supply to the European banking system, with the second 3 year liquidity supply operation carried out in January, within which scope the sector obtained funds amounting to 500 billion euros. Taken jointly the two very long term operations resulted in total funds being obtained amounting to 1.019 billion euros. A significant portion of these funds was requested as a precautionary measure, since at the beginning of 2012 there were financial institutions with large amounts of debt maturing during the year and the risks of lack of refinancing capacity in the market were very high. As such, the amounts deposited with the ECB were fairly high, amounting to 665 billion euros. As from July, when ECB lowered the deposit rate to 0%, the amount deposited in the deposit facility was reduced to 262 billion euros, with the remainder deposited as excess reserves.



This greater volume of deposits with the ECB had as effect a pronounced decrease in short term interest rates. The Eonia interest rate, which reflects the average rate of overnight operations carried out in the European interbank market, fell to approximately 0.07%, whilst the Euribor interest rates, at year end, were all set below the refi rate. The 3 months Euribor rate was set at 0.187%, at the end of 2012, a decrease of 117bp relative to the 2011 closing rates.

Equally in the USA and in the United Kingdom the short term interest rates decreased to historical minimums, in the face of weak economic signs and the more or less explicit commitment of the central banks to keep the reference interest rates at the current minimum levels, until the economy begins showing more material signs of sustained recovery.



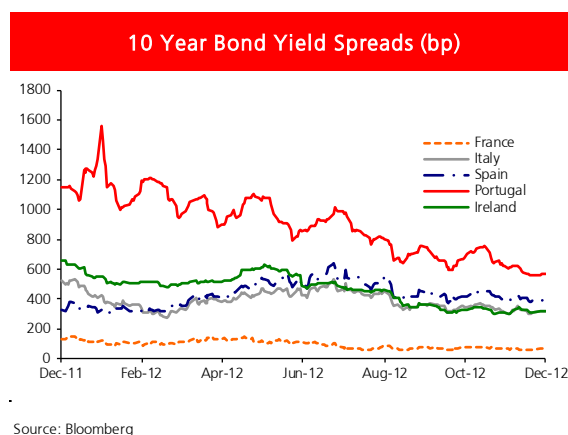
High volatility continued dominating the evolution of the main financial markets in a context of deep aversion to risk. As a result, the euro zone financial markets became more than ever fragmented, with a progressive "nationalization" that hindered, in the opinion of the ECB, the transmission of monetary policy.

A relevant reaction occurred in the public debt markets, with a widening of the credit spreads to new historical maximums, with the respective peak occurring in the

summer, in Spanish and Italian interest rates, when the uncertainty over the budgetary and financial situation reached its climax.

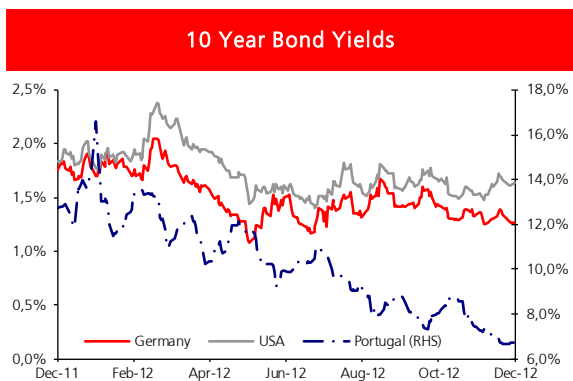
The statements of the President of the ECB, Mario Draghi, in July, that he would carry out whatever was necessary and within his remit to defend the euro, and the subsequent perspectives that the ECB could intervene in the public debt markets, markedly contributed to invert the trend in the financial markets, with the spreads becoming corrected at the lower limits.

The widening of spreads also reflected the strong demand for "core" countries public debt, particularly Germany that, for the lower maturities (up to 2 years), even recorded negative interest rates.



Spreads of Portugal's public debt vis-a-vis Germany, recorded a differentiated evolution, reaching a maximum level in the beginning of the year, when the negotiation of the Greek public debt was being held, to later decreasing gradually and systematically throughout the year. At the end of 2012, the 10 year spread was placed below 600bp, and later decreasing to approximately 500bp during January 2013.

Portuguese yields, at year end, were already set below those recorded in April/May 2011, at the time of the request and later negotiation of the Programme for Economic and Financial Adjustment.



Source: Bloomberg

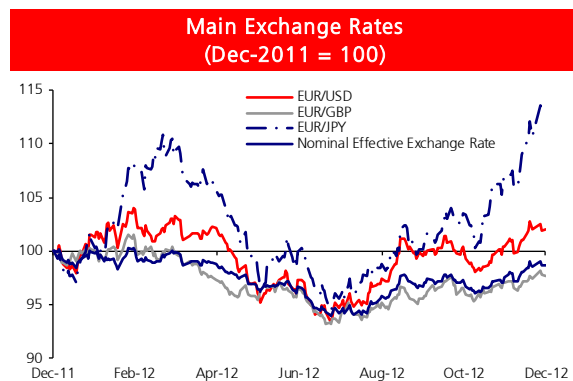
In the USA, the evolution in long term interest rates was marked by featuring historical minimum levels, close to 1.5%. The intervention of the Federal Reserve in the public debt markets – effective and anticipated by investors – continued supporting yields at levels below those that would be consistent with the high budgetary deficits and with the dynamics of the public debt, which had already overtaken 100% of GDP. Aversion to risk, particularly to euro denominated assets, and the weak economic perspectives with controlled inflation, were additionally relevant factors.

The movement in the main exchange rates continued reflecting investors' perception as to developments in Europe with respect to the sovereign debt crisis.

The euro, during the summer, when uncertainty reached its highest point, fell to approximately 1.20 dollars, replicating the 2010 minimums (as well as the 2006 levels). In spite of Mario Draghi's statements, investors continued attributing a not unimportant probability as to Greece abandoning the euro zone. The focus placed by ECB on OMT, in addition to the EU decisions as to the Banking Union, allowed a recovery of the euro.

Movement in respect of other currencies was very similar, with the pound sterling being quoted at the highest level since 2008 (at 0.77 pounds per euro), whilst in relation to the yen the euro was quoted at absolute minimums, at 80 yens per euro. This movement would also be reversed at year end. Relative to the Swiss franc, the quotation was kept around 1.2 francs, after the decision of the Swiss National Bank to set a reference in order to avoid a greater appreciation of the currency.

In terms of the effective exchange rate (considering the currencies of the twelve main trading partners of the euro zone), the resulting depreciation set it at the weakest level since 2002.

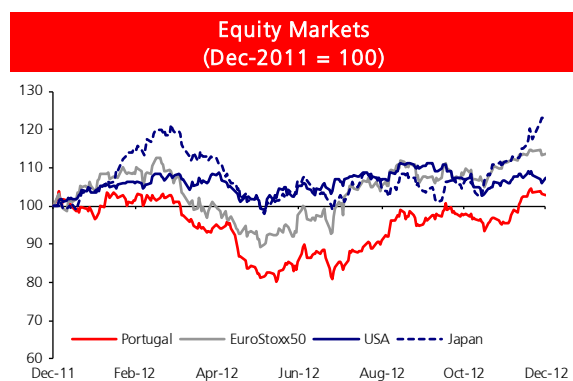


Source: Bloomberg

Global equity markets recorded a differentiated trend, with Europe showing manifest devaluations, in line with the deterioration of the sovereign debt, whilst the remaining markets systematically recorded gains at the end of 2011.

At year end, and within the aversion to risk environment, equity markets closed in positive grounds. In Europe, and in the remaining financial markets, the inversion occurred after the commitment assumed by the Chairman of the ECB in defence of the European Economic and Monetary Union.

In Portugal, markets recovered at year end as the result of the combination of several factors, singled out as follows: (i) the completion of the recapitalization procedure of the main banks in the system; (ii) the reduction in the prospects concerning the extension or renegotiation of the Adjustment Programme; (iii) the debt conversion operation carried out by the Portuguese Treasury. Within this environment, the banking sector recovered from the minima recorded during the second quarter of the year.



Source: Bloomberg

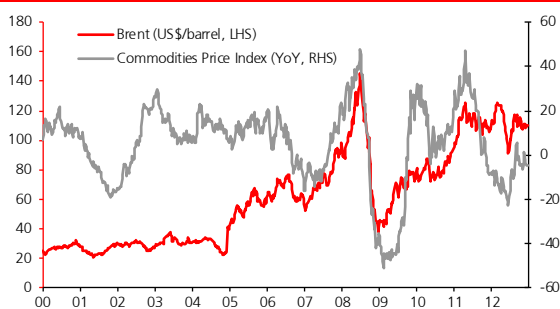
The weakness in demand, in the context of the slowing down of the world economy, resulted in a decrease in raw material prices, relative to the maximums recorded in the previous year. Oil was quoted at less than \$100 per barrel, which had not occurred since 2010, recovering

later to the interval between \$100 and \$110, maintained until year end.

Base metals recorded similar movements, decreasing with the prospects of lower demand, particularly from China, which was slowing down at a faster rate in the first half of the year.

Cereal prices reflected a different movement, with an increase that, in the case of maize, resulted in prices reaching new historical maximums, since a more severe drought in 2012 affected production in some of the main growers. Remaining cereals increased in price but did not attain the 2008 maximums.

Brent crude oil (US\$/Barrel) and Commodity Price Index (YoY)



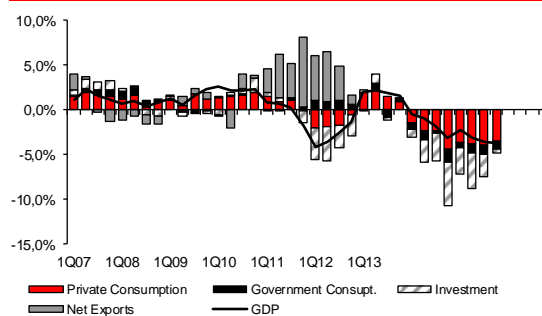
Source: Bloomberg

Gold continued reflecting its role as the main safeguard within an environment of high aversion to risk, and reached the annual maximum, in the summer, close to \$1,800/oz, when the uncertainty on the euro zone was at its maximum point.

Portuguese Economy

Economic activity worsened the recessive environment in 2012, with GDP reducing by 3%, in the whole of the year. This evolution was in line with consensual estimates made in the beginning of the year, although the contributions of the different components of the aggregate demand were in the end substantially different: reduction in internal demand was more pronounced, particularly in the case of private consumption; net exports recorded a greater contribution to economic growth, as a result of a faster growth in exports to markets outside the EU.

Contributions to GDP Growth (YoY)



Source: INE

The more pronounced reduction in private consumption reflects the combining of three relevant factors. On the one hand, the increase in unemployment, which has risen above 16% at year end, an absolute historical maximum. Secondly, a change in consumer standards, deriving from the increase in VAT, with families focusing their consumer expenditure in cheaper goods (such as, for instance, in private labels) and reducing the volume of expenditure in non-essential services (eating out, for example). The demand for consumer durables, particularly motor vehicles, recorded a pronounced shrinkage. Lastly, families increased savings as a precautionary motive, even in a context of a reduction in available income. Increase in unemployment and fears that a more difficult budget balancing could demand a new surtax on one of the subsidies explain consumer moderation.

Macroeconomic Data

	2010	2011	2012 E
GDP	1.9	-1.6	-3.0
Private Consumption	2.5	-3.8	-5.5
Public Consumption	0.1	-4.3	-4.5
Investment	1.4	-13.8	-14.4
Exports	10.2	7.2	4.1
Imports	8.0	-5.9	-6.9
Inflation (average)	1.4	3.6	2.8
Unemployment	9.5	12.8	15.5
Fiscal Balance (% GDP)	10.1	4.2	5.0
Public Debt (% GDP)	93.3	108.1	120.0
Current Account Balance (% GDP)	-9.4	-5.8	-0.1

Source: INE, Banco de Portugal, Ministério das Finanças

Investment, in its turn, continued shrinking, even if in diverse ways amongst sectors. Capital expenditure in construction continued shrinking pronouncedly, either through the cancelling of large public works projects (for example, within the renegotiation of several PPP contracts by the company Estradas de Portugal), or through the reduction in house building activity.

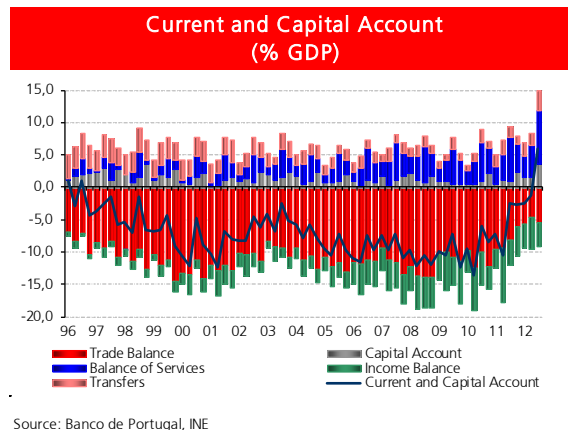
Investment outside the construction area, although with continued shrinkage, is, at year end, moderating its rate of reduction.

The stresses in the credit markets, both international and domestic, and the worsening of the crisis in the euro zone debt market, and subsequent increase in uncertainty as to demand prospects, are the main factors that explain the postponement of decisions to expand installed capacity.



Net exports continued to be the driver of the economy, although in progressive deceleration throughout the year. The already referred worsening of the crisis in the euro zone is resulting in a deterioration of the economic environment, with the consequent moderation in external demand. Portuguese exports are decelerating, particularly those targeted for Europe. For instance, sales to Spain decreased by approximately 5%, in the 10 months to October, but total exports grew by 7.1%. This reflects the capability of national enterprises in procuring alternative export markets, with particular success in extra community markets such as Angola, China, Brazil and Russia.

In line with recent trends, the trade deficit has been experiencing a sustained reduction. The Bank of Portugal, in its Winter Economic Bulletin, estimates that the balance of goods and services will have recorded a surplus of 0.3% of GDP in 2012. This balance had already been positive in the third quarter of 2012, occurring for the first time since 1996, and shows that the adjustment of external imbalance is occurring much faster than was assumed by the IMF, in the basic scenario of the adjustment programme. And this adjustment is yet more substantial when taking place without exchange rate devaluation, either direct or fiscally ruled.



The first quarter of the year witnessed the workstream #3 of the *Special on-site Inspection Programme* to the national banking system conducted by the Bank of Portugal jointly with external auditors. This workstream analysed the *stress test* systems used by the national banks, and arrived at the conclusion that two of the institutions (amongst which Santander Totta SGPS) received maximum assessment, with clearly appropriate methodologies.

The programme of the recapitalization of the banking sector was concluded at the end of January 2013. The aim of this programme is the compliance with the minimum objectives for a 9% Core Tier Ratio 1, as demanded by the European Banking Authority (at 30 June), as well as a 10% ratio at year end.

The share capital increase by the involved institutions amounted to 9.3 billion euros. One of the institutions only resorted to its shareholders, whilst three accessed the 12 billion euro recapitalization line established within the scope of the Programme for Economic and Financial Adjustment. One of the institutions is required to present a complete plan for the restructuring of its activity that will ensure its feasibility.

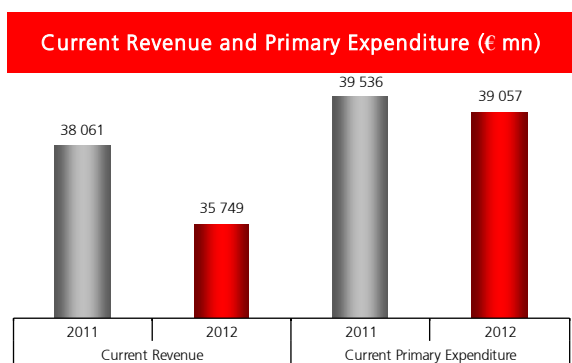
After the completion of the sixth assessment of the Programme for Economic and Financial Adjustment by the three international institutions IMF/EU/ECB, the previous conclusion was reasserted, that the Programme is on course and in line with expectations.

The assessment concluded that “While downside risks to growth are significant, the program’s macroeconomic framework remains appropriate. (...) Fiscal consolidation efforts are in line with the revised deficit targets for 2012 and 2013. (...) Adequate capital and liquidity buffers have reduced financial stability risks. (...) **Following a successful bond exchange, the authorities have intensified their work on preparing the expected return to market financing during 2013. Provided the authorities persevere with strict programme implementation, euro area Member States have declared they stand ready to support**

Portugal until full market access is regained.” (our enhancement).

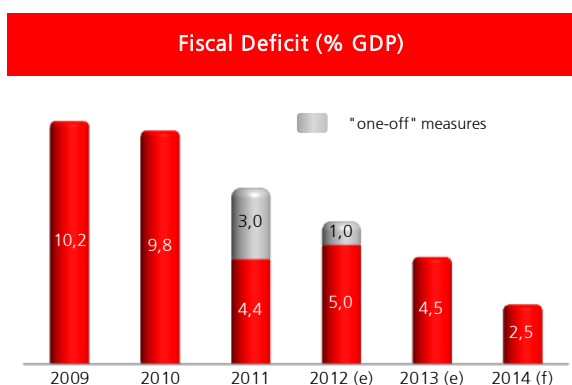
Due to existing challenges, the assessments by the international institutions concluded that the budgetary target of 4.5% of GDP for 2012 would demand additional measures that could worsen even more the recessive environment.

In effect, the data of budgetary execution throughout the year revealed lower fiscal revenue, particularly with respect to VAT, reflecting families’ lower consumer expenditure, as well as changes in consumer habits. The large increase in unemployment (that reached the historical maximum of 15.8% in the third quarter of 2012) is being reflected in higher public expenditure in social benefits to families. Even so, primary current expenditure is falling in line with or even above estimates.



Source: Ministério das Finanças

In this context, budgetary targets were revised at a higher level, with the new deficit objective for 2012 being set at 5.0% of GDP (but dependent upon extraordinary measures in expenditure, with the concession of airport services to ANA, amounting to 1pp of GDP). For 2013, the budgetary target will now be 4.5% of GDP (an increase of 2pp of GDP) and the 2.5% target to be reached in 2014.



Source: Ministério das Finanças

The Government assumed the commitment with the international institutions to submit a plan for the permanent reduction of the State’s current expenditure amounting to approximately 4 billion euros, which would significantly contribute to ensure a primary balance surplus.

Regarding the acceptance criteria of collateral in the refinancing operations with the ECB, the Bank of Portugal took two decisions: (i) at the level of individual credits, to lower the minimum amount to 100,000 euros (previously 500,000 euros) and the associated probability of default (PD) to 1.5% (from 0.4%); and (ii) accept homogeneous credit pools, without a need for rating (through creating synthetic securitizations).

These measures were very important in the midst of the environment in which the Republic viewed its rating revised to the level of “speculative grade” (also affecting the banks), since it separates financing capacity with the ECB from the actions of the rating agencies. Should this measure not have been adopted, the risk would subsist that several securitizations would lose eligibility, and thus compromise the financing of the Portuguese economy.

The credit spreads narrowed pronouncedly throughout the whole year, but especially from Spring onwards. This development reflected the larger reduction in the Portuguese long term interest rates, since the German yields had also decreased to historical minimums. In 10 year maturities, the yield of Portuguese Treasury Bonds fell, already in the beginning of 2013, to below 6%, the lowest level since the end of 2010, even before the request for economic and financial aid (May 2011).

Throughout the year, the Portuguese Treasury maintained its presence in the short term credit markets, through the issue of Treasury Bills, whose maximum maturity was expanded to 18 months. Demand, even if chiefly originating from national investors, was kept supported, and offering decreased interest rates, to 2.2% at 6 months and to 2.99% at 18 months.

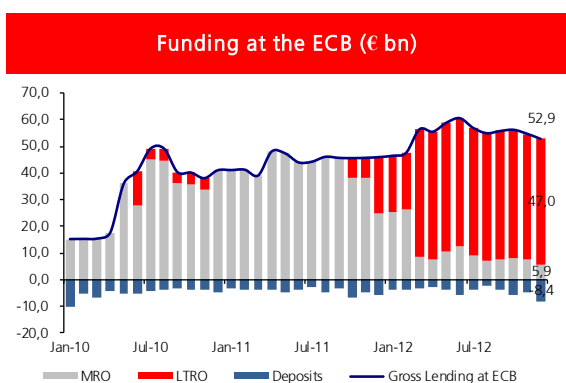
The Treasury carried out, in October, a public debt exchange operation, through which it exchanged 3.8 billion euros of the OT September 2013 for an equal amount of OT October 2015. This operation showed that there are investors available to maintain their portfolio of Portuguese public debt and additionally, to extend the respective maturities.

Already in January 2013, the Republic carried out a return to the financial markets, with the issue of 2.5 billion euros, at 5 years, with a 4.891% interest rate. This was a successful operation, that occurred earlier than estimated by consensus and that, contrary to the view of several investors shows that, as a result of the already carried out

adjustment, including the level of external imbalance, the perception of the Republic's risk is lower.

This occurs in spite of, at the beginning of 2012, Moody's notation credit agency having revised at a lower level the Republic's rating to Ba3, at the "high yield" level, and Standard and Poor's having revised the rating to BB, within the rating revisions of the European sovereigns.

The measures adopted by the ECB and by the Bank of Portugal, in terms of the new collateral rules, minimized the impact of these revisions to lower levels of the Republic's and the banks' ratings in the financing capacity with the ECB.



Source: ECB

Financing obtained by the Portuguese financial system with the ECB amounted to 53 billion euros at year end, after a peak of 60 billion euros in the second quarter (occurred during the second liquidity provision operation at 3 years, in February, and was carried out by several non-domestic institutions, that replaced the existing lines with the respective mother companies). Correcting the deposits with the ECB, net financing at the end of 2012 amounted to 44.5 billion euros, which compared with 40.2 billion euros at the end of 2011.

The degenerating rate of the banking sector slowed down in the first half year of 2012, after a major reduction in the loans to deposits ratio occurred in the second half of 2011. The changes in the collateral rules and easing of the ratio, which became indicative, contributed towards this moderation.

There was a sustained growth in deposits, although the banks altered the moulds in managing the rates of capturing, in order to protect net interest income. The Bank of Portugal's new rules as to the maximum spreads practicable in deposits, and that led to a lowering in interest rates, also contributed to this change.

Credit continued contracting, particularly in the levels of credit to companies, but also connected to a reduction in companies' deposits which may signify, at this level, the payment of credits within an environment of high credit

spreads. New production of mortgage credits fell to historical minimums, close to 150 million euros per month, insufficient to replace the credit that is regularly repaid.

Main risks and uncertainties for 2013

The risks and uncertainties that may affect the activity in 2013 are twofold, one international, the other domestic.

Internationally, the continuing risk factors are the growth prospects in the euro zone, more negative and penalized due to the contamination of the sovereign debt crisis to other larger economies, such as Spain and Italy, and by the impact on the activities of the more important countries, until now relatively immune. Since the euro zone is the destination of more than 60% of Portuguese exports, a deeper recession could cancel what has been the driving force of the Portuguese economy: exports.

In spite of the reduction in risks connected to the existing doubts on the sustainability of the euro zone, in its current format, uncertainty continues high, in a year marked by several electoral processes, with particular regard to Italy (in February) and Germany (in September). Equally, some of the institutional changes that were adopted by the European Union in 2012, related to the setting up of the Banking Union, should commence being implemented, even if functionally these will only become fully operational from 2014 onwards. Such factors continue conditioning the capacity of the Republic and/or banks to access the international financial markets, in spite of the recent improvement, that allowed the placing of medium and long term debt by several national issuers.

Domestically, the main uncertainties continue related with the development of economic activity, the main risk in 2013 being the unemployment dynamics. Apart from social stability that could be affected by high levels of unemployment, this variable is relevant due to the fact that a sizeable portion of the reduction of the budgetary deficit in 2013 being related to the increase in personal income taxation – IRS – (through the reduction in the number of tax brackets, the increase in marginal rates for the higher tax brackets, an also the extraordinary 3.5% surtax).

Additionally, a larger increase in unemployment is already affecting the balances of Social Security, with lower revenues and higher expenses in unemployment payments. These features worsen the risk of non compliance with the targets and for the need of new austerity measures, which may affect the recession even more.

In the financial sector the risks were partially mitigated by the completion of the recapitalization programmes, through which the State injected approximately 7.2 billion

euros in some of the main banking institutions, allowing the compliance with the 10% requisite for the *Core Tier 1* ration, as well as, in 4 of the institutions, of the sovereign buffer demanded by the EBA (European Banking Authority). However, in 2013, the banks that benefited from public support will have to adopt restructuring measures, currently under negotiation with the European authorities.

The adverse economic environment maintains a significant pressure on the quality of the credit portfolios, in spite of the measures adopted in 2012, either discretely by the banks, or by legal edict, in the sense of endeavouring to mitigate the risks of non compliance.

Additionally, in spite of the easing of the objectives relative to the transformation ratio, the banks have to continue increasing their deposit basis, within the framework of a reduced capacity to create family savings and of the uncertainty over the fundamental situation of the sector.

The achievement of objectives by the State and by the banking sector is fundamental to recover the confidence of international investors, and to allow that the current level of financing in the global markets (which is anyway reduced) may be maintained and, in time, expanded.

Commercial Banking

Private and Business

2012 was featured by the sharpening of the recessive environment caused by the economic and financial international crisis. The commercial management model was decisive to minimize the current context of difficulties.

The strategy kept was focused essentially on the capture and retention of resources and value added products, in the capture of new domiciled salaries, on the sale of protection products (insurance) and on the control of non performing loans.

Considering the market conditions, with the lowering of the Euribor rates and the limits imposed by the Bank of Portugal, a fall was recorded in rates for the capturing of deposits, with the focus being however kept on traditional savings products, programmed savings and products with controlled margins.

In this heavily competitive environment with respect to capturing deposits, Santander Totta launched a set of diversified products and solutions, materialized in structured deposits with guaranteed capital and minimum yields. Nine issues comprised the placing of 857 million euros, and 91 million dollars in foreign currency were placed with 6 issues made throughout the year.

Concerning capitalization insurance seven issues were placed amounting to 371 million euros.

With reference to campaigns and actions to capture and bind customers, a campaign was launched in February that continued until year end, for the capture of salaries/pensions, based upon the exemption of commissions on the main day-to-day services and in gift offerings. A growth was recorded of approximately 50,000 global accounts (accounts that represent numerous benefits for the customer, third party insurance, through the payment of a small monthly commission), representing a 39% annual growth.

As a means of preventing the increase in non performing and doubtful loans and to maintain total commitment with the customers, a policy was followed to implement new solutions for regularizing and renegotiating overdue debts adapted to the level of non performance of each

customer. In this context, the bank launched a programme with the objective to structurally support and settle non performing situations, which was very well accepted by the customers. More than 9,000 agreements were formalized, not just in the control of non performing loans, but creating above all conditions for customers to again comply with servicing the debt.

Several campaigns were launched for the capturing and binding of customers in the segments Youth and University, specifically a registration campaign that recorded a growth of 16,000 new customers.

In the University segment an increase was recorded of 7,822 active customers and a growth in business volume amounting to 63 million euros.

In the Premium segment, 2012 was singled out by the success obtained in the campaigns to enlist customers with relevant incomes, based upon values such as the Bank's soundness, innovation, trust and quality of service allied to the Santander Totta Premium label, which allowed an important gain in the share of this very competitive market.

The advance towards the establishment of partnerships with bodies able to aggregate potential customers in this segment was also revealing of an important source in the capture of new customers.

In parallel, the investment in greater proximity to customers with the presentation of offers adequate to satisfy each one's needs, based upon the above referred values, ensured a relevant growth in this segment, in 2012, of resources under management.

The media campaign of "Credit Activation", launched in the last quarter, jointly with the internal campaign "Autumn Credit" generated a flow of demand for personal credit that resulted in the best quarter of the latter years, amounting to 149 million euros.

In the Business segment, a strategy was maintained to focus greatly on the sustained capture of new customers, on the binding of current customers, on the increase in means of transaction, on the placing of POS and in *Business* cards.

Singled out as well is the leadership position of Santander Totta in the SME Growth credit lines with a 20% share in volume.

In this business segment and considering the context of the difficulties that the economy is facing the bank also set up devices to prevent and minimize the risks of non performance in this segment.

In the Private Banking segment, the European sovereign debt crisis was the dominant theme in 2012 which was reflected, in differing tones, in all of the world's geographies. The actions of the ECB in particular, of other Central Banks, and also the decisions taken by the European Community in the sense of deepening the procedures of economic, banking and fiscal integration, resulted in the attenuation, throughout the year, of the perception of the risk attributed to sovereign debts.

As a consequence of this environment, Private customers have kept a relevant requirement for low risk and high liquidity assets, but with a trend towards a gradual increase of exposure to assets that provide higher yields.

Santander Totta Private responded to these challenges, enabling the availability of a wide choice of products, which endeavoured to preserve the assets and a service based upon proximity, trust and confidentiality.

BST's image of soundness, the Euromoney prize for "Best Private Banking in Portugal", the Private events and the commercial actions developed, allowed the growth of the equity resources, the maintenance of the assets under management discounting the liquidation of counterbalanced transactions, the increase in customer numbers and the maintenance of business profitability.

The commitment of Santander Totta to provide a consistent quality service implied the improvement of the operational functioning model, in the technology of customer consultancy and the training of managers in the Private segment.

The soundness of Santander Totta and of the Santander Group, the prizes for "Best Private Banking in 2012", and now 2013, the value of the team of Private managers and the strengths of the consultancy model provide confidence for the near future, when the enlisting of new Private customers will become a central axis of performance.

Companies

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

The launching of the campaign "Credit Activation", at a time when access to credit is the order of the day and in a

context of deleveraging of the banking sector, materialized the intention to support worthy projects, support company businesses and the Portuguese economy. Santander Totta was the first Bank to launch a publicity campaign to provide credit to Companies, a fact that is only possible due to the soundness of its accounts and to the unique liquidity situation that the Bank currently enjoys.

It should also be referred that the Bank continues betting on a growth in new customers that more than ever value a partnership with a bank with the soundness, the geographical dispersal, the quality of service, the products and the commercial capability of Santander Totta.

In the "SME Invest Lines", which have assumed, in the latter years, a growing importance as a result of the world economic crisis and of the banks' heavy credit restrictions, Santander Totta has kept to a policy of support for the Portuguese entrepreneurial sector, which shows up in the market share of the concession of such lines, of 17% on 31 December 2012, and on the placing of more than 16,000 operations amounting to 1.7 billion euros. Bank Santander Totta is the 1st Bank in the SME Growth line, launched in January 2012, with 20% market share of total operations showing our commitment in the support to companies and to the Portuguese economy in general.

Bank Santander Totta is also placed as the leader of the SME Expansion line, with a 27% adherence rate, providing the expansion in the maturities of all the operations contracted under the Invest Lines and the introduction of a 1 year interest free period which, considering the credit restrictions that companies are currently experiencing, allows the improvement of their liquidity positions.

The Bank is equally the leader in factoring and confirming, with a market share of 20.3% (November 2012), which is proof of the commitment and availability of the Bank in the support for the treasuries of SME's, an entrepreneurial structure vital for the growth of the Portuguese economy.

A strong commercial focus is kept in the support of exporting and internationalized companies, in which a large increase in activity is recorded this year, related with international business. The Top Exporta 2012 Conference was held in the second quarter of the year, subject to the topic "Exports - Experiences and Opportunities" where the distinction TOP Exporta was awarded to exporting customers, with Santander Totta becoming more than ever a reference in this market.

Promoters and Brokers

In the 2nd half of 2012 the Real Estate Promoters and Brokers area, considering the main strategic priorities of

the Bank, continued accompanying and energizing the channel of external promoters and in the promoting shops, with the objective to ensure a close proximity and increase the levels of commitment with our business partners and with the respective branches supporting the network.

As such, quarterly road-shows were carried out as well as welcoming actions in the new promoting shops with ever greater levels of participation. All these initiatives have received a good response from the external promoters, since in these “working meetings” there is the opportunity to personally advise the promoters on the priorities, objectives, campaigns, products and incentives in each quarter.

The usual campaigns for capturing salary accounts and credit card accounts were carried out in the 2nd half of 2012, and the campaign reinforced of recurring to products such as structured instruments, SRS's and FEI's. As a replacement of the quarterly incentive plans, a competition was launched that rewarded the 100 promoters and promoting shops with better performances.

With respect to the broker channel, and notwithstanding the difficult situation this sector is going through, advantage has been given to the maintenance of institutional relationships with the main real estate brokerage franchising networks and with APEMIP – Association of the Professional Operators and Brokerage Real Estate Companies in Portugal.

In this perspective, Santander Totta attended one further edition of SIL – Portuguese Real Estate Exhibition that, for the second time has taken place simultaneously with Intercasa (Interhouse), an event that due to its wide cover also allowed involving external brokers.

As to promoting shops the maintenance of commercial network as a complement to the branch network with 250 shops was ensured.

Cards and POS

2012 stood out due to the optimum management of the product portfolio. At the critical moment the Portuguese economy is going through, the permanent concern was to enable the counteracting of the market's diminishing trend, always supported by capturing customers, in their continued binding and in the excellence of the services supplied.

Several initiatives were taken throughout the year to improve the profitability of the portfolio and to promote the use of cards. Through the monthly invoicing and revolving campaigns, customers benefited from gifts and discounts, thus rewarding the regular use of cards,

instances of which are the Summer *Light* campaign, associated to the Vila Galé hotel network, or the launching of the Discount Programme that has already enlisted more than 120 partners.

In parallel, all these measures have always been accompanied by several functional and procedural initiatives. 2012 was the year when the cards' operational area was included in the Bank's operational area, aiming to take advantage of synergies, and thus allowing improvements in service levels and speed of customer response.

It was equally the year in which several commercial support actions were established, through the setting up of new network support devices, such as new swift adhesion leaflets, sales guides and a constantly updated card panel with all the relevant actions taking place. Also carried out were several internal *focus groups*, which were materialized in new initiatives for setting, systemizing and following up of objectives, in the optimization of selling procedures, in the creation of regular and exclusive action plans for the network channel and on more extensive e-learning technical and development training.

The implementation of the *PIN Block*, the forwarding of the *PIN* after activation or the dynamic management of limits, were other solutions developed to allow greater flexibility in services rendered to the customers. On another hand, close monitoring and relationship took place with *SIBS* and *Paywatch*, in the development of internal procedures that allowed a strong reduction in fraud costs for the Bank and without any negative impact where the customers are concerned.

In terms of commercial strategy the stake was maintained on a very competitive and differentiated offer, bringing value to the customer. Singled out is the protocol concluded with the Society of Physicians, with innovative cards that allow a qualified digital signature designed for this specific customer profile. Also continued was the development of applications for smart phones, projects of contactless payments and mobile payments, thus anticipating market trends.

Effectively, the combining of these measures allowed the increase of the total volume of cards and to maintain their percentage use. Notwithstanding the invoice levels being lower than in the homologous period, resulting from the recessive year in which we lived, the behaviour of this indicator was better than that recorded for the market, thus reflecting the customers' preference for the Banks' cards and allowing a sustained growth in market share, in excess of 10.4%.

In spite of the heavy pressure exerted by the regulator in April 2012, to abolish several commissions and to

significantly reduce the interchange fees, the strategy to increase the portfolio's profitability allowed achieving an operating income 1.8% above the homologous value, largely obtained through the good management of spreads and commissions, and through new agreements concluded with business partners.

Regarding acceptances, Santander Totta continues being the reference Bank with the main large traders, with a strong presence in the State sector, in the main distribution networks – food, clothing, transport and fuel – as well as a very diversified presence in different sectors of activity, which enabled a 7.2% increase over the homologous period in terms of POS commissions.

Market share reached 17.4%, much above the Bank's natural share, as a result of work carried out in enlistment and of the strengthening of the position with large sized customers and their greater loyalty.

Globally, issue and acceptance business in 2012 accessed an amount in excess of 98 million euros.

Transaction Banking

International Business and Correspondent Banks

At the beginning of 2012, plans for the energizing of products for companies and businesses were implemented, jointly with the commercial area that from then on had at its disposal specialist teams that, together with product and customer managers, developed specific programmes directed towards capturing customers and energizing businesses. Campaigns and competitions were aligned to accompany and control commercial activity.

Considering that Portuguese exports have assumed the role of drivers of the economy, the "Export Solution" was launched, jointly with several partners. Apart from containing packages of products intended to optimize collections, specific financing solutions were devised for the export sector with advantages for partner companies in the transport, credit and transport insurance, training, and consultancy sectors, amongst others. Within this environment Bank Santander Totta, in partnership with the *Diário Económico* newspaper and Informa DB, launched the "Top Exporta Seal", thus distinguishing the best export companies, through the disclosure of useful opportunities in the markets where it operates and the sharing of experiences in company internationalization. Concurrently, companies carrying this seal will have their access eased to the markets where Santander operates.

In partnership with Santander Spain, Santander Hong Kong and with Bank Caixa Geral Totta de Angola several measures were taken in order to enlist customers that conduct their businesses in those countries. Joint visits

were held in order to provide customers with the best solutions to support their business.

The Santander network in Europe (Spain and United Kingdom) and in other continents, namely Africa and America, were also used to promote these types of agreements and commercial actions, maximizing the competitive advantages of Bank Santander Totta as part of a Group with a relevant international positioning and global dimension.

With the objective to promote or renew agreements and partnerships with other international banks, the Correspondent Banks and International Business areas carry out several commercial actions with an international banking network, which resulted in obtaining the best tools to support companies' international activity.

Bank Santander Totta is nowadays recognized as one of the main International Business service providers in Portugal, and has consolidated its presence with companies, namely with the expansion of the line for the confirmation of documentary credits originating in Angola.

An ambitious strategy was continued in terms of internal training, with the setting up of a wide programme for international business training, in house, with the direct cooperation of both the foreign business operational areas, and the commercial and credit analysis areas.

Cash Management

Bank Santander Totta is nowadays recognized as one of the main providers of cash management services in Portugal, and has consolidated its presence with companies.

During 2012, plans for the energizing of products for companies and businesses were implemented, jointly designed with the commercial area. These plans involved teams of specialists/energizers who, jointly with customer and product managers, developed specific plans intended for customer capture and energizing businesses.

Aiming towards an efficient and timely migration to SEPA, the Bank promoted meetings with some of the main customers providing information and technical support, ensuring internally that its information systems are duly prepared and in line with regulations.

In 2012, Santander Totta continued offering differentiating products and consolidated the launching of GPC-Payments and Collections Manager, including it in the Netbank Companies and in the Home Deposit platform. Both tools are intended for company treasury management.

Customer Service

The commercial feature of the after sales area was consolidated, endeavouring to interpret customers' exact requirements, to assess all the implications of such requirements, measure its costs, design "bespoke" solutions, obtain internal consensus and, finally, submit the possibilities to the customers.

A large focus was kept up on new means of following up and control of incident resolution, improving answering delays and complying with companies' requirements.

Complementary Channels

Self banking

In 2012, Self Banking kept its strategy at the level of transactional optimization of the current number of ATM's – "Multibanco" Network, thus providing continuity to the displacement of these devices to locations with a better transactional potential. As a consequence, market shares amounted to 12.1%, in ATM numbers, and to 12.6% in number of movements. The pilot-project of the new system of inking notes was successfully concluded, showing this as a valid system to prevent and protect from attempts to ATM's, and thus the Bank has invested in this area of security by implementing it in especially selected high risk locations.

Concerning the deposit automation solution, currently covering more than 70% of the number of branches, the continuity of the strategy of adjustment of the number of these devices is singled out, since it has contributed to supply the customer with a better service and greater transaction possibilities for the Bank.

Netbank

Internet channels have singled out the improvements carried out in the Netbank Companies through the launching of new functionalities in payments, collections, factoring and confirming. Security levels for customer transactions in Netbank Private have been increased.

Improvements in the availability and performance of the websites and a growth in traffic have been recorded, with the number of individual visitors increasing by 9%. The number of frequent users of Netbank Private recorded a 9% growth in 2012. Also recorded was an increase in the number of customers that carry out transactions.

A new version of Mobile Banking was launched, with more than ever functionalities, and optimized for the main types of mobile devices, iPhone, iPad, Android and Blackberry.

Telephone Banking

Santander Totta's Contact Centre was considered, for the 4th consecutive year, as the Best Contact Centre in Portugal in the financial sector, a prize attributed by the Portuguese Association of Contact Centres. The total number of Customer contacts in 2012 with Contact Centre operators was slightly in excess of those recorded in the previous year.

Customer attendance through *chat* was strengthened, and there are currently many more spots to request contacts in the Bank's site.

Measures were implemented that aim to raise the number of calls resolved in the 1st contact and the increase in the Contact Centre resolution capacity. The Contact Centre implemented the telephone validation of several operations carried out via Netbank with the objective to increase security when these take place. New functionalities were introduced in the Premium Line with the objective to increase the level of satisfaction and fidelity in this segment.

The launching was carried out in 2012 of new initiatives in the *Facebook* pages and the management of the social networks was improved and systematized.

International Activity

Economic environment in 2012 was characterized by the austerity climate, transversal to several countries in the European Community, and by a large measure control of indebtedness levels, and slight improvements in liquidity levels as compared to 2011.

Economic activity in Portugal again recorded negative growth, and a pronounced worsening of employment levels that led to the decision of many citizens to leave the country to find works and means of subsistence abroad.

Along with these circumstances, the strategy followed in the international area maintained reinforced the proximity to customers residing abroad, aiming to support, through external units, those that commence their working lives away from Portugal. The soundness of Santander Totta and of the Group it comprises was made evident, energizing the offer of services and of solutions in close connection with the commercial network in Portugal.

In order to guarantee adequate conditions for customers the offer of the "Super Account Residents Abroad" was maintained together with diversified savings products. Greater growth in deposits was recorded in lieu of more complex products.

Also successfully made available were products that intended to associate yield to the strengthening of the fidelity and binding of customers as was the case with plans of programmed savings.

In line with Santander Totta's practice and intending to support the communities in the countries where the Bank is represented, meetings were carried out with customers as well as frequent presentations, in which it was intended to bring out the values of the Group and the Bank Visits were promoted in addition to these meetings, within the established strategic planning, which aimed to reinforce the links between customers, representative offices and branches in Portugal.

Within the scope of the more specific support for the segment, the Summer campaign took place with a set of initiatives whose aim was to provide the best possible welcome to customers that live and work abroad, and a structure guaranteed of communication and means with "assistants" particularly focused on providing attendance and support for customers. This campaign was promoted in the main communities, with local means of communication, guaranteeing a significant knowledge of the available offer and support.

The London branch scheduled its activity by the increase in the commercial relationship with Portuguese residents in the United Kingdom, with particular regard attributed to the following up and recovery of the credit portfolio where the means of control were reinforced control means.

The Porto Rico subsidiary developed its activity in a "Distant Banking" business model, offering through specific channels much diversified applications exclusively intended for non residents.

Also carried out was the reassessment of several units that support external activity and which resulted in the closing down of SFE – External Financial Branch in the Madeira Free Zone.

Business volume in the area of foreign residents was almost unaltered, it having been however possible to increase the number of customers in countries outside the European Community.

With respect to transfers from residents abroad, channelled through Santander Totta, promotion and energizing actions continued in the more relevant countries for the segment, with the easier and more flexible means standing out for customers to carry out transfers of funds to Portugal.

Two competitions were organized that intended to reward customers that opted for the Bank, resulting in an approximately 13% increase in the volume of transfers.

Global Banking and Markets

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

In the area of Credit Markets, the maintenance of a restrictive economic environment continued stressing the economy, with significant impact in private and public investment decisions. In spite of this context, the Bank continues as one of the few Institutions keeping a constant presence in the analysis of the existing opportunities and in the support provided to small promoters in materializing their projects, and supported several customers in restructuring financial arrangements that, due to the current environment, require being renegotiated, with the objective to conform to the performance and capacity to free companies' cash flow.

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

The structured products area kept, in 2012, a fair performance in the marketing of liability products, with the issue of 16 structured products, of which 10 are euro denominated and 6 US Dollar denominated issues. The issues that were placed in this period are indexed to different classes of assets transacted in shareholder, exchange rate and bond markets.

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

In the area of Institutional Custody the business volumes kept stable and the Bank maintained its 2nd place in the ranking of national Custodians, with approximately 21.2% market share in the volume of assets under custody, an increase of 5.7% relative to the previous quarter, in accordance with the more recent data made available by CMVM (Securities' Market Regulator). Resident and non resident institutional customers had the opportunity to assess the custody services provided by the

Bank through the specialist publication *Global Custodian*, with the award of the *Commended* prize in the 3 categories – *Leading Clients*, *Cross-Border* and *Domestic* being singled out.

Asset Management

Investment Funds

In a very difficult context, Santander Asset Management (SAM) endeavoured to manage its products with a controlled risk level, focused on maintaining high and adequate liquidity levels, and taking advantage of the opportunities that the market has provided. Standing out during the course of the year was the fund merger operation, carried out to simplify and provide transparency to the range of funds offered by SAM, as well as improving the level of efficiency in terms of management.

At year end, all securities investment funds actively managed by Santander Asset Management, evinced positive profitability, namely Santander Multitresury (3.5% net profitability), Santander Global (7.1% net profitability) and the shareholder funds: Portugal Shares (9% net profitability), Europe Shares (13.6% net profitability) and America Shares (9.6% net profitability). Also singled out was the launching of two new FEI's: FEI Iberian Premium (48.8 million euros) and FEI Premium July 2012 (47 million euros). Two FEI's attained maturity: FEI Europa Invest and FEI Luso Invest.

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

Real estate investment funds managed by Santander Asset Management amounted to a total of 581.5 million euros, at the end of 2012, a 5.1% market share.

Outlook for 2013

The recessive environment will be maintained in Portugal in 2013, with GDP contracting by -1.9%, as well as in the Euro Zone, where GDP may contract by approximately 0.5%, as a result of the budgetary consolidation measure in the "peripheral economies". Germany and France should witness a significant slowdown in the rate of growth as compared to 2012.

Increase in unemployment, the continuing deleveraging process in the private sector, with a heavy contraction in consumption and a major fall in investment, together with the decrease in families' available income will continue being stressing factors in the Portuguese banking system, specifically in business volumes, revenue generation and quality of the credit portfolios.

As already referred, the risk management of the credit portfolio is a fundamental objective of Santander Totta, allowing it to protect profitability and capital employed, crucial in a more adverse economic environment. With this end in view, the Bank will continue casting special attention on the prevention of non performing loans, with actions to follow up selective customers, anticipating risk situations through providing conditions that may allow a payments profile adequate to the economic and financial situations of the families.

Simultaneously, the Bank will maintain an important focus on the recoveries area, through the strengthening of a negotiation policy that avoids the resolution of processes through the courts of justice.

On another hand, the Bank will continue the strategy of the gradual deleveraging of its accounts in order to reduce the ratio between credit and deposits to 120% by 2014, and will thus be largely focusing deposit capturing. Additionally, the comfortable position in terms of capital and liquidity presented by the Bank, allows it to provide support to families and to the Portuguese entrepreneurial sector, already materialized through the launching of the "Credit Activation" campaign at the end of 2012, considering the increase in the weight of the Companies' segment in the total credit portfolio and the respective market share as well as the increase in the transaction levels.

In 2013, the management of net interest income will be a critical factor in the Bank's revenue, particularly the management of the Bank's liabilities, in a scenario of extremely low interest rates.

Human Resources

People and their contribution towards the business were the main axes of activity in the area of Human Resources in 2012, in an unfavourable economic and social environment.

In the field of proximity to business areas, a strengthening was carried out of measures conducive to consolidating the presence and the contribution of the Human Resources (HR) department to the management areas and to the achievement of the business objectives.

The HR managers acted as aggregators of the required mobility – geographic and career oriented – in each area and acted as a team to generate internally the adequate response. As such, the effectiveness of HR actions improved both in response timing as in the definition of long term solutions.

In the context in which we live, it was very important to count upon an active communication with regard to the disclosure of opportunities for internal development. 60 disclosures were carried out for the whole organization that mustered approximately 600 candidates towards new professional challenges. Such measures were important to guarantee motivated teams and, consequently, reflecting on the quality of service provided to customers.

As a decisive contribution to optimize the branch network, HR managers carried out 450 visits to branches and managed approximately 1,000 movements that involved all the levels in the structure.

In the 2nd half year, HR's activity was also guided towards providing support to branches that required improving quality of service indicators. The "BeUp Programme" was an initiative of behavioural intervention with the branch teams based upon coaching techniques and with the objective to improve attendance quality in the branches identified in the "response timing" indicator. 107 branches were followed up and approximately 230 meetings held for branch accompaniment. As such, the referred programme was a clear strengthening of HR's action to achieve the business objectives, by qualifying the branch teams with competences in customer relationship.

The importance given to merit recognition and individual contribution of employees towards the Bank's success is

expressed by the 367 new salary levels attributed and to the fact that 95% of the employees received variable remuneration, with the adjustments recommended by the results.

Focus was placed on the E-Learning platform, as a training component, with the inclusion of 20 new courses, increasing the offer to 46 courses and thus allowing a wider choice in line with individual needs. To stimulate knowledge enrichment and development of skills of the central services employees, a campaign was carried out during the summer months that involved 22,259 training hours and 60% of the identified employees. The category "Commercial Skills and Products" was singled out with the carrying out of 102,404 hours and 20,800 assistants in training actions.

The feature Management and Managing Skills comprised approximately 3,331 training hours with the presence of 426 individuals.

In the development field, Executive Coaching programmes were carried out involving 23 individuals and Mentoring was introduced in several programmes, with the participation of the senior management team as mentor.

In the Operations area, a development programme was implemented, focused on 3 axes: adapting to change in structure/team and duties, alignment in attitude and cooperation and facing new functional challenges such as the direct relationship with customers. This programme involved 284 employees in this area.

In the matter of cooperation with Universities, Santander Totta took part in Jobpartys employment fairs. A Mentoring programme was also carried out involving 19 post-graduate students from several universities.

As a "Family Responsible Company" and in line with the established in the certification procedure, actions were carried out and procedures developed, that allow monitoring the use of the existing measures, which aim to reconcile professional and personal life. As such, in 2012, 66% of employees with children aged up to 12 enjoyed the afternoon off on their offspring's birthdays (22% in 2011) and 64% of employees were given leave to spend the 1st school day of the 1st school year (34% in 2011) with theirs.

To promote the advantages of working with Santander Totta, to develop dialogue between managers and their teams and to recognize everyone's effort and dedication, are the objectives of the Programme "You Are Santander". This programme is alive, showing it is up to date as a structuring programme of the positioning the Bank intends to keep as an employer of reference in the banking sector.

The widening of the maximum repayment period for ACT (employee) loans from 35 to 40 years, limited to 70 years of age of the employee, the salary adjustment provided to employees with earnings equal to or less than 1,350 euros per month and the contribution of 310 euros to all employees with offspring taking higher education (245 students) with a monthly salary equal to or less than 2,090 euros, are extraordinary measures that were implemented to lessen the effects deriving from the economic environment.

Considering the described circumstances "We Facilitate" was implemented, a platform of services supply and demand where employees may search for services they require and place offers for services from family members or friends who are unemployed. The platform contains more than 300 offers for services from employee family members.

The "You Are Santander Week" is an initiative that enjoys the approval of employees and raises high expectations, since it is an opportunity to reinforce the spirit associated to the Programme "You Are Santander". The activities programme was developed along the topic "We Constitute a Great Team" and comprises three main initiatives:

- The "Day of the Employee" was celebrated in all branches and central buildings throughout the country, within a party scenario, recreating the environment of a traditional "Popular Saints" festivity;
- The "Direct Contact", with the visit of Directors to branches and central services in the country's several districts. in a symbolic gesture over the proximity of employees and of direct recognition of those who have achieved 30 years of employment in the Bank;
- The fraternal cause "Ritinha's Home", that allowed collecting approximately 23,000 euros and the beginning of the building of Ritinha's new home.

"Rethink the Business" was the theme of the 5th edition of the Feminine Management Conference, an area of reflection that has the objective to discuss currently business related topics, with the participation of women with management responsibilities in several areas of the Bank. Apart from reinforcing the role of women in the bank's activity, which represent 45.7% of the total employee complement, and to strengthen the skills of the management teams in business issues and in current

topics, this initiative indicates the notice taken of the policy on gender diversity.

For the 6th consecutive year prizes were awarded to the offspring of employees who were distinguished by their academic performance at the conclusion of secondary education. In the six editions of this initiative, the objective of which is to value the merit evinced by an academic achievement of excellence, 103 children were rewarded.

The youngest have also continued receiving particular notice, with the carrying out of the already usual occupational programmes in the Easter and Christmas holidays for employee's offspring, in which 60 children aged between 6 and 10 years participated.

Once again Santander Totta decided to favourably consider requests submitted within the scope of the competition for house purchasing credit at the ACT rate, having made available for the purpose a total value amounting to 41 million euros, thus allowing ease of access to better family living conditions.

As previously referred, solidarity activities occupied a primary place in 2012, with the setting up of the "Solidarity Corner" in Totta Centre, an area for institutions of social characteristics to promote their initiatives, for the participation of volunteer workers in the BIPP fairs (Information Bank from Parents to Parents) and in "Everyone's Bread", "Christmas in a Shoebox" and the solidarity cause "Ritinha's Home".

Technology and Business Systems

Included in the means area of Santander Totta and in the Division of Corporate Technology and Operations, the area of Technology and Business Systems is responsible for the availability and management of the Santander Totta infrastructure of technology and processes, permanently guaranteeing the adequateness of the technological platforms (hardware, software, communications, amongst others), and of business processes and operating control to efficiently support the bank's activity, with controlled levels of operating and technological risks.

Focus was kept, in 2012, on the management of the quality of the technology services, on the reduction of technological risk and application support to the business, as well as in the observance of compliance in the control activities, established in the Bank's Guide of Internal Control, in the technology issue. Several projects were developed for incidence reduction, optimization of the exploit of technological resources, management and

reduction of technological risk and increase in the online availability window of the platform.

Singled out in terms of business support is the very relevant investment in the strengthening of the support applications to the management of non performing loans and legal department, with the development of new applications and functionalities to support this activity. Also singled out are the support tools for the programme that allowed an improved proactive follow up by the bank in the management of non performing loans and a more adequate offer of solutions for non performing customers.

Also particularly relevant was the investment carried out in projects to comply with new legislation and regulation, among which stand out the adapting of the systems to SEPA payments, FACTA, reformulation of statistics covering external operations and positions and of monetary and financial statistics for the Bank of Portugal and, already at year end to implement, in a reduced time period, legislation relative to non performance and the new legislative environment of complex financial products.

The new site of Netbank Private was launched in 2012, guided towards mobile devices. The graphic reformulation of Netbank Companies was also carried out as well as that of several tools and functionalities with the objective to increase security in internet transactions. New tools for the support of commercial activity were launched, such as the new Customer Site and the support platform for the Private Banking activity.

The migration procedure towards the Windows 7 operating system was initiated, a project that has been scheduled to take 9 months and several technical projects carried out in order to reduce incidences and to maintain technological risks at adequate levels. Several projects were implemented to adequate the physical infrastructure aiming towards its renewal and to the setting up of redundant technological infrastructures based upon two discrete data processing centres with high availability, that ensure operational continuity in case of an accident occurring in one of the centres, with Disaster Recovery Plan tests carried out that prove the implemented solution.

Several projects were launched in the area of Business Processes, aiming to improve processes and to increase efficiency. All the transformation operated in the Credit Recoveries area was supported by this area, based upon the reformulation and definition of the new operative and functional model and design of the activity support technological tools. The project for the operational and functional optimization of the Companies Network and for the implementation of the North American FACTA regulation continued at a good rate.

The Network area continued with the programme of visits to branches with the objective to identify weaknesses in control and operational functioning of the Private, Businesses and Companies branches, and to establish with the latter a training and operational improvement programme, in parallel with the launching of improvement initiatives in the current operational and control processes. All branches have already been visited by this team, following which several training, support and improvement initiatives have been launched. Also implemented were several branch control projects, these being incorporated in the follow up processes.

Quality

Quality of service is one of the pillars of Santander Totta's management model.

In a world in permanent change and in such a competitive market as the banking market where all the players search for improvement and quality of service in the past few years, Santander Totta assumed as objective the improvement of the Santander Totta Customer Experience, in which quality of service has a Santander label, an own style that differentiates the Bank from the remainder.

Customer Experience

In 2012, this action area accompanied several improvement processes, presented in a specific working group to study the topic of customer attendance, both in terms of attitude and in waiting times in the branches, and also in telephone attendance. The motto of placing your bet on the "maximum value of the relationship" led to the involvement of the whole Bank in the common objective to become the customers' # 1 Bank.

The correlation of the Meta 100 indicator (that measures customer satisfaction with his branch) with the CEM indicator (that measures customer satisfaction with the Bank) was used as the classification, in stars, of the Bank's branches.

After the introduction of this new classification, work has been carried out to reduce the number of 2 star branches and increase that of the 5 star branches, through the development of a programme for behavioural improvement named "BeUp", which works on a cluster of 2 and 3 star branches, with an "in loco" follow up plan and clear improvement objectives.

The Quality site (redcem) that may be accessed by all employees was substantially developed, allowing, very simply, to consult quality metrics, the knowledge, the status of complaints received and supports the disclosure

of the measures taken for the continuous improvement in service quality.

Quality Certification

Santander Totta continues reinforcing the devices foreseen in standard ISO 9001-2008 and to continually improving its management practices always guided by the need for customer satisfaction through improvement in process management.

Following this line, the bank has more than ever reached for the requisites of excellence, specifically with the implementation of a new model of Quality Governance that will allow greater focus on customer guidance through the entire Bank's structure and to strengthen the commitment of this same structure with the Santander Group.

Complaints

Concerning customer's complaints a significant reduction was recorded in 2012 as compared with 2011. This change mirrors the Bank's drive in the improvement of its actions, processes and attitudes, overcoming the situations that may have caused some displeasure.

The Bank has the objective not just to enable the swift correction and response to customers, but also the analysis of the cause at the base of the formal complaints received.

Quality Tables were set up where the improvement of processes was analysed with the various areas of the Bank, as well as the answering levels, attitudes and the possible solutions to be implemented concerning the complaints where the customer was considered to be in the right.

It was a year of consolidation of the measures initiated in 2011, aiming to improve the time for response to formal complaints, guarantee compliance with the legal delays to answer the regulators, providing answers to customers with clear and objective information, and, in parallel accompany the business units in the swift correction of detected incidences and the necessary interlocution with the respective central services, in order to avoid erosion in the commercial relationship and consequent future formal complaint.

Metrics and Management indicators

Throughout the years Santander Totta brought together a system of quality metrics that, once combined, allow a

very clear vision of the "customer's voice", thus enabling very focused improvement measures directed towards customers and their requirements, either through data from the Bank's system, or through customer enquiries (more than 90,000 this year), or even through Mystery Customers, which aid the measurement of the quality effectively provided.

With regard to commercial networks, Private and Business and Company Networks, the functioning of META 100 is fully maintained, since this indicator comprises different assessments (metric, operative and customer satisfaction), and continues showing a very positive evolution.

The Meta 100 index recorded significant improvements in the several indicators enabling 32% of the branch network to obtain the superior classification, an increase of 7% relative to 2011, a year in which the qualitative and quantitative assessment attributes kept to the same structure but with even more ambitious objectives per attribute.

The Meta 100 model for central services was consolidated in 2012 and will allow, in 2013, very strong actions with them. With this objective it is intended that the work rendered by these services enable a more adequate service to the branches.

On another hand, the proportion of customers that recommend the Bank was kept at the same level as that reached in 2011, of approximately 90%, having recorded an improvement in the remaining indicators of perceived quality.

Positioning versus the competition

The study of the positioning in the market is supported by a methodology established at Santander Group level, for the global satisfaction of the main Banks in the Portuguese system and is carried out by an independent company accredited in market surveys. The study, initiated in 2010, consolidated in 2012 the evolution of the growth of Bank Santander Totta versus the competition, which it had already evinced in 2011.

In the assessment carried out in the 2nd quarter of 2012, Santander Totta obtained the first place in its positioning amongst the Banks comprised in the referred study, jointly with another competitor.

Consolidated Activity

Introduction

Developing its activity in a macroeconomic recessive scenario that has penalized results in the banking sector, Bank Santander Totta chose a strategy based on the strict control of non performing loans and on the soundness of its operational structure and accounts, with adequate capital and liquidity positions solely reached with recourse to internal income generation, without requiring access to the public lines of support to the banking sector.

Within the scope of a policy of rebalancing the accounts, a significant improvement is recorded in the commercial *gap*, with the Loan-to-Deposit ratio that relates net credit with deposits having reached 126.6% at the end of 2012, an improvement of 12.2 p.p. relative to the homologous period and reflecting an 8.3% annual increase in customers' deposits and a 4.9% slowdown in net credit.

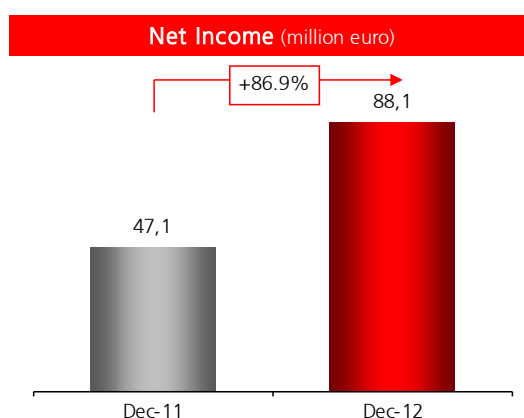
The Tier I ratio was set at 11.4% and the Core Capital ratio set at 9.9% in 2012.

Credit at risk reached 4.32%, in line with the worsening in credit quality, in a recessive economic environment, although below the average of the banking sector, benefiting from a support programme for situations of non performing customers, which led to a decrease in the number of non performing loans, as anyway previously referred.

The Bank has available a portfolio of assets accepted as guarantees in financing operations with the Eurosystem, which at the end of 2012 amounted to 11.7 billion euros. In turn, net resources of applications obtained from the European central bank amounted to 4.9 billion euros.

Bank Santander Totta recorded a consolidated net income of 88.1 million euros, which compares with 47.1 million euros in the homologous period, with the favourable contribution of revenue and operational costs standing out, although diminished by reinforcement of imparity and net provisions, framed within the Bank's prudent and conservative risk assessment policy.

Operating income increased by 22.7%, influenced by added values obtained from the repurchase of securities issued within the scope of credit securitization operations, reflected in gains on financial transactions, partially cancelled by the reinforcement of provisions, as a measure of prudence. Operating expenses decreased by 9.4% relative to the value recorded in 2011 and impairment and net provisions recorded a homologous 59.2% increase.



Profit & Loss Account

million euro	Dec-12	Dec-11	Var.
Net Interest Income (without Dividends)	541.5	543.5	-0.4%
Dividends	1.7	1.3	+32.8%
Net Interest Income	543.2	544.8	-0.3%
Fees and Other Income	318.0	328.8	-3.3%
Commercial Revenue	861.3	873.6	-1.4%
Gain/Losses on Financial Transactions	125.8	(69.0)	<-200%
Operating Income	987.1	804.6	+22.7%
Operating Costs	(459.0)	(506.9)	-9.4%
Net Operating Income	528.1	297.7	+77.4%
Impairment and Other Provisions	(466.6)	(293.0)	+59.2%
Equity	11.9	12.9	-8.0%
Income Before Taxes and MI	73.4	17.6	>200%
Taxes	14.7	29.5	-50.1%
Resultado Após Impostos	88.1	47.1	+87.1%
Minority Interests	0.0	0.1	-100.0%
Net Income	88.1	47.1	+86.9%

At the end of 2012 Bank Santander Totta recorded a net income of 88.1 million euros, which compares with 47.1 million euros in the previous year. Revenues increased by 22.7%, operating expenses decreased by 9.4% and impairment and net provisions recorded a 59.2% homologous increase.

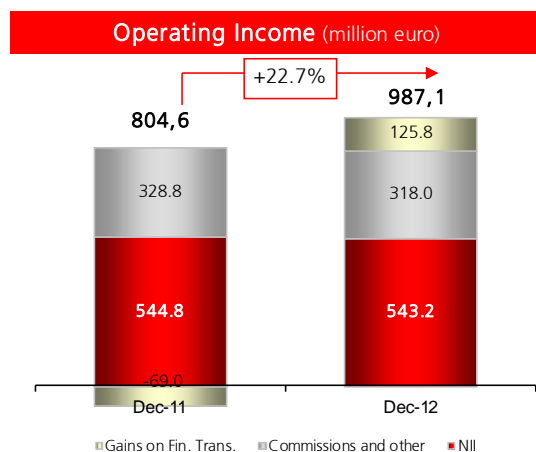
Strict net interest income amounted to 541.5 million euros, with a -0.4% variation relative to 2011. This development reflected the decrease in the credit portfolio, required within the deleveraging process of the accounts, as well as the maturity of the public debt occurring in the last quarter. In turn, the pronounced downturn of the Euribor market rates was reflected in a more pronounced credit re-pricing than that of deposits. However, emphasis should be placed on a prudent management of asset and liability spreads, with an adequate segmentation of the commercial supply.

Net commissions and other income amounted to 318.0 million euros, evincing a variation of -3.3% relative to 2011 values, attributable to the performance of commissions from investment funds and insurance, However, the increase in commissions related to basic

banking services (such as cash deposits) should be pointed out.

Gains on financial transactions amounted to 125.8 million euros and include the added value obtain in the repurchase of securities issued within the scope of credit securitization operations. It should be recalled that, in the homologous period, losses were recorded deriving from the sale of credit portfolios and securities.

The above referred revenue variations resulted in operating income amounting to 987.1 million euros, an increase of 22.7% relative to 2011.



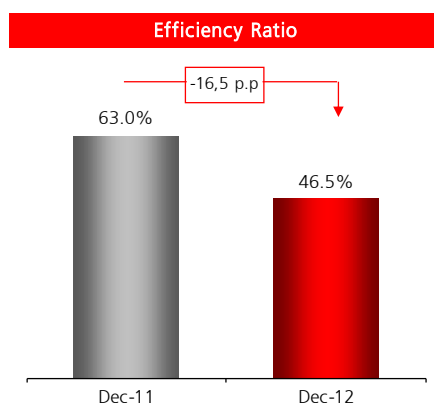
Operating expenses amounted to 459.0 million euros, with a -9.4% favourable homologous variation. Personnel expenses decreased by 13.1%, reflecting the reduction in the average number of employees and variable remunerations, as well as the legislative change in the calculation of the death subsidy. Excluding this effect, personnel expenses would have decreased by 8.5% and operating expenses by 6.7%.

General expenses decreased by 6.4% and depreciation increase 0.8%, consequent upon investments carried out in information technology, as well as anticipated depreciation deriving from the closing down of branches.

million euro	Dec-12	Dec-11	Var.
Personnel Expenses	(257.6)	(296.6)	-13.1%
Other Administrative Expenses	(137.5)	(146.9)	-6.4%
Operating Costs	(395.1)	(443.5)	-10.9%
Depreciation	(63.9)	(63.4)	+0.8%
Total Operating Costs	(459.0)	(506.9)	-9.4%
Efficiency Ratio (excludes depreciation)	40.0%	55.1%	-15.1 p.p.
Efficiency Ratio (includes depreciation)	46.5%	63.0%	-16.5 p.p.

The efficiency ratio, that shows operating expenses as a percentage of operating income, improved from 63.0% in 2011 to 46.5% in 2012 (-16.5 p.p.), resulting from the combination of the 22.7% increase in revenue and the 9.4% decrease in operating expenses.

Net operating income amounted to 528.1 million euros, compared to 297.7 million euros recorded at the end of 2011.



As to productivity indicators, following is the variation of resources per branch.

million euro	Dec-12	Dec-11	Var.
Loans ⁽¹⁾ per Employee	5.2	5.3	-2.6%
Resources per Employee	5.1	4.8	+5.5%
Loans ⁽¹⁾ per Branch ⁽²⁾	43.7	42.7	+2.4%
Resources per Branch ⁽²⁾	43.3	39.1	+10.9%

(1) Includes guarantees

(2) Includes branches, corporate centers and representative

Total impairment and net provisions amounted to 466.6 million euros as compared to 293.0 million euros recorded in the homologous period, a 59.2% increase, reflecting the worsening of current and foreseeable risks deriving from the economic recession, which occur in several sectors of activity. Santander Totta kept to a prudent policy in risk management, when perfecting and reinforcing the prevention and control mechanisms. In the last revision carried out in 2012 by the Bank of Portugal and the Troika, within the scope of the *Special Inspection Programme*, with the objective to assess the level of impairment in the construction and real estate promotion portfolio, it was concluded that the Bank has sufficient provisions available and uses adequate methodologies.

Results from subsidiaries recognized by the equity method, amounting to 11.9 million euros, comprised the appropriation of results in the shareholdings in B.C.G.T. Angola, in Unicre-Instituição Financeira de Crédito and in Benim-Sociedade Imobiliária (a company held indirectly by the Bank through TottaUrbe-Empresa de Administração e Construções).

Income before taxes amounting to 73.4 million euros was greater than the 17.6 million euros recorded in 2011. Consolidated net income, at the end of 2012, amounted to 88.1 million euros, greater than the 47.1 million euros recorded in 2011.

Accounts and Activity

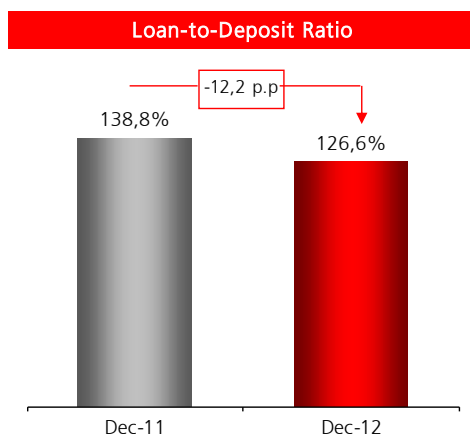
In 2012, the reinforcement of soundness and of the deleveraging of the accounts, with a significant improvement in the commercial *gap*, in parallel with comfortable position in liquidity and equity were fundamental priorities for Bank Santander Totta.

Credit (including guarantees) decreased by 4.5%, amounted to 29.2 billion euros in 2012 and customers' resources amounted to 28.9 billion euros (annual variation of +3.5%) through a 7.6% growth in balance sheet resources and a 7.5% decrease in off balance sheet resources. This movement led to a homologous variation of -0.7% in business volume which, at the end of 2012 amounted to 58.1 billion euros.

million euro	Dec-12	Dec-11	Var.
Business Volume	58,057	58,455	-0.7%
Total Gross Loans (includes guarantees)	29,165	30,532	-4.5%
Customers' Resources	28,892	27,922	+3.5%

The gradual rebalancing of the Bank's accounts is expressed in the loan-to-deposit ratio which, at the end of 2012, was set at 126.6%, evincing a 12.2 p.p. improvement, relative to the 138.8% recorded in 2011

(ratios calculated in line with the definition established in the Memorandum of Understanding).



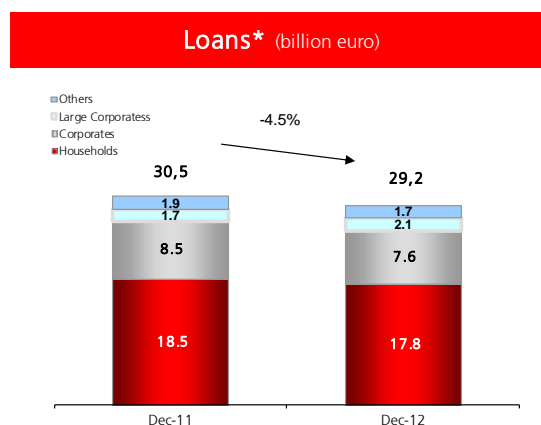
The reduction occurred in credit concession, in line with market trends, both in private customers and in companies, evinces the lower demand and the restrictions imposed by the ongoing deleveraging process. However, the comfortable liquidity position of Bank Santander Totta allowed continuing a policy of support to economically viable companies, which is

shown in the notable position reached in the SME Invest/Growth Lines and in the launching of the "Santander Totta Activation Plan Campaign", in which it has made available a financing line amounting to 1.5 billion euros for companies that submit viable projects.

million euro	Dec-12	Dec-11	Var.
Total Gross Loans (includes guarantees)	29,165	30,532	-4.5%
Gross Loans	27,945	29,044	-3.8%
<i>of which</i>			
Commercial Banking	25,415	26,965	-5.7%
Loans to Corporates	7,633	8,493	-10.1%
SME/Small Business	3,046	3,667	-16.9%
Corporates	4,587	4,826	-4.9%
Loans to Individuals	17,782	18,473	-3.7%
<i>of which</i>			
Mortgage Loans (including securitization)	15,783	16,262	-2.9%
Consumer Loans	1,414	1,573	-10.1%
Large Corporates and Institutionals	2,097	1,672	+25.4%

Credit provided to private customers amounted to 17.8 billion euros, a 3.7% homologous decrease, with variations of -2.9% in mortgage loans, which represents 54.1% of the total credit portfolio, and of -10.1% in consumer credit.

Credit to large companies and institutional customers increased by 25.4%.



* Includes securitization and guarantees

In spite of the worsening of the credit quality indicators, the ratios presented by Bank Santander Totta compare favourably with the average of the national banking system. In order to face the growing financial difficulties occurring with families, the Bank implemented a set of solutions directed to those customers where the first signs of lack of capacity to effect reimbursement become apparent, in order to avoid a degradation of levels of non performance and to ensure, through a close follow up of each situation, the negotiation of new payment conditions more adequate to their current financial capacity. This allowed the restructuring of credits, reducing the number of private customers with overdue credit instalments, to 14% below the values recorded in

2011. At the end of 2012, the ratio of non performing loans in excess of 90 days was set at 3.51% (+1.4 p.p. relative to the homologous period). The respective coverage ratio through provisions reached 98.4% (107.1% in 2011). The ratio of non performing and doubtful loans amounted to 3.54% at the end of 2012, above the 2.21% in 2011, with 97.4% provision coverage (104.5% in the homologous period). In its turn, credit at risk (comprising non performing loans, credit yet to mature and restructured credit) represented 4.32% of total credit, worsening by +1,5 p.p. relative to the 2.84% in the same month of the previous year, with 79.7% provision coverage (80.5% in 2011).

	Dec-12	Dec-11	Var.
Non Performing Loans Ratio	3.67%	2.35%	+1.3 p.p.
Non Performing Loans Ratio (+90 days)	3.51%	2.16%	+1.4 p.p.
Non Performing Loans and Doubtful Loans Ratio	3.54%	2.21%	+1.3 p.p.
Credit at Risk Ratio	4.32%	2.84%	+1.5 p.p.
Non Performing Loans Coverage Ratio	93.9%	98.6%	-4.7 p.p.
Non Performing Loans Coverage Ratio (+90 days)	98.4%	107.1%	-8.7 p.p.
NPL and Doubtful Loans Coverage Ratio	97.4%	104.5%	-7.1 p.p.
Credit at Risk Coverage Ratio	79.7%	80.5%	-0.8 p.p.

Total customers' resources at the end of 2012 amounted to 28.9 billion euros, a 3.5% increase relative to the amount recorded in 2011.

Standing out are customers' deposits, representative of 74.4% of total customers' resources, an 8.3% favourable variation in 2012, relative to that recorded one year earlier.

million euro	Dec-12	Dec-11	Var.
Customers' Resources	28,892	27,922	+3.5%
On-Balance Sheet Resources	21,853	20,315	+7.6%
Deposits	21,497	19,844	+8.3%
Securities issued	356	471	-24.4%
Off-Balance Sheet Resources	7,039	7,607	-7.5%
Investment Funds	2,717	2,807	-3.2%
Insurance and Other Resources	4,322	4,800	-10.0%
By segment:			
Commercial Banking	23,430	24,141	-2.9%
Households and Small Businesses	22,095	22,240	-0.7%
Deposits	16,284	15,644	+4.1%
Securities placed in clients, inv. funds, insurance and other	5,811	6,596	-11.9%
Corporates	1,335	1,900	-29.7%
Large Corporates, Institutionals and Other	5,462	3,782	+44.4%

In 2012, customers continued showing greater preference for bank deposits, rather than higher risk products. Deposits from households and small business segments recorded a 4.1% increase relative to the homologous period in 2011, an inverse situation to that recorded with

off balance sheet recourses, such as investment funds and financial insurance that, in the same period recorded a -11.9% variation.

Balance sheet resources amounted to a total of 21.9 billion euros, representing 75.6% of total resources captured from customers, and increased by 7.6% in homologous terms, while off balance sheet resources amounted to 7.0 billion euros, decreasing by 7.5% relative to the value recorded in 2011. Investment funds decreased by 3.2%, amounting to 2.7 billion euros. Insurance and other resources amounted to 4.3 billion euros, a variation of -10.0% relative to the value recorded in the previous year.

Solvency ratios

At the end of 2012, Bank Santander Totta presented capitalization values solely reached with recourse to the internal generation of results, in parallel with the decrease in risk weighted assets. The Tier I ratio was set at 11.4% and the Core Capital ratio reached 9.9%, including net income (10.3% and 9.1% in 2011). Excluding the generated results Tier I and Core Capital ratios reached 11.4% and 9.8%, respectively.

million euro	Dec-12	Dec-11	Var.
Total capital	2,062	2,135	-3.4%
Tier I Capital	2,069	2,141	-3.4%
Tier II capital	-7	-6	+13.5%
Risk weighted assets	18,127	20,783	-12.8%
Core Capital	9.9%	9.1%	+0.8 p.p.
Tier I	11.4%	10.3%	+1.1 p.p.
Solvency Ratio	11.4%	10.3%	+1.1 p.p.

Individual Activity

Profit & Loss Account

Bank Santander Totta recorded net income, in terms of individual accounts, amounting to -9.2 million euros at the end of 2012, compared to 22.3 million euros recorded in 2011.

The Bank's operating income amounted to 879.5 million euros in 2012, an increase of 12.9% relative to the 779.1 million euros recorded in 2011, with favourable contributions derived from net interest income and from gains/losses in financial transactions.

Operational expenses amounted to 455.6 million euros, decreasing by 9.0% relative to the homologous period. Excluding the effect of the legislative change in the calculation of the death subsidy, the decrease would have amounted to 6.3%. The efficiency ratio decreased

by 12.5 p.p. moving from 64.3% in 2011 to 51.8% in 2012.

The combined movement of revenues and expenses resulted in a net operating income amounting to 423.9 million euros, 52.3% greater than the amount obtained in the previous year.

Impairment and net provisions evinced a 52.2% increase, with a net appropriation of 443.4 million euros in 2012.

Accounts and Activity

Business volume at the end of 2012, amounted to 53.8 billion euros, a -2,3% variation relative to the homologous period, with a -6.6% credit contribution (including guarantees), amounting to 25.9 billion euros, and a 2.0% increase in customers' resources amounting to 27.9 billion euros.

million euro	Dec-12	Dec-11	Var.
Business Volume	53,751	55,033	-2.3%
Total Gross Loans (includes guarantees)	25,865	27,694	-6.6%
Gross Loans	24,645	26,205	-6.0%
Customers' Resources	27,886	27,339	+2.0%
On-Balance Sheet Resources	21,751	20,569	+5.7%
Deposits	21,395	20,099	+6.5%
Securities issued	356	471	-24.4%
Off-Balance Sheet Resources	6,135	6,770	-9.4%
Investment Funds	1,903	2,029	-6.2%
Insurance and Other Resources	4,231	4,741	-10.8%
By segment:			
Commercial Banking	23,430	24,141	-2.9%
Households and Small Businesses	22,095	22,240	-0.7%
Deposits	16,284	15,644	+4.1%
Securities placed in clients, inv. funds, insurance and other	5,811	6,596	-11.9%
Corporates	1,335	1,900	-29.7%
Large Corporates, Institutionals and Other	4,456	3,198	+39.3%

The 2.0% homologous growth in customers' resources includes the +5.7% increase in balance sheet resources, with special reference to 6.5% increase in deposits,

which represent 76.7% of total resources, whilst the off balance sheet resources decreased by 9.4%.

Solvency Ratio

In 2012, Tier I and Core Capital ratios were set at 10.2% and 8.6% respectively.

million euro	Dec-12	Dec-11	Var.
Total capital	2,305	2,340	-1.5%
Tier I Capital	1,865	1,935	-3.6%
Tier II capital	440	405	+8.5%
Risk weighted assets	18,240	20,485	-11.0%
Core Capital	8.6%	8.0%	+0.6 p.p.
Tier I	10.2%	9.4%	+0.8 p.p.
Solvency Ratio	12.6%	11.4%	+1.2 p.p.

Introduction

For Santander Totta, the quality of risk management is a fundamental basis of operation, within the corporate policy of the Group in which it is comprised. Prudence in risk management allied to the use of advanced management technologies has been a decisive factor, particularly in an environment of great uncertainty in the financial markets.

Credit Risk

Main vectors of activity

In 2012, the activity of area of Credit Risks had the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with customers' and products' features;
 - Reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
 - Concerning the risks included in the portfolio proximity with the customers was intensified in order to anticipate their credit requirements, revise their lines and the eventual issues arising considering their payment capabilities;
 - This action and the level of the customers' credit quality allowed continuing to maintain ratios of non performing loans and credit at risk significantly below the average for the sector. On another hand, the business support levels were intensified in order to capture new operations and new low risk customers, and improvements were implemented in the processes with the objective to provide customers requests with swifter and more effective answers;
 - Concerning the following up function of portfolios and customers, a permanent focus was kept in the checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment with the objective of mitigating the ratios of non performing loans and moroseness. A revision was carried out of a significant portion of the customer portfolio and the conclusion arrived at that the portfolio is being analysed with adequate criteria and that the level of estimated imparity is equally adequate.
- Concerning standardized risks, and considering the current difficult macroeconomic context, the main focus was kept on the maintenance of the portfolio's quality level, with action taken on management moroseness and non performing loans, by making available a set of products and solutions for debt restructuring that allow adapting customers' expenditure to their reimbursement capacity and current and future available income;
 - Following this, the adequacy of the acceptance strategies on the Bank's decision systems and on the use of behavioural systems for the identification of prevention and renewal to place before customers was progressed;
 - Still on the issue of standardized risks, the Bank continued to be selective in the acceptance of new operations, in terms of risk and profitability, making use of the model of automatic decision in force, specifically *scoring* and behavioural systems;
 - In an adverse macroeconomic scenario, with a consequent increase in non performing loans, a strong focus was placed on the recoveries activity level, strengthening the intervention agility. To be emphasized is the activity carried out in the massive management recoveries whilst keeping, at the same time, a permanent follow up of special cases and judicial or extra judicial procedures;
 - A policy was also maintained for the strengthening of negotiation procedures, aiming to obtain donations in lieu of payment as an alternative to judicial court actions;
 - Emphasis, as well, on the modernization of the recoveries area, based, on the one hand, in computer developments surgically indicated by the users as necessary and that aim to control the process from entering recoveries, relations with attorneys and executive actions and, on the other, in a change in working methodology with the optimization of the several processes. The objective is to stress the model, increasing the efficiency of recourses and the effectiveness of the actions that will allow anticipating the recovery of the credit;
 - At solvency and credit control level, permanent attention was kept on knowledge of the portfolio, aiming towards a strict control of the inherent risk, endeavouring to provide adequate and timely management information, in order to allow that measures are taken to avoid operations to become non performing and to resolve non performing loans;

- Focus was equally maintained on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB), for the purpose of calculation of equity fund requirements, as well as in their more than ever inclusion in management.

Risk model

Introduction to the treatment of credit risk

Credit risk arises from the possibility of losses derived from total or partial non performance of the financial liabilities contracted with the Bank by its customers.

The organization of the credit risk function in Santander Totta is specialized in line with customer types and is differentiated, throughout all the risk management process, between customers in portfolio and standardized customers (not in portfolio):

- Customers within the portfolio are those that, fundamentally due to the risk assumed, have been attributed a risk analyst. Included in this group are companies comprised in wholesale banking groups, financial institutions and some of the companies comprised in retail banking groups. Risk assessment of these customers is carried out by the analyst, complemented by decision supporting tools based on internal models of risk evaluation;
- Standardized customers are those that have not been assigned a specific risk analyst. Included in this group are risks with private customers, self employed entrepreneurs, and the companies comprised in retail banking groups that are not included in the portfolio. Assessment of these risks is based on internal evaluation models and automatic decision, subsidiarily complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Rating/scoring tools

Santander Totta uses its own models for attributing solvency classification or internal ratings, for the different customer segments, to measure the credit capacity of a customer or a transaction, each rating corresponding to a non performing probability.

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

In the case of companies and institutions comprised in retail banking groups, the ascribing of a rating is based on the same modules as those referred above, in this case quantitative or automatic (analysing the credit behaviour of a sample of customers and its correlation with a set of accounting data and ratios), and qualitative, in line with the analysis of the risk analyst, whose duty is to carry out a final revision of the rating attributed.

Attributed ratings are periodically revised, incorporating any new financial information that has meanwhile become available as well as, qualitatively, the experience deriving from the existing credit relationship. This periodicity increases in case of customers for which the internal alert systems and risk classification so demand.

For the portfolios of standardized risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented that automatically attribute an evaluation/decision of the operations submitted. These decision tools are complemented with a behavioural scoring model, a device that allows a greater predictability of the assumed risks and which is used both in the pre-sale and in the sale period.

Credit risk parameters

The evaluation of a customer and/or operation, through rating or scoring, is an assessment of credit capacity, which is quantified through the probability of default (PD). In addition to the evaluation of the customer, the quantitative risk analysis carries other features such as the period of the operation, the type of product and the existing guarantees. As such what is taken into account is not just the probability that the customer may not comply with his contractual obligations (PD) but the exposure at default (EAD) as well as the percentage EAD that may not be recovered (loss given default or LGD).

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or of the unexpected loss.

Their combining allows estimating the expected loss (or probable loss), which is considered as a further activity cost (reflecting the risk premium), with this cost duly included in the price of the operations.

It also allows estimating the unexpected loss, which is the basis for estimating the regulatory capital in line with the standards of the Basle capital agreements (BIS II). This unexpected loss is related to a very high loss level, although not very probable, and which, attending to its nature, cannot be considered as recurrent and should thus be covered by equity values.

In the small and medium sized enterprises, the information obtained from their accounts is used not just

to ascribe a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into delay, correlating these with the scoring attributed to the operations. Excepted are the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or assessments made by agencies with recognized experience and skill, with a portfolio containing a sufficient number of bodies (these portfolios are known as low default portfolio).

LGD estimates are based on the observation of the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the time when the same are produced and the indirect expenses that derive from the recovery activity.

EAD estimates are based on the comparison of the use of the committed lines at the time of default and in a normal situation, in order to identify the real consumption of the lines at the time of default.

The estimated parameters are immediately ascribed to operations that are normally under way and will be differentiated between low default portfolios and the remainder.

Credit risk cycle

The risk management process consists in identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred in the Banks' operations.

This process is initiated in the business areas, which propose a given tendency to risk: These risks are analysed and decided in special committees, which act through remits delegated by the Executive Committee of the Higher Credit Council (CSC). The CSC establishes risk policies and procedures and the limits and delegation of powers.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic process that identifies the risk profiles that the Bank is willing to assume through the assessment of the business proposals and the opinion of the Risks area.

With respect to the large corporate groups a pre-classification model is used based upon a measurement system and the sequence of economic capital.

With respect to portfolio risks, the more basic level is that of the customer and when certain features concur - generally at a level of relative importance - the portfolio is

the object on an individual limitation, usually named as pre-classification, through a simpler system and normally for those customers that comply with determined requisites (well known, rating, etc.).

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

Risk assessment, decision on operations, follow up and control

Risk assessment is a requisite prior to authority being given for any credit operation in Santander Totta. This assessment consists in analysing the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its solvency and its profitability. Additionally, an assessment and revision of the rating is also carried out whenever an alert or event appears that may affect the customer and/or the operation.

The decision process on operations is intended to analyse these and to take the respective decision, considering the risk profile and the relevant components of the operation in determining a balance between risk and profitability.

In order to keep adequate control of the portfolio's credit quality, apart from the actions developed by the Internal Audit, the specific follow up function, made up by teams and responsible officers, is established within the Risks area. This function is also specialized in line with customer segmentation and is fundamentally based upon a continuous observation process that allows the prior detection of incidences that may occur in the evolution of the risk, of the operations and of the customer, with the objective to previously carry out the actions intended to mitigate such incidences.

Recoveries

Recoveries management in Santander Totta is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are the following:

- Ensure the collection or regularize values in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated position not be possible, recovery of credits will then be processed through the courts of law;
- Maintain and strengthen the relations with the customer, safeguarding his department within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation and with specific management models, and is composed of several stages: preventive management, management of irregular situations and management of delays and bankruptcies. All this activity is shared with the business areas.

Counterparty Risk

Counterparty risk, dormant in contracts carried out in financial markets – organized markets or over the counter (OTC) – corresponds to the possibility of default by the counterparties over the contractual terms and subsequent occurrence of financial losses for the institution.

Types of transactions comprised include the purchase and sale of securities, operations in the interbank monetary market, contracting of "repos", loans of securities and derivative instruments.

Control of such risks is carried out through an integrated system that allows recording the approved limits and provides information on their availability for different

products and maturities. The same system also allows the transversal control of risk concentration for certain groups of customers and/or counterparties.

Risks in derivative positions, known as Credit Risk Equivalent (REC), is the sum total of the Present Value of each contract (or Current Replacement Cost) and the respective Risk Potential, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

In 2012, the movement in the Euro interest rates determined an increase in the present value of the operations contracted with the same indexing factors, whilst the volume of new operations was kept in line with what was recorded in the previous year (2011). Relative to the exposure with Financial Groups, a reduction trend was maintained, as well as risk coverage through collateral providing agreements (ISDA Master Agreements/Credit Support Annex).

Derivatives - Credit Risk Equivalent as of 31/12/2012 (10³ Euros)

Total Consolidated					
	<1 Year	1-5 Years	5-10 Years	>10 Years	Total
Interest Rate Derivatives	130,369	112,299	961,615	1,153,976	2,358,258
Foreign Exchange Derivatives	5,576	0	68,016	0	73,593
Equity Derivatives	1,579	0	0	0	1,579
Total	137,524	112,299	1,029,631	1,153,976	2,433,430

Market Risks

Activities subject to market risk

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

As a function of the risk objectives, activities are segmented as follows:

- **Negotiation:** This heading includes the activity of financial service to customers;
- **Balance Sheet Management:** Interest rate and liquidity risk arises as a result from the timing differentials existing in maturities and re-pricing of assets and liabilities. Additionally, the active management of the credit risk inherent to Santander Totta's banking activity.

• Structural Risks:

- **Structural exchange rate risk:** exchange rate risk resulting from the currencies in which investments are carried out in companies that may or may not be consolidated;
- **Structural Variable Income:** comprised under this heading are investments in shareholdings in companies that may not be consolidated, financial or non financial, generating a variable income risk.

Negotiation Activity

The methodology applied in 2012, for the negotiation activity, is the Value at Risk (VaR). Used as a basis is the methodology of Historic Simulation with a 99% level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.

Stress Testing is used as a complement, consisting in the definition of behavioural scenarios of differing financial

variables and obtaining the respective impact on results when applying them on the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

Also estimated are several sensibility measures (BPV and Greeks) and equivalent volumes.

In parallel, a daily accompaniment of positions takes place, by carrying out an exhaustive control of the changes that occur in the portfolios, aiming to detect changes in profile or possible incidences for their correction. The daily preparation of the profit and loss account is a risk indicator, in the measure that it allows us to identify the impact of the movements in the financial variables or the changes in the make up of the portfolios.

Calibrations and contras measure (Backtesting)

The reliability of the VaR model is periodically checked through a backtesting analysis. Backtesting consists of a comparative analysis between the Value at Risk estimates and the daily "clean" trial balances (*clean P&L* - result related to the reassessment of the closing portfolios of the previous day at the closing prices of the following day), where the spot/sporadic variances of the recorded results compared to the estimated measures are analysed.

The backtesting analyses carried out in Santander Totta comply with the BIS recommendations, as regards the comparison of the internal systems used in the measurement and management of financial risks. Additionally, back-testing includes hypothetical tests: excess tests, normality tests, measures of average excess, etc.

Limits

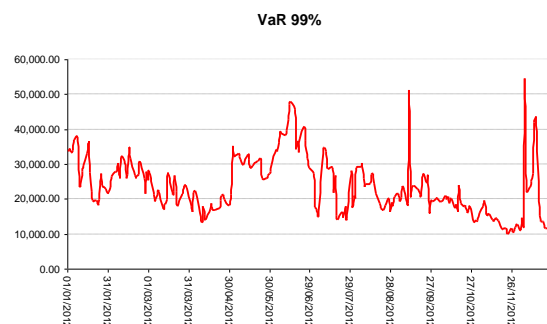
Quantitative limits for negotiation portfolios, which are classified in two groups, established in line with the following objectives:

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

will have reached unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR during the year

The evolution of the risk relative to negotiation activity during 2012, quantified through VaR was that described in the following chart:



VaR was kept at reduced levels, varying between 10,000 and 55,000 euros.

Balance Sheet Risk

The management of structural risk is ensured by a body in the first level of the Bank's organization and the decisions are taken by the Assets and Liabilities Committee (ALCO), presided over by the Chairman of the Executive Committee, and which comprises the directors responsible for the Financial, Risks, Commercial and Marketing areas. This Committee meets on a monthly basis.

Interest rate risk

The interest rate risk in the consolidated balance sheet is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variations of risk factors and the Bank's positions over assets and liabilities sensitive to interest rate variations. The model in use allows measuring and controlling the risk factors associated to the balance sheet market risks, namely the risks originating directly from the movement of the income curve, given the structure of the indexing factors and existing re-appreciation, which determine the exposure to interest rate risk of the balance sheet components.

Considering the uncertainty in the variation of interest rate levels in 2012, the policy followed was to keep sensitivity at the adequate levels.

Exchange rate risk

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

Liquidity risk

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

By keeping to a conservative profile, the Bank is better protected with respect to potential crises that affect its environment, thus providing extra time to prepare an adequate reaction.

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

Liquidity management is carried out at the consolidated level. The Group's financial policy takes into consideration the variations of the balance sheet components, the structural situations of the maturities of assets and

The management and control of operational risk is the responsibility of all the Bank's areas, since these have the better knowledge of the processes, as well as of those items that are susceptible to cause relevant exposures to operational risk, and are accompanied by a central area, responsible for the implementation and follow up of the project through control and supervision.

The different stages of the model of operational risk allow identifying, assessing and carrying out the following up of the operational risk of all the business lines and units, easing the taking of management decisions when allowing the effective establishment of priorities, as well as controlling and mitigating operational risks in all business lines and units, identifying and inhibiting all the risk focal points.

This model thus allows:

- An integrated and effective management of the operational risk (identification, assessment, prevention, control/mitigation, follow up and repo);
- Improve the knowledge of operational risks, both effective and potential, and their attribution to business lines;

liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenditure related to the funding activity.

The structural liquidity situation is fully balanced. In December 2012 the Bank presented an asset situation in the short term monetary market of approximately 500 million euros.

The capital market operated very irregularly throughout the year. In this context the ECB, by leading monetary policy assumed itself as the counterpart of the system through lending operations and absorbing liquidity. To take part in these operations it is necessary to hold assets considered eligible by the ECB to be given as collateral. In December 2012, the Bank held 11.77 billion euros in eligible assets that constitute a very comfortable liquidity reserve.

Operational Risk

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

- Improvement of procedures and controls and reduction of losses;
- Identifying the operational risk inherent to all the Bank's activities, products, processes and systems;
- The measurement and assessment of the operational risk objectively, continually and in coherence with the Basle II standards and the definition of the objectives and analysis of the risk profile;
- Carrying out a continuous follow up of exposures to operational risk with the objective to detect risk levels that have not been assumed;
- Implementation of control procedures, improving the knowledge of the causes of operational risks as well as the respective implications;
- Establishing mitigation measures that eliminate or minimize operational risks.

In the 1st half year of 2012, the Bank of Portugal authorized the adoption of the Standard method for the purposes of estimating equity requisites to cover operational risks.

Reputation Risk

Reputation risk is understood to be the occurrence of negative financial impacts for the institution affecting the

results or even its share capital, resulting from an unfavourable perception of its public image, whether proven or not, from customers, suppliers, analysts, employees, investors, media and any other bodies with which the institution may be related, or even by public opinion in general.

The reputation risk policy targets its management, such as defined in the above paragraph, determining the devices and procedures that allow: i) to minimize the probability that it materializes; ii) to identify, report to the Board and overcome the situations that may have arisen; iii) to ensure follow up and control; iv) to provide evidence, if necessary, that the Bank has reputation risk amongst its main concerns and has available the organization and means required for its prevention and, should it be the case, to overcome it.

Without prejudice to all the remaining features that derive from the above, the global policy with respect to reputation risk covers, specifically, the tools identified below that are referred due to their particular impact in the prevention and management of the risk:

- Corporate values;
- Compliance policy;
- Prevention of money laundering and of financing terrorism;
- Department codes;
- Marketing policies and product follow up;
- Financial risks policy;
- Quality policy;
- Social responsibility and environmental defence policies.

Proposal for the Application of Results

Net Income for the Year, in individual terms and referring to 2012, was negative at € 9,179,589.40 (nine million, one hundred and seventy nine thousand, five hundred and eighty nine euros and forty cents) and the Consolidated Net Income for 2012 was € 88,067,821 (eighty eight million, sixty seven thousand, eight hundred and twenty one euros)

As such, the Board of Directors proposes that the following distribution be approved by the General Meeting:

1. Transfer of the negative Net Income of € 9,179,589.40 (nine million, one hundred and seventy nine thousand, five hundred and eighty nine euros and forty cents) to Income Carried Forward.

Lisbon, 22 February 2013

THE BOARD OF DIRECTORS

Prevention of Money Laundering

Santander Totta develops its business activity following policies and applying criteria for the prevention of money laundering and of financing terrorism, in line with the legislation in force.

The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively directed towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Institutional Issues, and the staff trained and regularly updated in this issue in order to detect eventual risk situations and communicate with the competent body, has available computer applications to monitor atypical movements, to assess transactions that fit into risk typologies and to bring into prominence high risk customers, with a view for eventual communication to the Authorities. The system is audited annually.

Units headquartered abroad are followed up by the head office central structure through visits or centralized control. Compliance testing is carried out by systems for prevention and control of money laundering and of financing terrorism. These units apply the procedures determined by the Bank or by the legal regulations of the countries in which they operate, should the latter be more demanding.

Complying with the determinations of the Bank of Portugal's Memorandum No. 9/2012, Santander Totta prepared the corresponding Report on Prevention of Money Laundering and of Financing Terrorism relative to the period from 1 June 2011 to 31 May 2012 which, once approved by the Board of Directors was forwarded to the Bank of Portugal.

Shareholder Structure

Accionista	Nº ações	%
Santander Totta, S.G.P.S., S.A.	641.269.620	97,65
TaxaGest - Sociedade Gestora de Participações Sociais, S.A.	14.593.315	2,22

Adoption of the recommendations of the *Financial Stability Forum* and of the *Committee of European Banking Supervisors (CEBS)* relative to the transparency of information and valuing of assets

In order to comply with the recommendation of the Bank of Portugal through circular letter No. 97/08/DSBDR dated 3 December 2009, the replies requested by the questionnaire were as follows:

I. Business Model		
1.	Description of the business model (i.e., reasons for the development of the activities/business and respective contribution towards the process of creation of value and, if applicable, the alterations carried out (e.g. as a result of the period of turbulence);	See Report and Accounts - Chapter: - Business areas.
2.	Description of the strategies and objectives (including the strategies and objectives specifically related to carrying out securitization operations and with structured products);	See Report and Accounts - Chapters: - Business areas; - Risk management. See Attachment to Consolidated FS's -Notes 11, 21 and 44.
3.	Description of the importance of the activities carried out and respective contribution towards the Business (including approach in quantitative terms);	See Report and Accounts - Chapters: - Business areas; - Business support areas; - Economic and Financial Information. See Attachment to Consolidated FS's -Notes 3 and 26.
4.	Description of the type of activities developed, including the description of the instruments used, and the operation and qualification criteria that products/investments must comply with;	See Report and Accounts - Chapter: - Business areas. See Attachment to Consolidated FS's -Notes 1, 3 e) and f).
5.	Description of the objective and range of the institution's involvement (i.e. commitments and liabilities assumed), relative to each activity developed.	See Report and Accounts - Chapter: - Business areas.
II. Risks and Risk Management		
6.	Description of the nature and range of the risks incurred relating to activities developed and instruments used	See Report and Accounts - Chapter: - Risk management. See Attachment to Consolidated FS's – Note 47 – disclosure of the management policies over the financial instruments inherent to the Group's activity and their monitoring.
7.	Description of the practices in risk management (particularly including the liquidity risk in the current environment) relevant to the activities and the corrective measures adopted, description of any weaknesses identified and the corrective measures adopted;	See item 6 above.

III. Impact of the Period of Financial Turbulence on Results		
8.	Qualitative and quantitative description of the results with emphasis on losses (where applicable) and impact of the write-downs on results;	N.A.
9.	Breakdown of write-downs/losses per type of products and instruments affected by the turbulence period such as the following: commercial mortgage backed securities (CMBS), residential mortgage backed securities (RMBS), collateralised debt obligations (CDO), asset-backed securities (ABS);	N.A.
10.	Description of the motives and factors responsible for the impacts suffered;	N.A.
11.	Comparison of: i) impacts between (relevant) periods and ii) financial statements before and after the impact of the turbulence period;	N.A.
12.	Breakdown of write-downs between amounts realised and not realised;	N.A.
13.	Description of the influence of the financial turbulence in the prices quoted for the unit's shares;	N.A.
14.	Disclosure of the risk of maximum loss and disclosure of how the institution's situation may be affected by the extension or the worsening of the turbulence period or by the market's recovery;	See Report and Accounts - Chapters: - Economic and financial information; - Risk management. See Attachment to Consolidated FS's - Note 47.
15.	Disclosure of the impact that the variations to the spreads, related to the institutions main liabilities, had on the results, as well as the methods used to determine this impact;	See Report and Accounts - Chapter: - Economic and financial information. Liabilities deriving from issues of the Santander Totta Group are recorded at the amortized cost .

IV. Levels and Types of Exposures Affected by the Turbulence Period

16.	Nominal value (or amortized cost) and fair value of the "live" exposures";	See Report and Accounts - Chapter: - Risk management. See Attachment to Consolidated FS's – Notes 1.3 e) and f) and 47.
17.	Information on credit risk mitigating factors (e.g. via credit default swaps) and the respective effect on existing exposures	See Attachment to Consolidated FS's – Notes 1.3 f), 7, 12 and 47.
18.	Detailed disclosure, broken down by: - Seniority level of exposures/tranches held; - Level of credit quality (e.g. ratings, vintages) - Original geographic area; - Sector of activity; - Origin of exposures (issued, held or acquired); - Product features: e.g. ratings, weight/part of sub-prime associated assets, discount rates, spreads, financing; - Features of underlying assets: e.g. vintages, "loan-to-value" ratio, credit privileges, weighted average life of underlying assets, variation assumptions of pre-payment situations, expected losses.	See Attachment to Consolidated FS's – Notes 3, 11, and 47.
19.	Movements occurred in exposures between relevant reporting periods and underlying reasons for such variations (sales, write-downs, acquisitions, etc.)	N.A.
20.	Explanations concerning exposures (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognized during the crisis) and the related reasons;	N.A.
21.	Exposure to "monoline" insurers and quality of the insured assets: - Nominal value (or amortized cost) of the insured exposures as well as the amount of protection of the acquired credit; - Fair value of the "live" exposures, as well as the respective protection of the acquired credit; - Value of "write-downs" and losses, broken down between realised and non realised amounts; - Breakdown of exposures per rating or counterparty;	Santander Totta Group has no exposures to "monoline" insurers.