2014

Annual Report
Banco Santander Totta, SA

PROPOSAL

Santander Totta

MAIN INDICATORS

BALANCE SHEET AND RESULTS (million euro)	2014	2013 Proforma	2014/2013	2012
Net Assets	**38,860**	38,811	+0.1%	38,527
Net Loans	**25,523**	26,108	-2.2%	26,980
Customers' Resources	**26,841**	26,078	+2.9%	27,346
Own Funds + Minority Interests + Subordinated Liabilities	**2,963**	2,500	+18.5%	2,329
Net Interest Income (excludind dividends)	**543.5**	507.3	+7.2%	541.5
Fees and Other Income	**262.6**	290.0	-9.5%	318.0
Operating Income	**895.0**	829.9	+7.8%	987.1
Net Operating Income	**407.8**	363.4	+12.2%	528.1
Income Before Taxes & Minority Interests	**235.0**	133.5	+76.0%	73.4
Net Income	**165.2**	89.2	+85.2%	88.1

RATIOS	2014	2013	2014/2013	2012
ROE	**8.5%**	5.1%	+3.5 p.p.	6.4%
ROA	**0.4%**	0.2%	+0.2 p.p.	0.2%
Efficiency Ratio (including depreciation)	**54.4%**	56.2%	-1.8 p.p.	46.5%
CET I Ratio*	**13.0%**	11.3%	+1.7 p.p.	n.a.
Tier I* Ratio	**15.3%**	13.0%	+2.3 p.p.	n.a.
Total Capital* ratio	**15.3%**	13.0%	+2.3 p.p.	n.a.
NPL and Doubtful Loans Ratio	**4.2%**	3.8%	+0.5 p.p.	3.5%
Credit at Risk Ratio	**5.7%**	5.9%	-0.1 p.p.	4.3%
Restructured Loans/Total Loans	**9.4%**	8.7%	+0.8 p.p.	7.0%
Restructured Loans not included in Credito at Risk/Total Loans	**6.8%**	5.4%	+1 p.p.	n.a.
NPL and Doubtful Loans Coverage Ratio	**102.5%**	104.7%	-2.1 p.p.	97.4%
Credit at Risk Coverage Ratio	**75.9%**	67.7%	+8.2 p.p.	79.7%
Loan-to-Deposit Ratio**	**116.0%**	125.3%	-9.3 p.p.	126.6%

RATING	2014	2013	2012
FitchRatings			
short term	**F2**	F3	F3
long term	**BBB**	BBB-	BBB-
Moody´s			
short term	**NP**	NP	NP
long term	**Ba1**	Ba1	Ba1
Standard & Poor´s			
short term	**B**	B	B
long term	**BB**	BB	BB
DBRS			
short term	**R-1L**	R-1L	R-1L
long term	**BBBH**	BBBH	BBBH

Other Data	2014	2013	2014/2013	2012
Employees	**5,328**	5,572	-244	5,663
Employees in Portugal	**5,281**	5,523	-242	5,613
Branches	**594**	640	-46	667
Total Branches and Corporate Centers in Portugal	**579**	625	-46	652

* With results net of payout

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

Note: In 2013, there was a reclassification to liabilities (representative capital instruments) of minority interests in mutual funds consolidated by the global integration method. As a result, the P&L minority interests were registered in "Other Banking Results".

"We aspire to be the best Commercial Bank that retains the trust and loyalty of our Customers, Employees, Shareholders and Society and that grows in market share.

With this purpose in mind, we want the Bank to be Simple, Personal and Fair for all our Stakeholders."

2014 was another troubled year for the Portuguese economy and particularly for the Portuguese financial industry. The new regulatory measures, the digital transformation, the abrupt reduction of interest rates and the lack of growth of the country's economic activity implied a loss of revenue in most banks, a considerable need for investment and higher levels of provisions. Consequently, the financial industry, as a whole, recorded relevant losses.

In spite of this scenario, Banco Santander Totta reached, in 2014, a net income amounting to 165.2 million euros, an 85.2% growth relative to the amount recorded in the previous year. We kept our capital ratios at comfortable levels, CET I ratio standing at 13.0% and Tier I ratio at 15.3%.

Attaining such good results is owed above all to three factors:

- A business model based on retail commercial banking focused on the Customer and a strict management of the net interest income;
- Prudent risk management and permanent search for an improved efficiency through digital innovation and cost discipline;
- A well prepared and motivated team of professionals.

The digital stake was and will continue to be a priority. We developed a multichannel transformation plan, with the ambition to boost the aptness with which the Bank relates with its Customers. I emphasize the launching of the new process of opening a digital account through a *tablet*, which allows to decrease the time spent and to improve the quality of the recorded information, whilst also strengthening the rigour, the regulatory compliance and the security of the whole process.

To better correspond to Customers' requirements, several innovating solutions were launched which placed Santander Totta as a reference Bank regarding Customer proximity, in which stands out:

- In the Individuals area, the ***Santander Select*** which is a mode of differentiated treatment for affluent **Customers***;*
- **Mundo 1 2 3**, launched early 2015, is a solution intended for the *mid* and *mass market*; in the Corporate segment;
- ***Santander Advance***, which provides highly innovative financial and non-financial solutions.

2014 was also the year in which we started the construction of the **new building**, where all service departments will be centralized, built in line with the best environmental practices and which deals with new and improved services common to all our Employees.

Through **Santander Universities**, we continued strengthening our support for an higher education, which is, more than ever, our focus in Social Responsibility policy.

I would like to share with all our Employees and Customers, the distinctions we have received once again, in 2014, as "Best Bank" by the most diverse international magazines, and our election, for the first time, as "2015 Customer Choice", in the category of Large Banks, an assessment by consumers which reflects the work of our teams and the recognition of our Customers.

For 2015, we aspire to be the best Commercial Bank that retains the trust and loyalty of our Customers, Employees, Shareholders and Society, while growing in market share. With this purpose in mind we want the Bank to be Simple, Personal and Fair for all our Stakeholders.

António Vieira Monteiro
Executive Chairman of Santander Totta

BANCO SANTANDER TOTTA, S.A.

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António Maria Pinto Leite
Secretary	Luís Manuel Baptista Figueiredo

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Members	Carlos Manuel Amaral de Pinho
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	José Manuel Alves Elias da Costa
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	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
Alternate Member	Pedro Manuel Alves Ferreira Guerra

Auditors

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

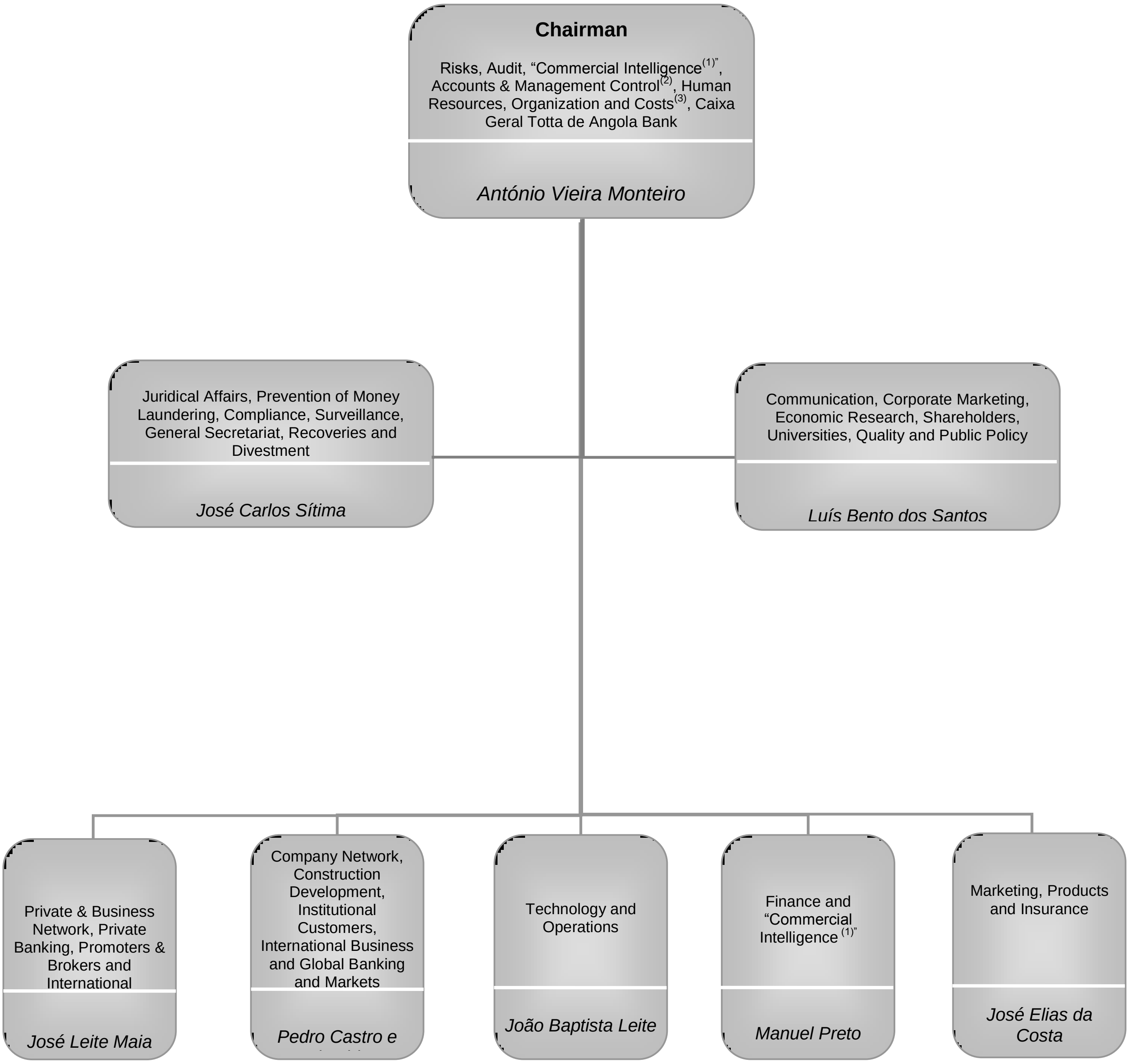
Executive Committee

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

Company Secretary

Effective	Luís Manuel Baptista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

Executive Committee Functional Organization Chart



(1) In the area of "Commercial Intelligence", the Chairman is assisted by Dr. Manuel Preto

(2) The Accounts and Management Control area is headed by Dr. Ignácio Centenera, Aggregate Manager to the Executive Committee

(3) The Human Resources, Organization and Costs area is headed by Dr. Nuno Frias Costa, Aggregate Manager to the Executive Committee

Prizes awarded in 2014

Best Bank in Portugal
Euromoney

Best Bank in Portugal
Global Finance

Bank of the Year in Portugal
The Banker

Best Banking Group in Portugal
World Finance

Best Private Banking Services Overall 2014
Euromoney

2015 Consumer Choice

Other recognitions

Most Profitable Large Bank *(ex aequo)* – *Exame*

Best *Private Banking* – *Euromoney*
In the following service categories: “Customer Relations Management”, “Scope of Investment Products”, “Scope of Consultancy Services”, “Family Office Services”, “Corporate Consultancy”, “Best Bank in the Super Affluent segments (US$ 500,000 – 1,000,000), High Net Worth I (US$1,000,000 – 10,000,000), High Net Worth II (US$10,000,000 – 30,000,000) and Ultra High Net Worth (in excess of US$30,000,000)”

Safest Bank in Portugal in 2014 – *Global Finance*

Best Sales in Portugal, *Structured Products Awards 2014 – Structuredretailproducts.com*

***Best Foreign Exchange Provider* in 2014 in Portugal** – *Global Finance*

Best Financial Broker with the highest placing of company bonds – *NYSE Euronext*

Best *Contact Centre* in the Banking Sector in 2014 – *APCC*

EDP Prize for Electric Power and Environment – *EDP*
In the category “Services and Other Activities (Annual Consumption >1.25 Gwh)”

“For a World with Better Fitness” Prizes– *GYM Factory*
In the category “For the development of organizational success through the promotion of healthy life styles with employees and their families”

Other relevant facts in 2014

January

- António Sampaio da Nóvoa wins the Coimbra University Prize

February

- *Euromoney* Magazine elects Santander Totta *Private Banking* as the best in Portugal
- Santander Totta launches *Select,* the new business model to deal with affluent customers
- Santander Totta launches debit cards with free withdrawals in more than 30,000 ATM’s worldwide
- João Lobo Antunes is awarded the Lisbon University Prize

March

- Moody’s reasserts the rating of Santander Totta
- Santander Totta supports the first innovation centre in Portugal of Social and Human Sciences
- Lisbon University 2014 Prize awarded to Professor Adriano Moreira
- Santander Totta issues 3 year mortgage bonds with a spread of 88bp

April

- *Global Finance* Magazine distinguishes Santander Totta as the “Best Bank in Portugal”
- Santander Totta supports the UNESCO Chair in Évora University
- Students design the Formula One trophy
- “The Next Big Idea – Undergraduates” is launched in Lisbon University Engineering School (IST)
- “The Impact of the Economic Crisis on Medical Physicians in Portugal” and “The River Tagus Cultural Landscape” projects win Research Prizes awarded by Santander Totta and UNL (Lisbon Nova University)

RELEVANT FACTS AND PRIZES AWARDED IN 2014

May

- Banco Santander Totta organizes conferences on entering the labour market
- Santander Totta launches "Home Solutions" for customers who wish to buy, exchange or refurbish their homes
- "We Are Santander" Week promotes collaboration, cooperation and team work
- 700 undergraduates from Oporto University have already crossed the Atlantic Ocean under the Santander Universities programme

June

- Santander Totta issues 5 year mortgage bonds
- Santander Totta invests 5.5 million in 2013 sustainability projects
- Economy Student from NOVA University is awarded *Primus Inter Pares* Prize

July

- Santander launches a passport for companies to travel worldwide
- Euromoney elects Santander Totta as "Best Bank in Portugal"
- Banco Santander presents the new trophy for the 2014 United Kingdom and Germany Formula One GP
- III International Meeting of Universia Chancellors designates Rio de Janeiro as the world capital of higher education
- Santander and Telefónica launch the Miríada X higher education platform, the world's most important in Spanish and Portuguese
- Emilio Botín: Banco Santander will allocate 700 million euros for university projects until 2018

September

- Ana Botín unanimously appointed as Chairman of Banco Santander

October

- Santander is distinguished as the "Greenest Bank in the World"
- Latin America House and Santander Totta reward PhD students
- Santander Totta launches 1,500 paid scholarships in SMEs
- Santander Totta receives prizes as "Best Bank in Portugal" and "Safest Bank in Portugal"
- Adriano Moreira is awarded the Lisbon University Prize
- Nova University hosts the XV Meeting of Chancellors of the Tordesillas Group
- EIB and Banco Santander Totta: 400 million euros for SMEs and companies with medium sized capitalization
- Idea Puzzle Santander Universities Prize awarded to Coimbra University researcher
- Santander Advance: a differentiating support programme for Portuguese companies

November

- Spin 2014 – Portuguese project wins entrepreneurship prize in Mexico
- Santander Totta is awarded the "Consumer Choice 2015"

December

- Santander Totta is "Bank of the Year in Portugal"
- Ana Botín presents Universia Rio 2014 Charter
- DBRS alters *outlook* of the Banco Santander Totta debt *rating* from negative to stable
- Latin America House and Santander Totta award scientific prize to PhD students
- Santander Totta launches swift account opening system with *tablet*

At the heart of our culture we believe that, wherever we operate, everything we do should be **Simple**, **Personal** and **Fair**

Santander's purpose, aim and culture:

"These strong foundations give us a unique opportunity to grow. We can only do this with **a team that fulfils Santander's purpose, understands its aim and lives by its values**.

Santander's purpose is to help people and businesses prosper.

Back in 1857, the founders of Santander wanted to finance trade between Spain and Latin America that generated jobs and prosperity in both continents. Today, our role is obviously broader but the outcome of our efforts is the same.

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

I am convinced that the only way to achieve such aim is by having the best possible relationships with our team, our customers, our shareholders and the communities we serve. And the most precious asset in this relationship is loyalty:

- A loyal team is one that feels motivated, engaged and rewarded to go the extra mile for customers.
- When our customers get excellent service and can see we are addressing their personal needs, their loyalty to us will grow.
- When that happens, our return and value will also grow – securing loyal shareholders who will invest more in us.
- This, in turn, allows us to do more to support our local communities, generating loyalty to us and strengthening our team's pride in the business.

And then this virtuous circle will begin again.

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair

We have picked these three words because, together, they reflect what our teams and our customers around the world tell us they want from a bank.

A **simple** bank offers its customers a service that is convenient and products that are easy to understand however and whenever they choose the bank. It makes its processes better every day, so they are easy and clear for customers and its team.

A **personal** bank treats its customers as valued individuals, providing a professional, personal service they can trust. It supports colleagues to develop their skills and achieve their ambitions.

A **fair** bank treats people as they like to be treated – and it earns investors an adequate and sustainable return, while contributing its share to help communities."

Message from Ana Botín –2014 Annual Report

Introduction

Santander Totta develops a social responsibility policy aligned with the Santander Group, and has as its main fulcrum the support of education, the promotion of knowledge, merit and entrepreneurialism, especially in Higher Education, through the cooperation agreements it maintains with Portuguese Universities and Polytechnic Institutions.

The Bank is also dynamically active: (1) in the area of social solidarity, through supporting several social projects and with the participation of employees that volunteer in initiatives with social features; (2) in the environmental area, through the adoption and promotion of measures to combat climatic change, waste reduction and sustainable development; and (3) in the culture area, through the support to initiatives and patronage of the arts. The promotion of health and well-being and of sports is equally important in areas comprised in the social responsibility policy.

In 2014, the total investment in Portugal in activities directly related with corporate social responsibility amounted to approximately 5.6 million euros, a slight increase over the previous year.

Social Investment

Universities

Currently, Banco Santander Totta is running 46 cooperation agreements with Higher Education Institutions in Portugal. In 2014, the Bank continued to reinforce relationships with Portuguese Universities and Polytechnic institutions, consolidating existing partnerships and initiating new collaboration agreements.

Within the scope of partnerships with Universities, several initiatives were carried out, by awarding prizes for scientific and academic merit, scholarships and mobility scholarships under the Programme for International Mobility Scholarships (Luso-Brazilian and Iberian-American for students, and Iberian-American for lecturers and researchers) which allowed more than 170 students, lecturers and researchers to enjoy an experience in mobility.

Programme of Training Scholarships in SME's

With the objective to promote and increase employment for Portuguese graduates, the Bank launched the Santander Universities Programme of Training Scholarships, through which 1,500 training scholarships will be awarded to final year students during the next three years.

Training scholarships last for a three month period are worth 1,650 euros each (550 euros per month) and will take place in small and medium sized Portuguese companies. The programme will imply a global investment by the Bank of 2.5 million euros over three years.

With this programme, Santander Totta intends to provide students with a complement of their higher academic training through training periods in companies while allowing the same companies to have access to a trainee with higher education at no cost. This programme also aims to promote the University – Company bond and to reinforce the Bank's commitment with the Higher Education Institutions and the development of the Portuguese society.

Programme for International Mobility Scholarships

More than 170 international mobility scholarships were available in 2014, under the Luso-Brazilian and Iberian-American Programme of Mobility Scholarships.

Established in 2007 by Santander Totta, more than 700 students have crossed the Atlantic Ocean under the Mobility Programme to continue their studies in a different country. Throughout these seven years of the Santander Universities mobility programmes, the approximately 700 students that took part in the programme connecting Oporto University with approximately one hundred Iberian-American Higher Education Institutions, especially in Brazil and Argentine, but also in Spain, Chile or Mexico. From Portugal there were 231 students, whilst 445 South American youngsters made the reverse trip as scholars in this programme.

Prizes and Scholarships

In 2014, the Bank awarded 54 prizes for scientific and academic merit and support for entrepreneurialism, and 202 scholarships and social education aids, of which the following stand out:

- Santander Totta/UNL (Lisbon Nova University) Research Prize;
- Lisbon University/Santander Totta Prize;
- Coimbra University/Santander Totta Prize;
- Prize for Economic Journalism (PEJ) Lisbon Nova University/Santander Totta;
- *Primus Inter Pares* Prize;
- Latin American / Santander Totta Scientific Prize;
- Oporto Polytechnic awarded 75 research scholarships with the support of Santander Totta.

Support for Entrepreneurialism

Throughout the year, Santander Totta in association with other institutions endorsed a series of initiatives to further entrepreneurialism and job creation, amongst which stand out:

- RedEmprendia Spin2014 Competition (one of the winners was the *WeTruck* project, a solution of electrical mobility to be applied in refrigerated cargo transport vehicles);
- Santander Universities Idea Puzzle Prize (in a partnership with Idea Puzzle, Santander Totta awarded, for the third consecutive year, the prize for the best PhD research design with Idea Puzzle software);
- Poliempreende National Competition (competition of ideas and projects of entrepreneurial ideas in polytechnic higher education);
- The Next Big Idea - University Special (prize for the best ideas on development in higher education institutions); Santander *Young Leaders* (Santander Universities, jointly with Santander Private Banking, launched Santander Young Leaders, a reflexion and networking group amongst youngsters with high potential);
- Support for the UNESCO Chair in Évora University (Banco Santander Totta and Évora University entered into an agreement through which the Bank will support the UNESCO Chair on Intangible Cultural Heritage and Traditional Know-How in Évora University).

Support for Higher Education infrastructure

- **Support for the first Innovation Centre in Portugal for Social and Human Sciences**

The Innovation Centre, where Santander Totta is a partner, intends to provide support for students and researchers in the development of business ideas and in the creation of scientifically based private companies or cooperative societies, which may attract investment and generate highly qualified employment. The Centre will also promote the transfer of knowledge between the Faculty's research units and the Market.

- **Support for the construction of the Nova SBE new campus**

Santander Totta will provide support for the construction of the new campus for the Nova School of Business and Economics (Nova SBE), as a founding partner. This is a strategic project, not just for Higher Education in Portugal, but also for the positioning and internationalization of Portugal.

Meetings

- **III Chancellors Universia Meting**

The III Chancellors International Meeting was held in Rio de Janeiro, where Santander assumed the commitment to allocate 700 million euros for university projects for the next four years. Of this amount, 40% will be destined to access scholarships for national and international mobility of students and lecturers, 30% to develop university research, innovation and entrepreneurialism and the remaining 30% to support academic projects and initiatives intended to modernize and incorporate new technologies at the university.

- **XV Meeting of the Tordesillas Group Chancellors**

This meeting of the Tordesillas Group was held in Lisbon. The Group comprises 58 universities from Brazil, Spain and Portugal and relies upon Santander support for the development of diverse projects.

Universia Portugal

The new Universia strategic plan is focused towards two main initiatives: academic projects related with the disclosure of knowledge and with the approach between university and company which includes academic publications, reports and assessments, MOOC's, open innovation, amongst others; and the university services that promote: employment and professional training courses for students and recent graduates; entrepreneurial training through the link with the university and also online marketing actions specifically guided towards Iberian-American youngsters.

Employment

- **Working network**

2014 was a consolidation year for the Working network in Portugal, with the launching of 7 new sites in Higher Education institutions, joining the 13 university sites which were launched in 2013 and the 5 corporate sites comprised in this professional network.

With this project, the universities achieved management platforms for professional insertion (the majority had none), which allows them to manage the students' CVs, exclusive job offers to the institution and also job offers shared by all the sites comprised in the network.

- **Jumping Talent – University talent competition**

The 1st edition of Jumping Talent was held with the presence of 60 Portuguese undergraduates, who were required to show their capabilities before the leaders of the 7 participating companies, amongst them Santander Totta.

Support for the Community and the Environment

Voluntary work and employee involvement

Santander Totta supports several social projects and employee involvement activities, of which the following stand out:

- Voluntary Day - Open Day (action carried out in all the countries where the Santander Group is present);
- Cultiv'art Project (it's objective is to provide answers to issues of urban hygiene and low employment of the resident population in Quinta do Cabrinha, Alcântara (Lisbon);
- BIPP 2014 Christmas Fair (BIPP is a private social solidarity institution that aims for the full inclusion in society of persons with special needs);
- Solidarity Corner (an area within the Bank's facilities, dedicated to the promotion of social solidarity projects and initiatives);
- Santander Totta Mini Marathon (more than 800 Bank employees and members of their families took part in the Oporto half and mini marathon competitions that were supported by Santander Totta);
- Walking & Running Initiative (Santander Totta supported D. Estefânia Hospital in the purchase of equipment for the Physical and Rehabilitation Facility, donating the total sum with which employees registered in this initiative);
- Food collection (the solidarity challenge of the "We Are Santander" Week was food collection in all the countries where the Santander Group is represented. Food collected in Portugal amounted to 2,710 kilos, that were donated to the "Acreditar" Institution);
- Solidarity Basket (the Human Resources Department developed this initiative through which were collected, in branches and central departments, non-perishable foods, new school material, new toys, as well as bonnets, scarves and gloves for aged people, all of which will be donated to a local institution).

Social Action

- **"Universia Capacitas Foundation Scholarships"**

The Universia Foundation and the Santander Shareholder Relations area provided the "Universia Capacitas Foundation Scholarships" to Banco Santander shareholders and members of their families. These scholarships are intended for Santander shareholders in Portugal, Spain, United States and Mexico or up to second degree members of their families, matriculated in those countries' universities.

This programme's objective is to support handicapped youngsters in their university training, increasing their opportunities to access quality employment.

- **CEBI Foundation**

Santander Totta has since 1995 been a founder member of the CEBI Foundation, a social solidarity private institution whose objective is to provide support for children, youngsters, aged and less favoured families, attending its Founder's Meeting and appointing a representative on its Board of Directors.

Standing out amongst its actions is the educational programme, covering 1,800 students, from the kindergarten to the 9th grade, of which approximately 400 benefit from scholarships and social promotion actions. In addition, it includes support for more than 250 aged people and approximately 400 daily physical and rehabilitation treatments.

- **Fundraising Seminar**

Santander Totta sponsored the participation of five third sector institutions in the 6th fundraising seminar organized by Call to Action. The main objective of the seminar was to enable the participating companies to ensure sustainable management and adequately collect their resources.

- **Zero waste campaign**

Santander Totta in partnership with Gertal launched a campaign named "Zero Waste", whereby for each 100 totally consumed meals Gertal donated 1 kg of food products to the Banco Alimentar Contra a Fome (Food Bank). The campaign amounted to 350 kg of donated food products.

- **Other supports**

Within the scope of its corporate social responsibility policy, the Bank provides close support to the service sector through aid, sponsorships and donations to different social solidarity institutions, associations and NGOs.

Financial Education

- **Junior Achievement**

Santander Totta established a collaboration protocol with Junior Achievement, a world organization dedicated to the training of children and youngsters in themes such as entrepreneurialism, citizenry, economy, ethics and financial literacy, in which training is provided by employees of several companies that act on a voluntary basis.

Approximately 80 employees of the Bank registered as voluntary workers are already teaching in public education facilities, from the 1st to the 12th grade.

- **National Plan of Financial Literacy**

Santander Totta took part in the National Plan of Financial Literacy, developed by the Securities Market Regulator (CMVM), the Bank of Portugal (BdP) and the Portuguese Insurance Market Regulator (ISP) which aims to contribute towards an improved level of financial knowledge and adoption of adequate financial deportment among the society.

In 2014, the Bank became associated with several initiatives, such as the World Savings Day, through the disclosure of information in its external communications channels.

Culture

- **National Conservatory Ballet School (NCBS)**

The Bank supports the NCBS and awards scholarships to its best students, with the objective of training professional ballet dancers in the areas of classic and contemporary dancing.

- **Arts Festival**

The bank supported the Arts Festival, in Coimbra, organized by the Inês de Castro Foundation, which, in 2014 was dedicated to heritage and paid tribute to the Coimbra University.

- **Serralves Foundation**

Support for the cultural programme of the Serralves Foundation in the celebration of its 25th anniversary.

- **Other supports**

Within the scope of its cultural supports, Santander Totta has whenever possible privileged the inclusion of customers in several initiatives, such as concerts in Casa da Música and in the Calouste Gulbenkian Foundation.

Environment

- Present in the Green Fest (in 2014, the main topic was “education towards sustainability” through the promotion of an area for the sharing of ideas). The “Networking Lounge” promoted by the Bank was a privileged area for companies, professional organizations and citizens with ideas that wanted to establish contacts and share knowledge in a simple and effective way.

Sensitizing employees for sustainable practices and habits

- GIRO-GRACE, Intervene, Recover and Organize (a voluntary entrepreneurial initiative in which several national interventions are carried out, aiming to improve the quality of living for youngsters, children at risk and aged people, animal defence and recovery of natural spaces).

Measures of energy efficiency and reduction of consumption

Santander Totta continued, throughout 2014, to develop efforts in order to improve the infrastructure efficiency and to develop devices to reduce consumptions, investing a total of 1.7 million euros.

Presence detector sensors were installed in the branches in order to switch off lighting when the various areas are unoccupied. Obsolete air conditioning systems were replaced by others with lower consumption.

A system of free cooling was installed in the central buildings operating with external temperatures lower than 20ºC by switching off the air conditioning. Lighting control was automated through the installation of luminaries with regulated flow to take advantage of natural light.

International Economy

The world economy, in 2014, maintained the same rate of growth as in the previous year, thus not confirming the initial expectations of acceleration. This resulted primarily from the progressive downward revision of growth projections for the emerging and developing economies, since developed economies assumed their role as engine of the world economy.

However, even in this block the growth was not uniform, with the United States accelerating whilst the euro zone, in spite of coming out of a recessive situation, was still lagging, affected by the geostrategic risk following the political stresses between the Ukraine and Russia. Year-end growth data, nevertheless, indicated a modest recovery in economic activity.

World Economic Growth

	2013	2014	2015
World	**3,3**	**3,3**	**3,5**
Advanced Economies	**1,3**	**1,8**	**2,4**
USA	2,2	2,4	3,6
Euro Area	-0,5	0,8	1,2
United Kingdom	1,7	2,6	2,7
Japan	1,6	0,1	0,6
Developing Countries	**4,7**	**4,4**	**4,3**
Africa	5,2	4,8	4,9
Asia	6,6	6,5	6,4
China	7,8	7,4	6,8
Central and Eastern Europe	2,8	2,7	2,9
Middle East	2,2	2,8	3,3
Latin America	2,8	1,2	1,3
Brazil	2,5	0,1	0,3

Source: IMF (January 2015)

In the USA, economic activity contracted unexpectedly in the first quarter, heavily influenced by particularly adverse climatic conditions, which affected not only investment, through activity in the construction industry, but also household expenditure. This effect was already reversed in the second quarter, with a re-acceleration of GDP, a trend which would be maintained in the remaining quarters, resulting in the IMF revising growth outlook upwards, for both 2014 and 2015.

The North-American labour market continued very dynamic, with an average monthly creation of 260,000 jobs in 2014, which however exceeded 300,000 at year end, allowing a swifter lowering of the unemployment rate to 5.6% in December.

Resulting from this, the US Federal Reserve gradually reduced the volume of acquisition of financial assets ("tapering") by 10 billion dollars per month, having suspended the quantitative easing programme in November.

At the end of 2013 and beginning of 2014, the discussion over the start of this "tapering" process and its execution had a relevant impact on the emerging markets which had benefited, during the latter years, from the liquidity generated by the intervention of the central banks. There was a major exit of funds from these markets, causing disturbance in foreign exchange and requiring intervention by the authorities, including increases in reference interest rates. South Africa, Turkey and even Brazil, adopted measures, already in 2014, such as sharp increases in reference interest rates, to put a brake on the exchange rate depreciation their currencies were experiencing.

Simultaneously with "tapering", the governors of the Federal Reserve commenced the internal discussion as to the starting time for the rise in interest rates, which investors anticipate[1] could happen during the Summer of 2015, but which they equally assess, resulting from declarations by Fed officials, may be gradually implemented, with the main reference interest rates still remaining at reduced levels.

In the United Kingdom, and in spite of a downward revision of the growth data relative to the three first quarters of the year, the economy will have grown by 2.6%, a large increase relative to the previous year, and almost exclusively based on domestic demand. The strong decrease in the rate of unemployment, to 5.7%, allowed an increase in private consumption. Investment was equally strong, doubling the rate of growth relative to 2013. In spite of this, the Bank of England continues its expansionist policy, leaving a possible change in reference interest rates to depend upon a more pronounced improvement in economic activity, since inflation had lowered during 2014 and remained below the Bank of England's objective.

In Japan, economic activity stagnated in 2014, contrary to the expectations of a more sustained recovery, considering that the Central Bank is implementing an aggressive programme of quantitative easing. The adoption of measures intended to revert the deteriorating trends of fiscal aggregates, in a framework of low internal demand and income stagnation, was a heavy load on the feelings of the economic agents. The postponing of several fiscal measures (new tax increases) to 2017, instead of 2015, could be a help in strengthening the activity.

In China, economic activity started slowing down, reacting to the easing of the residential real estate market, but the actions of the authorities, with a set of

[1] In line with interest rates and consensus obtained by Bloomberg at the end of January 2015.

stimulating measures, such as a lowering of the reference interest rate, allowed a softening of the pace of slowing down.

	GDP	Inflation
Euro Area	**0,8**	**0,4**
Germany	1,5	0,8
France	0,4	0,6
Spain	1,4	-0,2
Italy	-0,5	0,2

Source: EC (February 2015)

In the euro zone, 2014 started with greater dynamism than expected, with most activity indicators showing, in general, an upward rise in activity and subsequent upward revision of growth perspectives. However, during the second quarter, and equally affected by the increase in geopolitical stresses in Europe, sentiment suffered a reversal and in several countries there was even a contraction of GDP, increasing the differences between the growth rates of the members of the euro zone, especially between Germany and the remaining countries. Signs of an upward trend in economic activity only appeared in the fourth quarter, based, on the one hand, on the lowering of oil prices (which has a positive effect on household disposable income, in addition to reducing companies' energy costs) and, on the other, by the depreciation in the euro, which fell to 2003 minimums relative to the US Dollar, at approximately 1.13 dollars.

The improvement seen at year-end supported more optimistic perspectives for 2015 resulting from the upward revision of growth projections by the European Commission. However, and in spite of a slight reduction in the growth deviations amongst countries, the euro zone should continue growing at a rate below the short term trend.
This picture of below potential growth, but especially of a greater downturn in inflation which, in December, stood at -0.2%, led the European Central Bank, in June, to lower the main reference interest rates and to announce an enlarged set of measures intended to re-launch bank lending and, through this, to support economic growth and a speeding up of inflation.

The rate of refinancing operations drew down to a historical minimum of 0.05%, whilst the rate of deposit facilities with the ECB became negative (-0.2%). With this measure the ECB endeavours that the financial sector reduces the volume of deposits with the ECB (which had already been significantly reduced since the 2012 maximums) and channels these to the real economy. At the same time, the ECB announced it would maintain the unlimited liquidity provision until the end of 2016.

The second package of measures announced consists of a set of targeted long term refinancing operations (TLTRO) through which the ECB provides liquidity: (i) in a first stage, of an amount up to 7% of the portfolio of credit granted to companies and households (excluding mortgages); and (ii) in a second stage, up to 3 times the net credit variation, relative to a reference, defined as the credit variation accumulated in the 12 months to April 2014. These operations, with maximum 4 year duration, have a fixed interest rate, equivalent to the refi rate at the time the funds are taken up (added by 0.1pp for the two TLTRO of 2014, and with no spread for the 2015 operations). In the first stage, the amount of eligible additional liquidity was estimated at approximately 400 billion euros, of which 213 billion had been taken up.

A third set of measures includes two programmes of acquisition of financial assets: the first comprising mortgage bonds (under which, until the end of 2014, had been acquired approximately 31 billion euros); and the second comprising credit securitizations (ABS) on companies and consumers (under which, in the same period, approximately 1.7 billion euros had been acquired).

The ECB announced, but already in January 2015, a further set of measures intended to support the economic recovery and combat possible deflationary pressures. Standing out amongst these is its programme of acquisition of financial assets, which is expanded to include public debt, of agencies and supranational bodies (such as the European Stability Mechanism, the EIB or the European Union itself) which will amount to, after inclusion of mortgage bonds and ABS, approximately 60 billion euros per month (i.e., the new programme should amount to approximately 50 billion euros of debt per month). The distribution of amounts per country will be carried out on a *pro rata* basis with the share capital subscribed in the ECB (Portugal has an adjusted share of approximately 2.5%[1]).

The risk will not be fully shared by all the Eurosystem, since the public debt acquisitions will be carried out by national central banks. The ECB will carry the risk resulting from the acquisition of the debt of European institutions and 8% of the remaining asset purchases. There is an indirect mutualisation, however, through the financial flows that occur through TARGET2.

Spain and Ireland, which completed their adjustment programmes in 2013, were the two most dynamic economies in the euro zone, with growth rates of 1.4% and 4.8%, respectively.

A new increase in uncertainty occurred at year-end, resulting from the calling of early elections in Greece,

[1] Adjustment of share only considering the member countries of the Monetary Union.

which took place already in January 2015. The new Government, led by the SYRIZA Radical Left Wing Coalition, requested an extension of the current adjustment programme until end-June 2015, so that it could continue negotiating the conditionality measures that allow their receiving the last tranche of the programme, of approximately 7 billion euros. Public accounts relative to the beginning of 2015 showed deterioration of budgetary indicators, with a heavier fall in fiscal revenue which places in question the objectives for the year's primary balance.

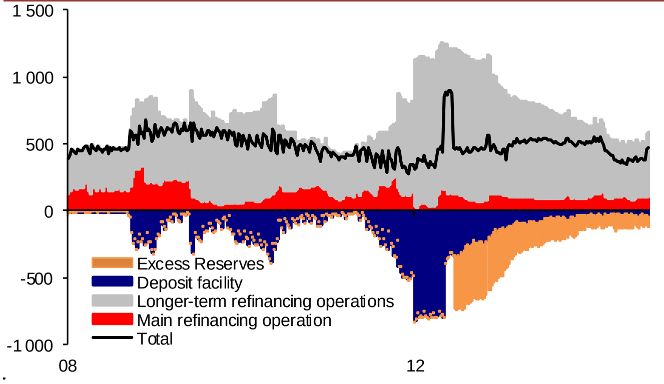
The Greek situation did not seem to infect the remaining European countries, with most of the medium and long term interest rates decreasing to minimum historical rates, and with a reduction in credit spreads in regard to Germany, also due to the expectations as to the new ECB programme.

One of the steps towards the creation of the Banking Union was materialized in 2014[1]. In November, ECB assumed the responsibility for banking supervision, and is now the direct supervisor of more than one hundred of the larger European banks, those remaining coming under the joint supervision of the ECB and the national central banks.

In anticipation of this supervision attribution, the European banking sector was subject to a comprehensive assessment, under which an assessment was carried out of the quality of the assets, as well as an exercise in stress tests. Throughout the year, banks were carrying out various operations to increase the regulatory capital, as well as setting up provisions to cover the new requisites enjoined by the European authorities. Only 10 institutions were required to present capital reinforcement plans, amounting to a total of 10 billion euros.

In spite of the measures put forward by ECB with the intention to maintain the total liquidity provided at a high level to the economy, the excess liquidity became reduced during a large portion of the year, since it is penalized by the negative deposit interest rates. At year-end, however, liquidity increased, with the implementation of the first TLTROs.

ECB Liquidity Provision (€ bn)



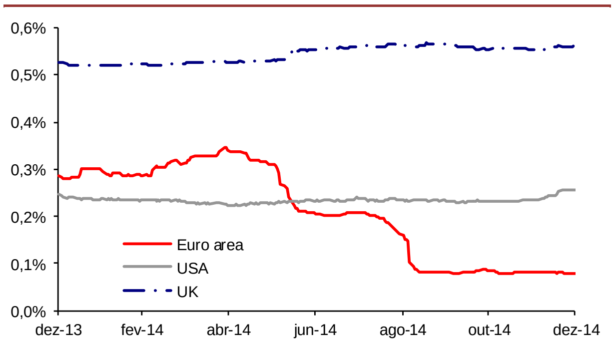
Source: BCE

The dynamics of the Eonia interest rate, computed from the average rate of the overnight transactions carried out in the European interbank market, reflected the expectations of the evolution in the total liquidity of the euro zone, evinced a decrease, especially in the second half of the year, after the ECB had decreased the refi rate and communicated the new strategy of liquidity provision and purchase of financial assets. At year-end the Eonia rate entered into a negative stance.

The Euribor 3 month rate, which entered the year with a slight upward trend, in line with the improved economic data, later went into a downward trend, reflecting the two moments in which the ECB lowered the respective interest reference rate. Tenors up to one month accompanied the evolution of the Eonia rate, also converging towards negative values.

In the USA, in spite of the ending of the programme of acquisition of financial assets and of the debate concerning the possible commencement of the upward trend in the cycle of reference interest rates, short term rates remained relatively stable, with a slight increase appearing at year-end as a result of the improvement in economic data, especially in job creation.

3-Months Interest Rates



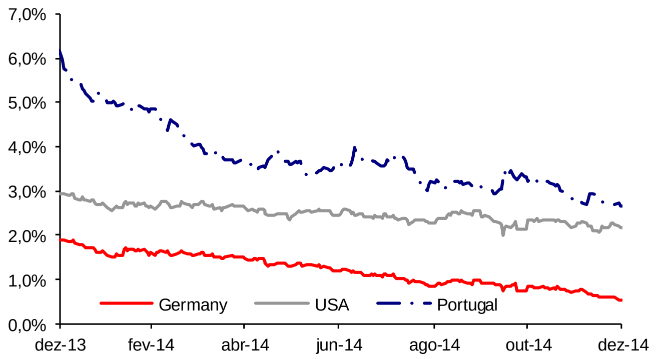
Source: Bloomberg

1 The Banking Union presupposes the breach of the relation between banking risk and sovereign risk, through the creation of three simultaneous mechanisms: (i) single supervision mechanism, attributed to ECB; (ii) single mechanism of banking resolution; and (iii) common deposit guarantee fund.

Long term interest rates in the euro zone kept to a sustained decreasing trend during the whole year, backed up both by the positive evolution of the fiscal variables and by the expectations that the ECB commenced the programme of acquisition of financial assets, as was in effect decided in the second half of the year. Long term yields thus fell to absolute historical minimums, a generalized move amongst the euro zone member countries. In Germany, the 10 year yield fell to 0.5%, whilst in Portugal it was reduced to 2.65%.

In the USA, in spite of the end of the quantitative easing programme and the debate concerning the monetary cycle, the 10 year yield fell from approximately 3% to nearly 2.15% at year-end.

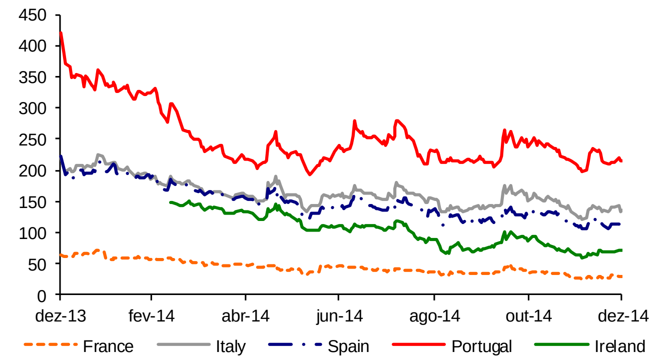
10 Year Bond Yields



Source: Bloomberg

The sovereign credit spreads, however, had a differentiated behaviour. A narrowing trend in the first half year – spreads in Portugal decreased from 450bp to 250bp – was followed by a higher volatility and a more moderate narrowing. In this period, Ireland was the country that most benefited from the reduction in spreads, as a result of the announced early repayment of the IMF loans and of an upward revision of the sovereign rating to the "A" level. The downward trajectory was resumed already in 2015.

10 Year Bond Yield Spreads (pb)



Source: Bloomberg

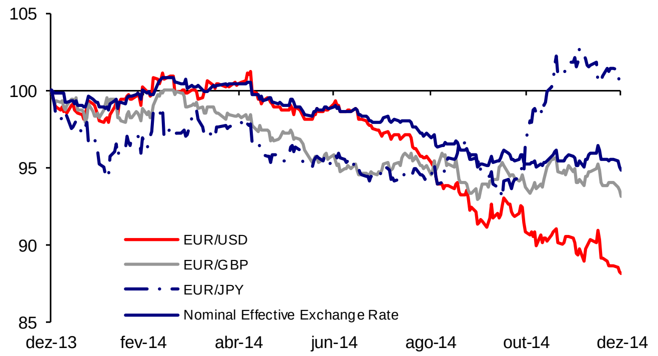
In the foreign exchange market, the euro recorded a heavier depreciation, moving towards historical minimums against most other currencies. This motion went deeper in the second half of the year, when the ECB commenced the new stage of expansionist monetary policy, with the decrease in reference interest rates and the adoption of non-conventional measures.

Against the dollar the euro was quoted at 1.2 dollars at year-end, starting from levels of about 1.37 in the beginning of the year and which were maintained until June. The early diverging actions of the central banks of the USA and of the United Kingdom, on the one hand, and of the euro zone, on the other, from June onwards, led to the euro's depreciation, which is continuing along the first months in 2015, when the euro has reached more than 10 year minimums against the dollar. Against the pound sterling, the euro has been quoted in minimums since 2008.

The effective exchange rate of the euro (which takes into consideration the twelve main trading partners of the euro zone) also depreciated, in consonance, to minimums since 2002.

The Swiss National Bank has, already in 2015, abandoned the linkage it maintained between the Swiss franc and the euro, under which it intervened in the market to maintain a quotation of about 1.20 francs per euro. At first the Swiss franc appreciated up to 0.85 against the euro, to later stabilize at approximately 1.07 francs per euro.

Main Exchange Rates (Dez-2013 = 100)

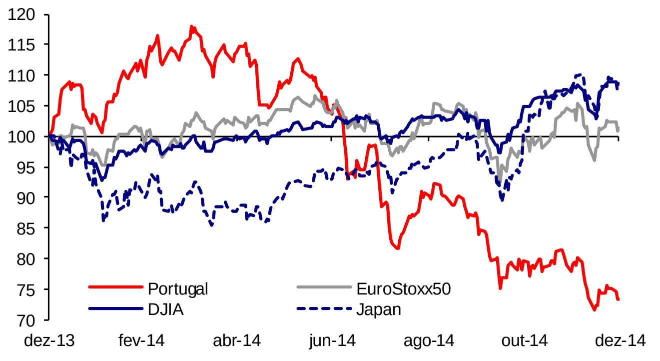


Source: BCE

The international equities markets appreciated by approximately 10% throughout the whole year, but in a move that was only perceivable at the end of 2014, when the economic data, especially in the USA, but also in the United Kingdom, were stronger than anticipated. In effect, both markets closed at absolute historical maximums.

This trend was less pronounced in the euro zone, in spite of the perspectives that the ECB would adopt a quantitative easing policy, as it did in effect.

Equity Markets
(Dec-2013 = 100)



Source: Bloomberg

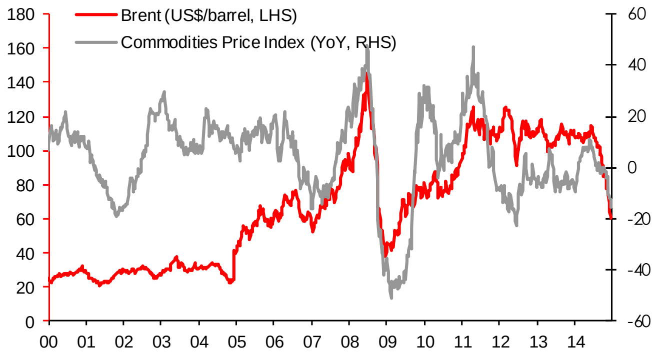
The Portuguese equities market, however, ended the year with an approximately 30% cumulative depreciation, in spite of a 20% appreciation – much above the moves in other markets – in the first four months of the year. The resolution of the Banco Espírito Santo and the setting up of the Novo Banco in its stead, in July, and the developments related with Portugal Telecom were determining factors for this trend.

The evolution of raw materials prices was differentiated, both in commodities and amongst the differing temporal periods. However, at the end of 2014, the falling trend was relatively general.

Oil fluctuated at around 110 dollars during most of the first half year, and later started a corrective move, also as a result of the fall in demand, which brought the price down to approximately 50 dollars per barrel at year-end.

Prices of metals, both precious and basic, as well as those of cereals, recorded an initial trend in appreciation, which would also be reverted in the second half-year. Gold reached a maximum of approximately 1,400 dollars per ounce at the end of the first quarter, serving as safe-haven asset during the increase of political instability in Europe, but the decrease in risk led to a depreciation, thus ending the year at 1,150 dollars.

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



Source: Bloomberg

Portuguese Economy

At the end of the first half-year, Portugal concluded the Programme of Economic and Financial Adjustment (PEFA), agreed with the international institutions in April 2011, in the scope of which it received financing amounting to 78 billion euros.

Portugal dispensed with the last tranche of the financing programme, amounting to approximately 3 billion euros, following the unconstitutionality decision, taken by the Constitutional Court, regarding the new rules on salary cuts (which widened the range of salary cuts to include those above 650 euros per month). To complete the 12th assessment and receive the final tranche, Portugal would have to extend the period of the programme and adopt, in a reduced time limit, compensatory measures. Since the Republic had recovered, already in 2013, the access to the international financial markets, this allowed replacing the sources of financing without any disturbances.

Macroeconomic Data

	2012	2013	2014
GDP	**-4,0**	**-1,6**	**0,9**
Private Consumption	-5,5	-1,5	2,1
Public Consumption	-3,3	-2,4	-0,3
Investment	-18,1	-6,7	5,2
Exports	3,4	6,4	3,4
Imports	-6,3	3,9	6,4
Inflation (average)	2,8	0,3	-0,3
Unemployment	15,6	16,2	13,9
Fiscal Balance (% GDP)	-5,6	-4,8	-4,5
Public Debt (% GDP)	125,8	129,7	130,2
Current Account Balance (% GDP	0,0	3,0	2,1

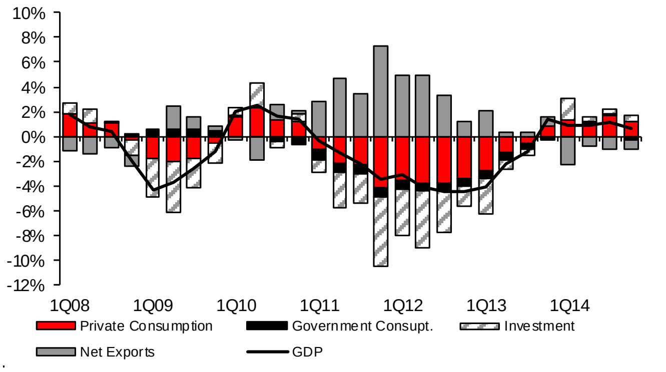
Source: INE, Banco de Portugal, Ministério das Finanças, Santander Totta, FMI

Over the whole year the economy grew by 0.9%, the first positive rate of growth since 2010 and, which, at year-end, became regarded as a re-acceleration of economic growth whose effects, however, will only be more markedly felt in 2015.

During the first half-year, growth suffered a slowdown in relation to end-2013, and was marked by a series of one-off factors, such as the temporary maintenance shutdown of the Sines refinery, which resulted in a sharp decrease in exports of energy goods and consequent impact on growth. In the first quarter of 2014 GDP fell 0.6% QoQ due in large measure to the above fact, but recovered in the following quarters, once normal work was reinstituted in the refinery.

The sources of economic growth were altered in 2014, with internal demand the main factor, but this was rather the reflection of a stage in the process of transformation of the economy.

Contributions to GDP Growth (YoY)

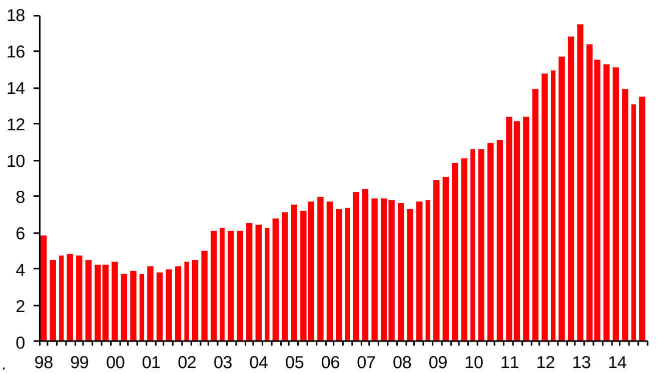


Source: INE

Private consumption has been expanding moderately, as households begin to reinstate the levels of expenditure which had been abated during 2011 and 2012. Expenditure in durable goods, which had decreased heavily in the last few years, increased, although still remaining at levels below those prior to the crisis.

The decrease in unemployment, which fell to 13.5% in the fourth quarter, recovering the 2011 levels, resulted from job creation and contributed towards an improvement in consumer confidence. In spite of a slight reduction, savings rate continues at high levels, approximately 10% of disposable income

Unemployment Rate



Source: INE

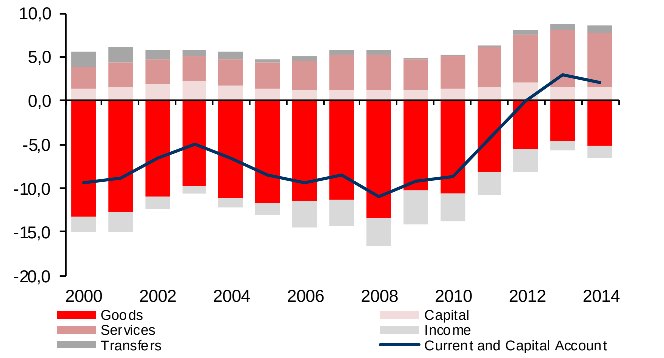
Investment continued recovering, although several projects had been anticipated in 2013 as a result of fiscal incentives for capital expenditure. In 2014, investment grew by 5.2%, although also supported by an increase in inventories. Without this effect fixed gross capital expenditure grew by 2.3%, the first expansion since 2008. This growth was led by capital expenditure in machinery and equipment and transport goods, although the construction industry continued regressing from investment.

Net external demand, contrary to the trend shown in previous years, contributed negatively to the growth in GDP, but this could be a transitory effect. Exports of goods and services grew by 3.4% in the full year, diminishing in relation to the previous year, but affected by the already referred closedown of the Sines refinery. External sales recovered by the end of the year, in line with the improvement in the European economy, with a homologous growth of 5.1% in the 4Q2014.

Imports grew by 6.4% in 2014, almost doubling the rate of growth in 2013, with a visible increase in external purchases of transport goods (not just passenger vehicles, but also light and heavy commercial vehicles) and other equipment. Imports of consumer goods grew more moderately.

The balance of goods and services, however, maintained a surplus situation equal to 1.1% of GDP, slightly below the surplus shown in the previous year. The Current and capital balance was also in surplus, at 2.1% of GDP.

Current and Capital Account (% GDP)

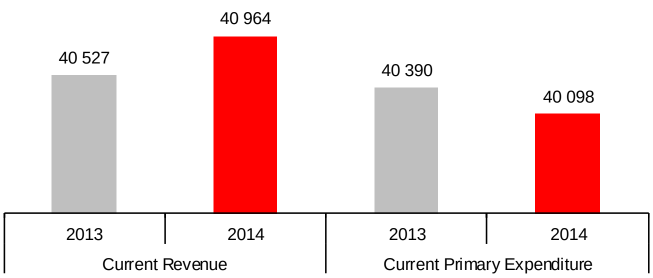


Source: Banco de Portugal, INE

Resulting from the progressive improvement in the external accounts, the net international investment position advanced towards a negative situation corresponding to 112.8% of GDP (-118.4% at end-2013).

Budgetary execution in 2014, in the method of public accounting (cash basis), showed an improvement in the fiscal balance relative to the past year, remarkably below the target defined by the Government, resulting from a higher growth in revenue, especially in Personal Income Tax and VAT, whilst current expenditure fell, in spite of the impact on expenditure derived from the unconstitutionality of the salary cuts included in the 2014 Budget.

Current Revenue and Primary Expenditure (€ mn)

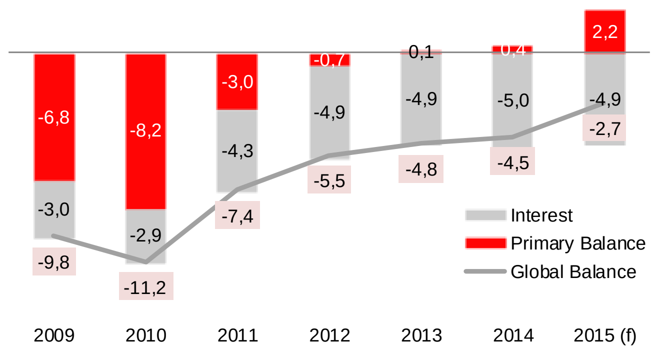


Source: Ministério das Finanças

In national accounting, in line with the projections of UTAO (Budget Assessment Technical Unit) and of the Public Finance Council, the budget deficit will have stood at 3.8% of GDP, once corrected of one-off factors (the assumption, by the State, of financing of state owned companies in the transport industry). Including these effects, the deficit will have stood at 4.5% of GDP. Eurostat has not yet taken a decision on how the loan that the State made to the Resolution Fund, amounting to €3.9 billion (2,2pp of GDP) should be booked but, should it be recorded in the deficit it will have a non-recurrent effect and without any implications in the 2015 budgetary execution, nor in the public debt, since the funds used were already available in the recapitalization fund of the banking sector, created within the Programme for Economic and Financial Adjustment.

Outstanding in the evolution of budgetary aggregates is the fact that the primary balance is now showing a surplus of approximately 1.1pp of GDP (excluding non-recurring effects), after two years in which it was near to being balanced.

Fiscal Balance (% GDP)



Source: Ministério das Finanças

The risk notation of the Republic was revised upwards by Moodys, to Ba1 (one level below investment grade), with a stable outlook. The remaining agencies maintained the previous rating, but revised the outlook to stable.

During the year the Treasury maintained the access to the international financial markets, with several medium and long term public debt issues, at 5 and 10 years, which attracted heavy demand and with progressively lower interest rates. In September the Treasury issued at 15 years with a 3.9% yield and already in 2015 the launching of the new 10 year issue: the 2025 Treasury Bonds, launched in January with a 2.875% coupon, and a 2.04% yield. In July 2014, and for the first time since 2010, the Treasury issued in US Dollars, at the rate of 5.23%.

In 2015, the Government was authorized by the international institutions to partially reimburse the IMF loans, with the objective to repay, until end-2017, approximately 14 billion euros. This measure is justified because the Republic currently has financing conditions in more favourable markets (in terms of rates and financing periods).

The situation in the banking industry was marked by the resolution process of Banco Espírito Santo, in the first application at European level of the new resolution mechanisms. The “Novo Banco” was set up, a transitory institution, which maintained the major part of the assets and the banking business, with the exception of the problematic assets, most of which were exposed to the Espírito Santo Group, which remained within the sphere of BES. The share capital was subscribed by the Resolution Fund, with funds loaned by the participating banks, as well as with a loan from the Portuguese State. The selling process of the Novo Banco was started already in 2014.

This situation did not have any contagion effects in the banking industry, in its total, with the volume of deposits continuing stable. During the year, the banks which had restructuring processes agreed with DGComp went ahead to their respective conclusion, with total or partial liquidation of the re-capitalization carried out by the Portuguese State. The banks covered by the comprehensive assessment passed in the criteria demanded by the ECB and by the EBA, with the exception of one institution which proposed correction measures.

Total credit to companies continued decreasing reflecting, on the one hand, the ongoing deleveraging of the economy and, on the other, specific factors, such as the assuming of the financing of several companies by the Portuguese State and, already at year-end, the reclassification of loans to holding companies, where merely instrumental companies were reclassified in the sector of other non-monetary financial institutions. These two effects, on their own, almost justify a credit reduction to companies of approximately 6 billion euros (a total variation of approximately – 13 billion euros).

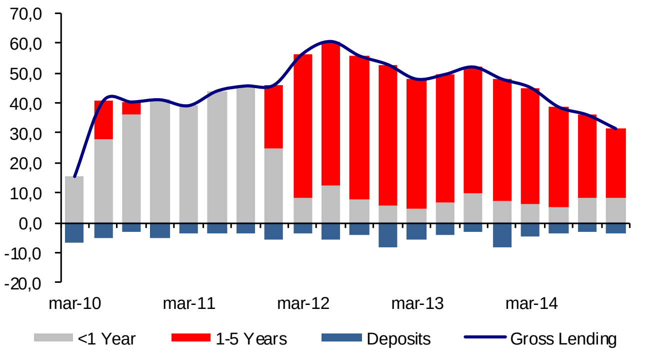
The flows of new credits to companies recorded a reduction, from July onwards, simultaneously with the BES resolution: However, data relative to the last quarter already evince a recovery in production, which equally occurred in private credit, especially mortgages.

This motion is in tune with the trend shown in the most recent survey on the conditions in the credit market, which signals a new easing in the conditions for the granting of credits, as well as an increase in the demand for credit.

Since it continues plentiful, liquidity is not a restriction in credit granting. On the one hand the ECB maintains its programmes of liquidity supply, but the national financial sector has been slowly reducing the use of these facilities, even with the new TLTRO, when what happened previously was a change in financing maturities in favour of lengthier periods. At year- end, the national banks were financed with 31.4 billion euros (27.7 billion when adjusted to the deposits with ECB, which compares with 39.8 billion at end-2013).

On another hand, the volume of deposits continued very high, although at year-end, but particularly at the start of 2015, a reduction occurred, with families subscribing savings products issued by the Treasury, with much higher interest rates than those practised by the banking industry, and which decreased in tune with the market interest rates.

Funding at the ECB
(€ bn)



Source: Banco de Portugal

Main risks and uncertainties in 2015

The risks and uncertainties that may affect the business in 2015 are related to both domestic and external factors.

Internationally, the risk factors are related to (i) the developments regarding the adjustment programme in Greece and the next step to be taken in terms of the financing of that country. Negotiations between the Greek authorities and the international institutions are fundamental to avoid motions adverse to confidence and for the sustainability of the growth process. Both in Greece and in the euro zone; (ii) the geostrategic developments in Eastern Europe; (iii) the possibility that the USA enters into a cycle of raising reference interest rates and its impact on the flows of funds between economies; and (iv) the sustainability in the recovery of the world economy.

Nationally, there are several main sources of uncertainty. On the one hand, the growth potential must benefit from the structural reforms implemented in later years, but in a process that must proceed in order to consolidate the gains already achieved. Equally, the dynamism of the European economy is crucial for the growth in GDP, since it is still its main trading partner.

On another hand, the electoral cycle, with general elections taking place in the beginning of the autumn. Although there could be a postponement of private sector investments with effects in economic growth, the electoral cycle could also lead to the postponement of the budgetary process, which would only be started with the new government in office, presumably in the fourth quarter of 2015.

Additionally, and with respect to the financial sector, the challenge is placed in the increase in profitability, as soon as the adjustment process is completed. The improvement in the economic cycle could positively influence the need to provision credit impairment, but the context of low interest rates and the still sluggish recovery of credit volumes have effects over the generation of net credit income.

Still related with the financial sector, the sale of “Novo Banco” should be concluded in 2015.

Commercial Banking

Private & Business

In the Private and Business areas, Santander Totta improved its market share both in the resource and in the credit markets.

Throughout 2014, a sustained strategy was developed in the Bank's soundness, which allowed supporting private and business/SMEs customers.

As to credit to private customers, the bank approved projects through the granting of personal credit amounting to 469 million euros, and home loans amounting to 394 million euros. To companies in the Business/SMEs segment were granted 1,563 million euros in credit.

With respect to resources, market interest rates decreased to historically low levels, with relevant consequences to the market in terms of savings products. As such, the conditions and portfolio of the Bank's products, particularly the traditional liabilities, had to be adjusted to these market conditions, whilw continuing to reward the customers' level of relationship with the Bank.

In order to diversify customers' assets, the Bank maintained continuous the availability, throughout the year, of indexed deposits and financial insurance products, and strengthened its offer within the range of mutual funds, launching new products intended for the Select and Mid/Mass Market segments.

An annual 16.7% increase was recorded in investment funds marketed by the Bank, mainly attributable to the Santander Select funds (178.1 million euros) and Santander Private funds (116.6 million euros), with 8 new funds launched (3 for the *Select* segment, 3 for the *Private Banking* segment and 2 for the *Mass Market* segment), with the intent to complement the range of funds made available to customers.

At the end of 2014, the market share of mutual funds marketed by Santander Totta stood at 14.5%, an increase of 3.0 pp as compared the homologous period.

Also worth mentioning is the continued focus kept on attracting new domiciled salaries, in the placement of protection solutions (autonomous insurance) and in the placement of credit cards on new customers. In the latter case focus was kept in the increase of new credit card customers which reached more than 57,000 customers. This increase, along with the maintenance in the rates on card usage, allowed growth in invoicing in homologous terms, approximately 5 percentage points above market growth.

Several initiatives occurred throughout the year in order to increase the portfolio's return and to promote the usage of Santander Totta cards, with customers benefiting from several offers and discounts. Continuing initiatives were the partnership with the Vila Galé Hotel Group, the consolidation of the "Discount Programme" and the launching of the partnership with Repsol, which provides immediate discounts on payments with Santander Totta cards.

With reference to acceptance, the Bank maintained its reference position with the main retail channels, reaching very relevant positions, mainly in the food, clothing and consumer electronics sectors. The bank's invoicing market share grew by 8.1% (above the market value), which was reflected in an improvement in market share which continued above 17%. This reinforcement is due not only to a good commercial relationship with an important set of customers, but also to their recognition of the quality of the services rendered by the Bank.

In the control of non-performing loans, in spite of the unfavourable economic environment, the Bank surmounted the objectives set for 2014, continuing to be decisive the strict policy, as well as the implementation of new solutions for debt regularization and renegotiation to fit each customer's needs and requirements.

Private Banking and Select

The Select label was launched in February 2014, becoming sounder throughout the year, recording an 18% growth in the customer base as a result of improved dynamism in the offer of products to the segment's customers along with a management structure dedicated to greater customer proximity.

In a year marked by greater uncertainty in the financial markets, namely in Portugal, the *Private Banking* area achieved the business objectives set in the beginning of the year, that is, customer growth, managed assets and operating income.

The Private Banking business model of Santander Totta allows the consistent, objective and systematic control of the adequacy of the products to the customers' investment profiles, based upon the risk parameters considered for the model.

Best Private Banking Services Overall 2014

The drivers that allowed consolidating the Bank's position in the market were its soundness, a range of comprehensive diversified products being offered, linked with the Private Banking area and the team's dynamism, which led to Santander Totta being distinguished, for the fourth consecutive time by the prestigious Euromoney magazine, as the best *Private Banking* operating in Portugal, in the category "Best Private Banking Services Overall" within the scope of "Euromoney 's Private Banking Awards".

Corporates

In the corporate area, results obtained in 2014 confirm the Bank's commitment to support corporates' business activities, investing in critical sectors for the growth of the Portuguese economy, namely the export sector, both in international trade and in the support for internationalization and in sectors of transaction goods that may benefit from the stability of the Republic's rating and from the expectation of the gradual recovery of investment by the economic agents.

In the beginning of 2014, the Bank reinforced the corporates' segment commercial network with the opening of three new Commercial Divisions (Paredes, São João da Madeira and Torres Vedras), thus investing in greater customer proximity.

The year was characterized by increased pressure on price levels, a reflexion of greater availability of banking supply in the corporate segment. The Corporate Network maintained its line of action, largely focusing in the growth of the credit portfolio, where production was in excess of 5.2 billion euros, safeguarding the balanced management of the volumes in credit portfolio and resources.

As a result of the close cooperation between Santander Totta and the European Investment Bank (EIB), within the scope of investment support lines for projects and programmes in various sectors of the economy and covering several segments, preferentially SMEs and MIDCAPs, the Bank concluded, in September, the placement of the total of the 6th EIB line, amounting to 200 million euros and which permitted supporting approximately 1,000 companies.

Following the companies' positive acceptance to the EIB lines, the Bank formalized, in October, a new line (7th) amounting to 200 million euros, which has already allowed, until December, the granting of financing totalling 60 million euros.

In the SME Invest/Growth lines, Banco Santander Totta maintains a relevant intervention with a 16.7% market share, having placed, until December, more than twenty thousand operations, amounting to a total of 2 billion euros. In the SME 2014 Growth line, which commenced being marketed in March, the Bank also positioned itself above its market share, reaching an 18.7% franchise in the amount of financing of operations framed by SME-Investimento (management body of these lines), positioning Santander Totta as leader in this line.

The Bank also maintains leadership in factoring and confirming, with an aggregate market share of 25%, which once more is symptomatic of the Bank's commitment to the effective support provided to corporates.

In international business, the Bank enlarged its offer of value to corporates, placing at its customers' disposal the *Santander Trade* site and the capacity to expand customer's relations with potential partners via "Clube Santander". Improving its support to selected set of customers strongly involved in international trade, the Bank offered the "Santander Passport", allowing companies to benefit from a homogeneous relationship treatment in geographical areas where Santander Group is represented. Additionally, through the *International Desk*, the Bank continued providing support to companies undergoing internationalization procedures. During the year, Santander Totta promoted 22 regional business events and carried out, or took part, in partnership with external organizations, in more than 20 conferences and initiatives focused on international markets.

Promoters and Brokers

During the second half of 2014, a turning point was reached relative to the regard and following up that the Bank, in general, and the Department of Coordination of Promoters and Real Estate Brokers, in particular, would provide to home loans and the channel of real estate brokers.

Reflecting this new reality, the following stands out: (1) the launching of campaigns for attracting home loans for the real estate brokers; (2) carrying out promoter road shows replicating the good results accomplished in the channel of external promoters which, together with the commercial network was possible to disclose the new Santander solutions for home loans and the Bank's new strategy to energize the existing partnerships; (3) the completion of the survey of the existing protocols with active brokerage companies; (4) the presence in SIL - Salão Imobiliário de Portugal (Portuguese Real estate Exhibition) now with a clear emphasis on home loans.

The same focus and attention were maintained on the external promoter's channel, endeavouring to further increase the commitment and the cooperating level with the bank, ensuring greater proximity by carrying out more than 120 road shows, during 2014.

Throughout the years the usual campaigns and competitions were maintained to encourage the capture of salary accounts, credit to the business sector and personal credit. More recently, a home loan campaign was launched and an insurance competition was held for the first time.

With respect to the project of promoter shops that act in collaboration with the support branch in places where the bank is not represented, this network was greatly strengthened with an annual increase of 25 shops, reaching a total of 295 open promoter shops.

Complementary Channels

2014 stood out by the implementation of the "Multichannel Transformation Plan", supported by the creation of the internal label **appy,** embodying the strategy and positioning defined by the Group for direct channels with the objective of greater customer proximity. This impulse and change marker implied the reformulation of the alignment of the direct channels, substantiated in the priority of structural changes aiming to capacitate these channels with a greater and better offer in product, service and customer experience.

SelfBanking

SelfBanking business focused on technological renewal, with the replacement of more than one hundred items of equipment installed in branches and on technological innovation, installing in ATM network the first set of ATMs with the capability of rotation of deposited notes.

The number of ATM's in the ATM network decreased, mainly due to adjustments in the branch network. However, market shares continued stable as compared to the previous year, with a 12% share in terms of ATM´s and of 13% in number of transactions.

NetBank

With the objective of being a channel focused on sales and an integral part of customer relationship, stands out, in 2014, the availability for subscription of autonomous insurance products and requests for debit cards. There are other ongoing initiatives which aim to reinforce this channel's capabilities, with implementation more extended in time.

The availability of a more complete digital service became real in 2014, with the inclusion of alerts and account statements in digital documents service. Certified sales equally became a reality, enabling the consultation of all the documents accepted by the customer at the moment a product is contracted online.

In Private Mobile, *c*onsidered as a fundamental channel to maintain and strengthen customer relations, several initiatives were launched aiming to substantially improve customer experience and the level of service offer. Equally made available were state payments, scheduling services payments and the consulting of credit card movements, amongst others. A platform usability study was carried out with the objective of triggering priority structural initiatives, which are ongoing.

In Corporate NetBank, investment was carried out in transactionality as a lever to capture corporate customers. To be emphasized is the availability for requesting import documentary credits, a service providing digital documents (alerts, account statements and fiscal declarations), as well as the adequacy of regulation 260 to SEPA in direct debits and credit transfers.

The number of users of digital channels grew significantly in 2014, with greater focus in Mobile (+52%), which also results from a diminished starting base as compared with the remaining channels, but which is a symptom of how the customers are evolving in their relationship with the Bank.

Contact Centre

In 2014, Santander Totta Contact Centre was considered, by the 6th consecutive year, the "Best Contact Centre in Portugal in the Financial Sector" a prize awarded by the Portuguese Contact Centres Association.

A multichannel vision was implemented during the year, in order to ensure a referenced customer experience and to enhance efficiency and profitability.

The Contact Centre has strengthened the investment in the increase of its autonomy and in the rapid resolution of all the situations presented by customers. All customer requests, even if out of Contact Centre scope, are followed up and are quickly solved by the competent areas.

The Advance Service Centre was set up to support all companies, current and potential customers, with special reference to SME's, guaranteeing support to all *site* users and establishing contacts with customers for the presentation of the Bank's products and services.

The focus of the *Contact Centre* continues to be the rendering of a quality service to the Bank's customers, with the use of the multichannel facilities and with the view of the segment in question.

Social Networks

Presence in the social networks was strengthened throughout 2014, with emphasis on the presence in LinkedIn and Instagram and the launching of new initiatives in *Facebook* pages. The number of fans in the Bank's official page has already exceeded 65,000.

International Business

2014 witnessed the end of the adjustment period negotiated between Portugal and the international creditors, this being a positive sign for the community residing abroad.

Portugal's economic activity confirmed several signs of improvement, although unemployment levels continue above what would be desirable, mainly in the younger age groups and with higher qualification levels, which has had an impact in the emigration flows.

The International area has kept its strategy of proximity with customers residing abroad, also aiming to support, through external branches, those that commence their working life away from Portugal, and energizing the service offers and solutions in close connection with the commercial network in Portugal.

In this context, a detachable publication was promoted, linked with the newspaper with the greatest audience within the communities, the "Portuguese World", containing information that aimed to improve social integration in the main emigration destinations.

Internally, the offer of the "*Super Foreign Residents Account*" was adapted as well as the energizing of the "*Select*", segment, presenting customers with several solutions for savings management.

Equally, in the support to the communities in the countries where the Bank is represented, several meetings were held with customers, and the Bank was represented in the Real Estate Exhibition in Paris, where it sought to transmit confidence in the Country and the values of the Group and the Bank.

The traditional summer campaign was successfully held with the offer of Portuguese traditional products and personalized service being well received by non-resident customers. With greater visibility in the main airports and branches, communications campaigns were energized to encourage customers to transfer funds to Portugal. This promotion had a better expression in a competition, whose prizes included trips to Brazil and seats in the World Soccer Cup that was held in that Country, in the first half-year, and the offer of trips to Portugal, in the second half-year.

The London Branch kept its focus on relations with Portuguese residents in the United Kingdom, particularly in respect of several customer groups and professional and technical groups which opted to work in that country.

With a commercial strategy combined with adequate levels of security and profitability to the market conditions, an increase was possible in the volume of resources and of transfers from foreign residents. The credit portfolio showed a slight decrease mainly due to redemptions.

In the year under view it was possible to present, as in the two prior years, a significant growth in new customers in this segment.

Transfers from residents abroad, channelled through Santander Totta, recorded an 18% growth as well as an increase in market share.

Global Banking & Markets

Throughout 2014, the Corporate Finance area continued developing intense activity, with special reference to the participation, as joint leader, in the following successfully concluded operations: (1) syndicated placing of the Initial Public Offer of ESS – Espírito Santo Saúde; (2) syndicated placing of the Public Offer of REN shares, within the scope of the 2nd stage of the company's privatization; and (3) syndicated placing of the Public Offer for subscription in the BES share capital increase.

Reference also to the action of Santander Totta as consultant and financial intermediary to José de Mello Saúde in the public acquisition offer launched on ESS – Espírito Santo Saúde.

In the Credit Markets area, companies took advantage of the decrease in credit *spreads* to decide upon the lengthening or refinancing of their indebtedness. Additionally, a very positive evolution occurred in the Project Finance area with companies exploiting and materializing financing opportunities for new projects. Santander Totta was present in most of the operations which took place, particularly in the sector of renewable energies.

The Structured Products area recorded a successful performance in the marketing of liability products. Twenty three structured products were issued during the year, of which 19 were euro denominated, amounting to 781 million euros and 4 US Dollar denominated, amounting to 50.1 million US Dollars. Issues placed in this period are indexed to several different assets transacted in several shareholder markets in different geographical locations.

In February 2014, Banco Santander Totta was distinguished by *Euromoney Structured Retail Products* as “Best Sales in Portugal” of structured products in Portugal.

Outlook for 2015

Expectations for 2015 look towards a gradual recovery of economic activity as well as financial conditions in the euro zone. However new sources of uncertainty arise, related to the Greek crisis, to the continuing conflict between the Ukraine and Russia, to the economic slowdown in the emerging countries and with the gradual consolidation of the euro zone with respect to the harmonization of the financial regulations (banking union) and supranational investment and defence strategies.

The Portuguese economy should keep to a path of recovery, in line with its European peers. There are risks associated, however, particularly the result of the electoral process, should this cause a slowdown in the implementation of the necessary structural reforms.

Banks will develop their activity within a framework of decreasing interest rates, credit spreads under pressure and great complexity in the new regulatory demands, namely in the case of capital requirements, liquidity and leverage ratios, and also the new rules concerning resolution mechanisms, which will have a structural impact in the profitability of the financial institutions in the following years.

Santander Totta has shown a strong capability in generating revenue, maintaining a sound balance sheet and a comfortable liquidity situation. In 2015, one of the main objectives of Santander Totta is to continue increasing the return on equity, and thus the evolution of net interest income will be a critical factor in the increase of the Bank's revenues, through the balanced management between the normalization in liability costs and the growth in business volumes.

Santander Totta will continue to be focused on its strategy of supporting the revitalization of the Portuguese economy and that of the companies, keeping up a policy of rigorous control of the risks surrounding the granting and credit follow up.

Simultaneously, the Bank will continue its commercial banking strategy based on greater customer proximity, presenting solutions adequate to each business segment with the objective of increasing the levels of customer binding and ensuring that Santander Totta is their primary Bank. This strategy will be based on: (1) further simplification of processes, making them more efficient; (2) use of devices that allow improved information management; and (3) streamlining risk management, with better adjusted models to each customer segment, keeping to a prudent and rigorous management of the risks undertaken.

Although the branch network remains a fundamental channel in customer relations, the Bank will continue to strengthen the model of multichannel distribution in order to render customers a more complete and accessible service.

Human Resources

The lines of action in the area of Human Resources were based upon the aggregate development in which participation, collaboration, cooperation and team work assume a leading role, in corporate alignment of the practices and policies to be implemented as well as the proximity to the business areas and the direct support for the materialization of the established strategic objectives.

Being the best bank for our customers and the best place to work is, in addition to an objective, a challenge on how to combine individual efforts with the collective strength.

The support to the internal reorganization, to the setting up and strengthening of the teams in the Commercial Intelligence area and to the Private, Select and Advance segments, the resizing of the commercial network, together with the consequent movement of personnel, the direct follow up of 70 branches within the scope of the *Be Up* Programme, and the 480 visits carried out to the areas, signal the proximity and support of the Human Resources team to the various business areas and the internal dynamics lived through in 2014.

The attribution of 338 new salary levels, the 157 functional upgrades, the fact that 98% of employees received variable remuneration and the average 1.38% salary increase show the importance given to the recognition of individual merit and contribution of the employees towards the achievement of the Bank's objectives.

Standing out in the area of Knowledge and Development is the following up of the Bank's business strategy with the creation of specific programmes to support the launching of the *Select* and *Advance* labels: *To Be Excellent* and *Be Advance*, respectively. To be referred also, in the *Customer Engagement* side, is the Commercial Energy programme for branch managers of the Individuals and Business South networks with the objective to develop competences that increase the customer's relation of trust with the Bank. These programmes involved approximately 500 commercial network employees.

Within the scope of gender diversity the 2nd edition took place and the 3rd edition of the *Women's Executive Program* was launched, built in partnership with a University, the objective of which is to impel the careers of women with potential through the learning of several key competences grouped in three blocks: business, leadership and career/personal management. There are 53 lady managers taking part in this programme.

Specific actions were developed throughout the year for 2nd line managers in the bank's structure, such as: *Resonant Leadership, Be Your Own CEO, Free Mind and Productivity*, and *Mindfulness – Cultivate Full Attention.* Eighty employees took part in these actions.

Continuing in the Development field, programmes of *Executive Coaching* were provided to 65 persons and *Mentoring* was included in the following programmes: *Mentoring for Academics* with the participation of 30 students and *Santander Future for Young Managers*, with the participation of recently appointed 20 managers.

With an offer of 90 courses in *E-Learning*, 32% of the total number of training hours (71,264 hours) were attained via platform, thus allowing a greater offer to respond to individual needs and geographical dispersion.

Under the cooperation with Universities, the Bank was present in the main national institutions: Catholic, Nova, ISCTE, ISEG and FEP. The Stock Exchange training programme was developed, and the *Growth Acceleration Program* was created, where, under the guidance of a tutor, 10 groups of trainees developed projects in specific areas of the Bank, from which resulted 4 prize winners on innovation and possibility of implementation by the Bank. During the whole year, 164 youngsters were trained in the bank, in a total of 83,762 training hours.

No. of training hours – 365,743
No. of training hours per employee – 46
% E-Learning training – 32%
Investment in training – 1,500,000 €
Investment in training/total salaries – 0.89%

As has been usual in later years, several training initiatives have been developed for the offspring of employees, namely in Christmas and Easter holidays, courses in methodologies and study techniques (59 participants) and in the summer holidays the course *Searching for Magic (TEEN)* which approached the means on how to trace a path of success and which involved 26 youngsters between the ages of 14 and 17.

Also carried out was the course *Life Choices Today* for 16 youngsters between the ages of 14 and 17 and, for employees, 6 *workshops* on educational topics and child development.

The attention given to the unfavourable economic and social context determined the renewal and implementation of new extraordinary measures aiming to minimize the effects of the crisis which, together with the more than 50 measures of conciliation and equilibrium which are at the disposal of employees, continue distinguishing Santander Totta as a Family Responsible Company.

Solidarity continued a part of the agenda for initiatives promoted and supported by the area of Human Resources, initiatives that occurred throughout the year, particularly during the “We Are Santander Week” and during Christmas with 2 food recovery actions, “Solidarity Basket”, intended to aid social institutions and/or families, with more than 2,700 kg of food products distributed.

With the objective to strengthen values such as collaboration and team work, the “We Are Santander Regions” initiative was developed. During 7 weeks, as teams, the employees of each region of the country prepared a presentation on their region’s themes. The “We Are Santander Regions” journal was edited at the end, comprising the various presentations, and was distributed in the first day of the “We Are Santander Week”.

The “We Are Santander Week” was held once again, in June, to celebrate, as a team, the pride of belonging in Santander, focusing the recognition for the effort and commitment shown by all who are part of Santander Totta, an opportunity to consolidate the relationship between teams, hierarchies and employees.

As previously referred, the promotion of healthy living habits with employees has been a constant process in latter years, expressed through the different initiatives that have been implemented and that deserved external recognition through the award of the GYM Factory prize “For a World with Better Fitness” which distinguishes Santander Totta *“For the development of organizational success through the promotion of healthy life styles with employees and their families”.* Continuing along these guidelines, the programme “Walking and Running” was organized and held between September and December, in Lisbon and Porto, and in which 68 employees and their families participated. This initiative had a solidarity component following which the Bank handed the total value of the registrations to D. Estefânia Hospital for the purchase of equipment for the Physical and Rehabilitation Facility.

Technology and Business Processes

Comprised in the Corporate Technology and Operations Division, the Technology and Business Processes area of Santander Totta is responsible for the availability and management of the Bank’s technological infrastructure and business processes, permanently guaranteeing the adequacy of the technology platforms (hardware, communications), of business processes and operational control in order to efficiently support the Bank’s business, with controlled operational and technological risks.

During 2014, a number of projects and structuring initiatives in the various areas were ensured, in order to pursue a continuous improvement process of operation and application efficiency, cost optimization, reduction of technological risk and timely adaptation to business requisites.

Development of regulatory projects was maintained, namely Instruction 5/2013, concerning incidence reductions, stabilization and optimization of the operation of technological resources, as well as increase in the availability of services provided by the Bank, with particular focus in the channels available on the Internet and in Mobile Banking. A new institutional site was launched, based on a new platform with greater dynamism, with superior availability, performance and security.

A Mobile APP was implemented on the tablet which enables the opening of an account in 15 minutes and opens space for the inclusion of more banking services in the referred APP.

Structural programmes were initiated jointly with the business areas aiming to improve the applications and processes in multichanelling, international business and documentary management, and the component of “Watch List Management” was implemented comprised in the Anti-Money Laundering corporate solution.

The migration process to the Windows 7 operating system was completed, which comprised several technical projects aiming to reduce incidences and to keep the technological risk of the involved applications at adequate levels.

In the Business Processes area, a number of projects were carried out aiming towards the improvement of processes and the continuous increase in efficiency and improvement in customer service, as well as compliance with the rulings issued both by the regulators and by the Group. To be noted: (1) the operational and functional optimization of the Corporate Network; (2) the adaptation of the hardware and software of the equipment of the retail network to comply with the implementation of the new 10 euro note (2nd series), maintaining the equipment ratified by the ECB; (3) the implementation of a new procedure which guarantees compliance with the maximum limits established by the Bank concerning liability concentration; and (4) the implementation of the North American FATCA rules, namely in the identification and documentation of the respective bodies/institutions. The implementation of data reporting and communication with the Tax Authorities continues on course.

The Department of Network Means (DNM) has been operating systematically, through periodical visits and actions in the business units, guaranteeing compliance with the established procedures and with the rules in force, identifying weaknesses in internal control and operations and promoting several mitigating, training, support and improvement actions.

In the context of management change the DNM has equally been taking part in the definition of the implementation strategy of main projects or relevant improvements promoting, jointly with other areas of the Bank, the effective following up jointly with the retail network, supporting and training users to minimize possible impacts.

Within the scope of centralized operational follow up, a monthly review is being carried out over the main features of operational control which must be ensured by the network's business units, aiming towards the mitigation / minimization of the impacts of operational risks.

Quality

Service quality is one of the pillars of Santander Totta's management model.

In this changing world and in a market where all the players search for improvement and service quality, the Bank has assumed as an objective, in the latter years, the improvement of customer experience and its proximity relationship with Santander Totta, which has been reflected in the positive developments shown by customer indicators.

Metrics and Management Indicators

Quality and Satisfaction Indicators in Santander Totta	
No of "5 Star" Branches	43% with maximum classification
No of complaints	28% decrease in 2014 versus 2013
Customers that recommend the BanK*	94% of Customers
Target 100 Indicator in Companies	40% of Company Managements achieve or overpass the objectives

* This feature is now classified on a scale of 1 to 10. The above results show the percentage of customers with a positive recommendation, i.e., above 5.

Customer support	2013	2014
Satisfaction index branch of private customers (1-10)	8.5	8.65
% of satisfied active private customers*	93.8	94.1
Satisfaction index of manager of company customers (1-10)	8	8

* This feature is now classified on a scale of 1 to 10. The above results show the percentage of customers with a positive recommendation, i.e., above 5.

In 2014, the Bank continued the model of star classification (5 star model) implemented in the braches of Individuals and Business networks. These stars are obtained through a set of critical indicators either of perceived quality or of operational quality. The percentage of 5 star branches increased from 27% in the beginning of the year to 43% at end-2014, also recording a positive evolution in the proportion of 2 star branches (from 45% to 21%).

Also established in the Corporate Network, similar to the 5 star model in the branches of the private customer network, a model that aggregates Bank and Commercial Division indicators. Each Corporate Division will be classified, from 2015 onwards, in line with a rating of satisfaction with the objective of obtaining a triple A (AAA).

From the point of view of central services and processes, 2014 was the year when the target 100 model became stabilized, with 47 models defined for the same number of areas and the promotion of a competition for the winning areas.

A competition was carried out in processes based upon a transversal view (customer) with the appointment of a *process owner* and the setting up of work teams for the development of specific action plans. 15 processes were appointed for an improvement methodology based upon the establishment of objectives and with a system organized for the establishment of action plans.

Customer Experience

The management of customer experience, aiming to correspond to their expectations, has become one of the most important differentiating factors in the banking market. As such, the activity was developed in order to promote the improvement of the interaction of the customers with the branches. Approximately 120 visits were carried out, where, based upon the quality model, improvement features were designed and commitments assumed.

Continuity was given, jointly with the area of Human Resources, to the "Be Up" programme of behavioural improvement, applied in 70 branches classified with 2 and 3 stars, establishing an "on site" follow up plan with clear improvement objectives. The results achieved were, once again, extremely positive (more than 60% of the intervened branches climbed at least one level in the classification).

Consumer Choice 2015

Banco Santander Totta was awarded the prize “Consumer Choice 2015”, in the category of large banks. “Consumer Choice” is a reference assessment of the level of satisfaction and acceptability of products and services that takes into account the most valued feature by the consumers themselves.

During the year, the second and third wave of the project “customer satisfaction when exiting branch” were launched. A *tablet* is used where the customer states his level of satisfaction relative to four features. The project had an excellent adhesion both by the customers, with more than 49 thousand participations, and by the retail area.

Results obtained in the stars model, in the “Benchmark” corporate assessment and on the several prizes awarded to the Bank are the expression of the improvement that customers experienced during 2014.

Quality Certification

Guidance towards the customer and the logic of continuous improvement are concepts which are nowadays clearly present on the day-to-day Bank’s activities and in the quality models it has been implementing.

In 2014, the quality management system was again certified and all the standard’s requisites complied with.

Positioning vis-à-vis the Competition

After a very constant upward trend, wave upon wave since 2011, in the benchmark assessment, Santander Totta attained, in the second wave of 2014, the first place versus the main competitors. The improvement in the indicators achieved through the implemented quality models was thus confirmed.

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Consolidated Activity

Introduction

In a year characterized by a difficult macroeconomic environment and by the turmoil in the national financial markets, deriving from the application, in August, of the first measure of banking resolution in the European union, Banco Santander Totta demonstrated a strong capability of generating income, a soundly capitalized balance sheet without any need to increase its nor to recur to any public aid, and thus showing very comfortable solvency and liquidity ratios, as compared to the minimum required values.

Banco Santander Totta attained a net income, at end-2014, amounting to 165.2 million euros, an expressive increase compared with the 89.2 million euros in the homologous period (+85.2%). This evolution reflected the increase in revenue, with emphasis in the increase in net interest income and results of financial operations and reduction in the need for impairments allocations.

The credit portfolio stood at 26.7 billion euros, a 1.8% decrease relative to the previous year, and in line with the trend shown in the banking system, standing out, however is the 0.7% increase in credit granted to corporates which compares with a sharp decrease in the system as a whole.

The credit at risk ratio decreased to 5.7%, as compared to the 5.9% at end-2013.

Customer's resources amounted to 26.8 billion euros, a +2.9% variation relative to that in the homologous period, with a favourable evolution in deposits and in the marketed investment funds.

The Loan-to-Deposit ratio, measured by the weight of net credit in deposits, reached 116.0%, at end-2014, an improvement over the 125.3% obtained in 2013.

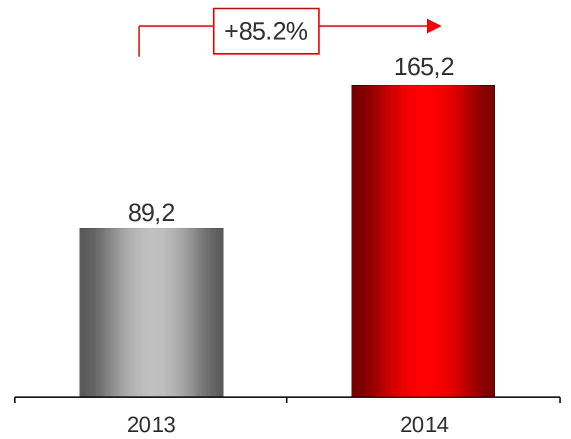
Capital ratios, in line with the CRD IV/CRR rules, applicable in 2014, recorded an improvement relative to the end of the previous year, with the CET I ratio standing at 13.0% (11.3% in 2013) and the Tier I ratio standing at 15.3% (13.0% at the end of the previous year).

In 2014, Banco Santander Totta returned to the international markets through two issues of covered bonds: one billion euros at 3 years, with a 1.55% coupon, at the end of the first quarter, and 750 million euros at 5 years, with a 1.625%, coupon, at the beginning of June. In both cases demand was largely higher than supply and the spreads were 88 and 93 basis points, at 3 and 5 years, respectively.

Net financing obtained with the Eurosystem reached 3.8 billion euros, a reduction of 0.7 billion euros (-15.6%) relative to the homologous period. The portfolio of credits eligible as guarantees in the financing operations with the European Central Bank amounted to a total of 12.3 billion euros.

Banco Santander Totta's risk notation continues the best in the financial system. In the beginning of July, Fitch revised upwards the Bank's short and long term rating, from a negative to a positive outlook. The Bank's long term debt ratings as compared with those of the Portuguese Republic are as follows: Fitch – BBB (Portugal – BB+), Moody's – Ba1 (Portugal – Ba1), S&P – BB (Portugal – BB) e DBRS – BBBH (Portugal – BBBL).

Net Income
Million euro



Profit & Loss Statement

Profit and Loss Account

Million euro

	2014	2013 Proforma	2014/2013
Net Interest Income (without Dividends)	**543.5**	**507.3**	**+7.2%**
Dividends	1.2	1.3	-6.9%
Net Interest Income	**544.8**	**508.6**	**+7.1%**
Fees and Other Income	262.6	290.0	-9.5%
Commercial Revenue	**807.3**	**798.5**	**+1.1%**
Gain/Losses on Financial Transactions	87.7	31.4	+179.4%
Operating Income	**895.0**	**829.9**	**+7.8%**
Operating Costs	(487.2)	(466.5)	+4.4%
Net Operating Income	**407.8**	**363.4**	**+12.2%**
Impairment and Other Provisions	(192.5)	(244.0)	-21.1%
Results from Associated Companies	19.8	14.1	+40.7%
Income Before Taxes and MI	**235.0**	**133.5**	**+76.0%**
Taxes	(69.9)	(44.4)	+57.5%
Resultado Após Impostos	**165.2**	**89.2**	**+85.2%**
Minority Interests	0.0	(0.0)	-252.2%
Net Income	**165.2**	**89.2**	**+85.2%**

Net interest income amounted to 543.5 million euros, at end-2014, a 7.2% increase, deriving mainly from the lower cost of funding, especially in deposits, notwithstanding the historically low interest rates and the lower volume of credit granted.

Net commissions and other results of banking business amounted to 262.6 million euros, with a -9.5% variation as compared to the amount recorded in 2013; what stands out here is the impact deriving from the regulatory changes that limited administratively the capability to collect commissions, mainly from the beginning of the third quarter of 2013, partially compensated by a longer period of rents collected from the real estate of the Novimovest real estate investment fund, together with lower costs in the assessment of the market value of the real estate in question.

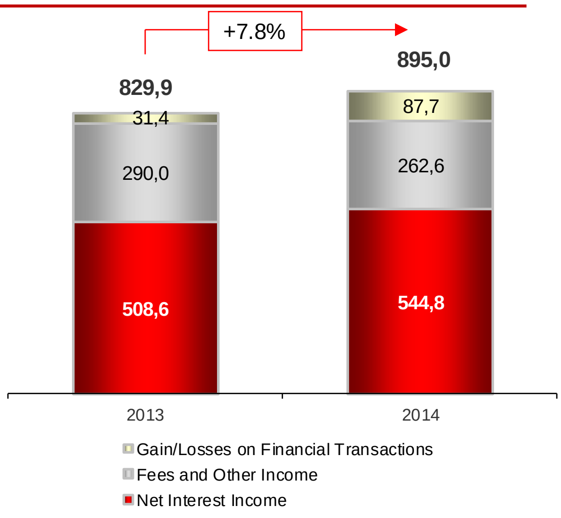
Commercial revenue amounted to 807.3 million euros, a growth of 1.1% relative to the previous year.

Results in financial transactions amounted to 87.7 million euros, a significant growth compared to the homologous period, mainly due to revenues obtained in the sale of securities, which was partially cancelled by the constitution of provisions to strengthen the balance sheet.

The evolution in revenue led to an operating income amounting to 895.0 million euros, 7.8% above the value recorded at end-2013, showing the progress obtained in net interest income and in the results in financial transactions, which offset the decrease in net commissions.

Gross Income

Million euro



Operating expenses amounted to 487.2 million euros, increasing by 4.4%, relative to 2013. Personnel expenses increased by 4.5%, influenced by the aggregation of costs with social security derived from seniority bonus. General expenses increased by 4.8%, justified by changes in the accounting policies. Depreciation grew by 3.5%, due to the impact of an extraordinary depreciation, booked in the first half year of 2014, following the change in the useful life of a software application, from 5 to 3 years.

Operating Costs

Million euro

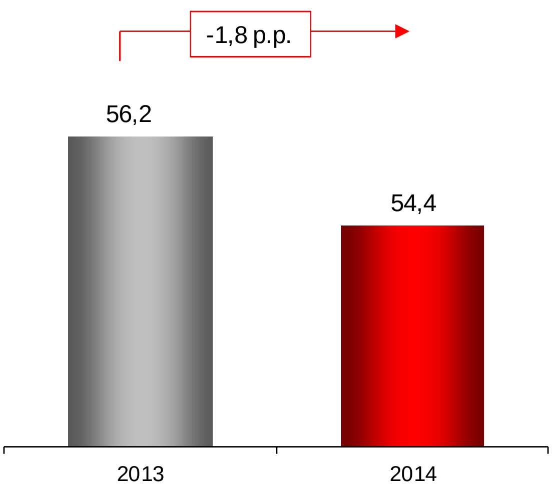
	2014	2013 Proforma	2014/2013
Personnel Expenses	(281.6)	(269.6)	+4.5%
Other Administrative Expenses	(143.7)	(137.2)	+4.8%
Operating Costs	**(425.3)**	**(406.7)**	**+4.6%**
Depreciation	(61.9)	(59.8)	+3.5%
Total Operating Costs	**(487.2)**	**(466.5)**	**+4.4%**
Efficiency Ratio (excludes depreciation)	**47.5%**	**49.0%**	**-1.5 p.p.**
Efficiency Ratio (includes depreciation)	**54.4%**	**56.2%**	**-1.8 p.p.**

At end-2014, the efficiency ratio, which represents operating expenses as a percentage of operating income, stood at 54.4%, a 1.8pp improvement over 2013, indicating that the growth in revenue (+7.8%) was above that of the expenses (+4.4%).

Net operating income amounted to 407.8 million euros, greater than the 363.4 million euros recorded in the homologous period in 2013 (+12.2%).

Efficiency Ratio

%



Banco Santander Totta presented a favourable homologous evolution in productivity indicators, with positive variations in credit, resources and net income per employee and per point of attendance, an important fact in an environment of business reduction.

Productivity

	2014	2013	2014/2013
Loans(1) per Employee	5.2	5.1	+2.4%
Resources per Employee	5.0	4.7	+7.6%
Loans(1) per Branch(2)	46.7	44.3	+5.5%
Resources per Branch(2)	45.2	40.7	+10.9%
Net Income per Employee (thousand euro)	31.0	16.0	+93.7%
Net Income per Branch (thousand euro)(1)	278.1	139.3	+99.6%

(1) Includes guarantees

(2) Includes branches, corporate centers and representative offices

Allocation for impairment and net provisions amounted to 192.5 million euros, comparing favourably with the 244.0 million euros recorded in the homologous period, (-21.1% variation). This evolution derived from the slowing down of new entries in non-performing loans, following the implementation of a conservative policy in credit granting and of an efficient methodology in the control and follow up of non-performing loans.

Results of associates recognized by the equity method, amounting to 19.8 million euros, increased by 40.7% as compared to the amount recorded in 2013, incorporating the result in Banco Caixa Geral Totta de Angola, in Unicre-Instituição Financeira de Crédito, in Partang, amongst others with lesser relevance.

At end-2014, income before tax and minority interests, amounting to 235.0 million euros, recorded an 76.0% growth relative to 2013.

Banco Santander Totta recorded net income amounting to 165.2 million euros, at the end of 2014, compared with 89.2 million euros obtained in 2013, (homologous variation of +85.2%), corresponding to an 8.5% return on equity.

Accounts and Business Activity

At end-2014, the volume of business amounted to a total of 54.6 billion euros, a growth of 0.3% as compared with the amount recorded at end-2013.

Credit (including guarantees and sureties) decreased by 2.1%, totalling 27.8 billion euros, although the corporate credit portfolio grew 0.7% in the last year. Customers' resources stood at 26.8 billion euros, a 2.9% increase, with balance sheet resources growing by 3.6% and off balance sheet resources by 0.1%.

Business Volume

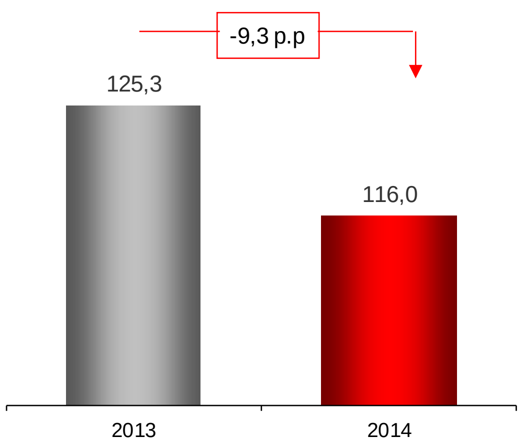
Million euro

	2014	2013	2014/2013
Business Volume	**54,610**	**54,449**	**+0.3%**
Total Gross Loans (includes guarantees)	27,769	28,371	-2.1%
Customers' Resources	26,841	26,078	+2.9%

The credit/deposits ratio stood at 116.0%, in 2014 (this ratio is established in line with the definition comprised in the Memorandum of Understanding), diminishing by 9.3 p.p. as compared to 125.3% recorded in 2013.

Loan-to-Deposit Ratio

%



Loans

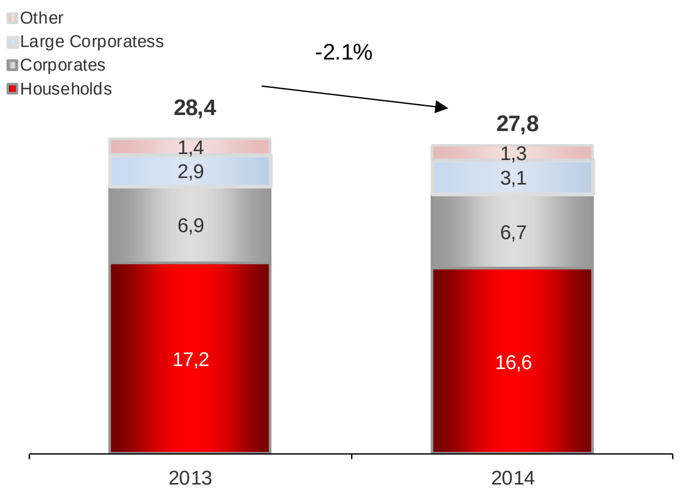
Million euro

	2014	2013	2014/2013
Total Gross Loans (includes guarantees)	**27,769**	**28,371**	**-2.1%**
Gross Loans	**26,685**	**27,185**	**-1.8%**
of which			
Loans to Individuals	16,635	17,164	-3.1%
of which			
Mortgage	14,794	15,276	-3.2%
Consumer	1,381	1,382	-0.1%
Loans to Corporates	9,823	9,759	+0.7%

The credit portfolio (including guarantees and sureties) registered a 2.1% reduction in the year, in an environment of contraction in credit granted by the banking industry. However, credit granted to corporates has gradually been increasing its weight in the portfolio, reaching 9.8 billion euros, 0.7% more than that recorded at the end of the previous year. Credit granted to individual customers amounted to 16.6 billion euros, (a homologous variation of -3.1%), of which 14.8 billion euros are mortgage loans. In spite of new mortgage loans having grown by 18.0% in the last year, this fact has not set off the value of redemptions whereby the portfolio decreased by 3.2%.

Loans

Million euro



At end-2014, the credit at risk ratio stood at 5.7%, which compares with the 5.9% recorded in the homologous period, remaining significantly below the average of the banking system, and with a provision coverage of 75.9%, (67.7% in December 2013). Restructured credit stood at 9.4% of total credit, above the 8.7% of the homologous period.

Credit Risk Ratios

	2014	2013	2014/2013
Non Performing Loans Ratio	4.4%	4.0%	+0.4 p.p.
Non Performing Loans Ratio (+90 days)	4.2%	3.7%	+0.5 p.p.
Non Performing Loans and Doubtful Loans Ratio	4.2%	3.8%	+0.5 p.p.
Credit at Risk Ratio	5.7%	5.9%	-0.1 p.p.
Restructured Loans / Total Loans	9.4%	8.7%	+0.8 p.p.
Restructured Loans not included in Credit at Risk / Total Loans	6.8%	5.4%	+1.4 p.p.
Non Performing Loans Coverage Ratio	99.6%	100.4%	-0.8 p.p.
Non Performing Loans Coverage Ratio (+90 days)	103.4%	106.4%	-3.0 p.p.
NPL and Doubtful Loans Coverage Ratio	102.5%	104.7%	-2.1 p.p.
Credit at Risk Coverage Ratio	75.9%	67.7%	+8.2 p.p.

Total customers resources at end-2014, increased by 2.9% relative to the amount recorded in 2013.

Resources

Million euro

	2014	2013	2014/2013
Customers' Resources	**26,841**	**26,078**	**+2.9%**
On-Balance Sheet Resources	21,760	21,001	+3.6%
Deposits	21,626	20,707	+4.4%
Securities issued (clients)	134	294	-54.5%
Off-Balance Sheet Resources	5,082	5,077	+0.1%
Investment Funds Managed or Marketed by the Bank	1,414	1,212	+16.6%
Insurance and Other Resources	3,667	3,865	-5.1%

Balance sheet resources stood at 21.8 billion euros, representing 81.1% of total resources captured from costumers and a growth of 3.6% in homologous terms, with deposits increasing by 4.4%.

Off balance sheet resources amounted to 5.1 billion euros, an increase of 0.1% over 2013. Investment funds marketed by the Bank revealed a 16.6% growth, offsetting the decrease in capitalization insurance products and other resources (-5.1%).

Solvency ratio

At end-2014, the Bank presented sound capital ratios, with the CET I ratio, in line with the CRD IV/CRR rules, for 2014, standing at 13.0%, largely higher than the minimum required value. The CET I ratio, fully implemented, stood at 11.9%.

Capital

Million euro

	2014	2013	2014/2013
Total capital	**2,086**	**1,864**	**+11.9%**
Tier I Capital	2,467	2,139	+15.3%
Tier II capital	2,467	2,139	+15.3%
Risk Weighted Assets	**16,102**	**16,499**	**-2.4%**
CET I Ratio	**13.0%**	**11.3%**	**+1.7 p.p.**
Tier I Ratio	**15.3%**	**13.0%**	**+2.3 p.p.**
Total Capital Ratio	**15.3%**	**13.0%**	**+2.3 p.p.**

Individual activity

Profit & Loss Statement

Banco Santander Totta recorded net income, in terms of individual accounts, amounting to 134.5 million euros in 2014, as compared with 2.4 million euros in 2013.

Operating income amounted to 881.3 million euros in 2014, an 11.5% growth relative to the 790.5 million euros obtained in the previous year, particularly due to the increase in net interest income and in the results of financial transactions.

Operating expenses amounted to 483.9 million euros, a 4.9% increase relative to the homologous period. The efficiency ratio improved by 3.5 pp., from 58.4% in 2013 to 54.9% in 2014.

The aggregate evolution of revenues and expenses resulted in net operating income amounting to 397.4 million euros, a 20.7% increase relative to that obtained one year earlier.

Impairment and net provisions evolved favourably to 204.1 million euros in 2014, decreasing by 34.4% relative to 2013.

Taxes on profits amounted to 58.8 million euros.

Accounts and Activity

In 2014, the volume of business amounted to a total of 54.6 billion euros, a -0.6% variation relative to the homologous period. Credit (including guarantees and sureties) decreased by 2.1%, to 27.7 billion euros, and customers resources increased by 1.0%, standing at 26.9 billion euros (balance sheet resources grew by 3.6% and off balance sheet resources decreased by 8.5%).

Business Volume

Million euro

	2014	2013	2014/2013
Business Volume	**54,579**	**54,908**	**-0.6%**
Total Gross Loans (includes guarantees)	**27,694**	**28,294**	**-2.1%**
Total Gross Loans	**26,607**	**27,105**	**-1.8%**
Customers' Resources	**26,884**	**26,614**	**+1.0%**
On-Balance Sheet Resources	21,731	20,985	+3.6%
Deposits	21,598	20,691	+4.4%
Securities issued (clients)	134	294	-54.5%
Off-Balance Sheet Resources	5,153	5,630	-8.5%
Investment Funds Managed or Marketed by the Bank	1,762	1,907	-7.6%
Insurance and Other Resources	3,391	3,723	-8.9%

Solvency Ratios

In 2014, CET I ratio, in line with the CRD IV/CRR rules, stood at 10.0%. CET I ratio fully implemented stood at 8.9%.

Capital

Million euro

	2014	2013	2014/2013
Total Capital	**1,597**	**1,620**	**-1.4%**
Tier I Capital	2,027	1,977	+2.5%
Tier II Capital	2,336	2,250	+3.8%
Risk Weighted Assets	**15,948**	**16,301**	**-2.2%**
CET I Ratio	**10.0%**	**9.9%**	**+0.1 p.p.**
Tier I Ratio	**12.7%**	**12.1%**	**+0.6 p.p.**
Total Capital Ratio	**14.6%**	**13.8%**	**+0.8 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 techniques has been a decisive factor in the achievement of the Bank's objectives.

Credit Risk

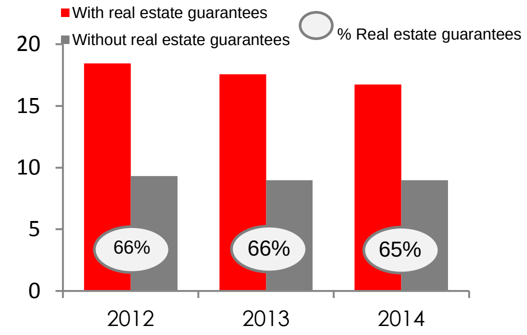
Main vectors of activity

In 2014, the activity of the Credit Risk area had the following main vectors:

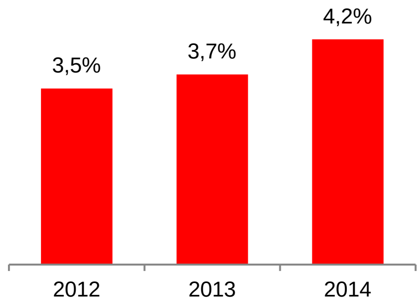
- Maintenance of the principle of segmentation in the treatment of credit risks, distinguishing the approach to risks in line with the features of both customers and products;
- Reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
- Concerning the risks included in the portfolio, the proximity with the customers was intensified in order to anticipate their credit requirements and eventual issues arising their repayment capabilities;
- This action and the level of the customers' credit quality allowed continuing to maintain ratios of non-performing loans and credit at a 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 customer's requests with swifter and more effective answers;
- Concerning the following up function of portfolios and customers, a permanent focus was kept in the surveillance 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. Permanent reviews carried out in all the portfolios allowed concluding that the portfolio is being analysed with adequate criteria and that the level of estimated impairment is equally adequate;
- Several measures were implemented in 2014 in the management of the admission process of new credits, with the objective of improving the quality of service rendered to customers whenever they present new credit opportunities;
- Concerning Standardized Risks, the main focus was kept on the maintenance of the portfolio's quality level, aiming against management slowdown and non-performing loans, continuing to provide a set of products and solutions for debt restructuring that allow adapting customers' expenditure to their reimbursement capacity and current and future available income;
- As such, adequate admission strategies were established in the Bank's decision systems and behavioural systems are being used to identify preventive and rollover measures to be offered to customers;
- Continuing on the issue of Standardized Risks, and considering the objective of the portfolio quality, the Bank optimized the models of automatic decision, namely *scorings* and behavioural systems used in the Private Customers and Business segments;
- Lastly, in order to strengthen the commercial involvement and the *cross selling* of current customers and simultaneously enhance the acquisition of new customers, several commercial campaigns directed towards the Business segment were kept, aiming towards the production of new credit and customer retention and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In an adverse macroeconomic scenario, with a consequent increase in non-performing loans, it has been verified a strong focus on the recoveries activity level, strengthening the intervention agility. To be emphasized 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 continued to strengthen negotiation procedures, aiming to obtain payment donations as an alternative to judicial court actions;
- Modernization of the Recoveries area, based on computer developments surgically, indicated by the users as necessary, that aim to control the process from the entrance into recoveries, relations with attorneys and executive actions;
- Changes in work methodology with the optimization of several procedures. The objective is to stress the model, increasing the efficiency of the resources and the effectiveness of the actions to allow anticipating the credit recovery;
- Concerning corporate risk management, focus was permanently kept on the cognizance and the following up of the credit portfolio, aiming towards a rigorous control of the inherent risks;
- Focus was equally maintained on the Bank's internal models, most of which were already recognized (by the regulators) as advanced models (IRB), for the purpose of calculation of equity fund requirements, as well as in their continuing inclusion in management procedures.

Indicators

Credit portfolio per guarantees (MM€)



Evolution of NPL ratio > 90d



Risk model

Introduction

Credit risk arises from the possibility of losses derived from total or partial non-performance of the financial liabilities, incurred towards 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 assumed risk, have been attributed a risk analyst. In this group are included 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 and complemented by decision supporting tools based on internal models of risk evaluation;
- Standardized customers are those that have not been assigned a specific 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, additionally complemented, in a subsidiary way, when the model is not sufficiently precise, with teams of specialized risk analysts.

Metrics and tools in risk measurement

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, matching each rating to a non-performing probability.

Global classification tools are applied to country risk segments, financial institutions and Global Banking Markets, 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 the balance sheet data and/or ratios, or macroeconomic variables complemented through the analysis carried out by the risk analyst that follows up the customer.

Concerning the companies and institutions comprised in retail banking groups, the attribution 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, which is also responsible to carry out a final revision of the rating attributed.

Attributed ratings are periodically revised, incorporating any new financial information that has become available, as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This periodicity increases in case of customers from 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 in such a way that automatically attributes an evaluation/decision of the transactions 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 it is also estimated the amount of 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 estimation of the expected and unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), being this cost duly included in the price of the operations.

The estimate of the unexpected loss, which is the basis for establishing the regulatory capital in line with the standards comprised in the Basle (BIS II) capital agreement, is related to a very high, although very unlikely, loss level, which, considering its nature, it is not considered as recurrent and must, therefore, be properly covered by the equity.

In small and medium sized enterprises, the information obtained from their balance sheet is used not only for the rating attribution, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into delinquency, and correlating them with the scoring attributed to the operations. With the exception of the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or Global Banking Markets, estimating these parameters is based upon alternative sources of information, such as market prices or assessments carried out by agencies with recognized experience and skill, with a portfolio containing a sufficient number of institutions (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 moment 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 use of the lines at the time of default.

Estimated parameters are immediately ascribed to operations that are found in normal situations 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 on the Higher Credit Council (HCC). The HCC 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 most basic level is on customer level and when certain features concur - generally at a level of relative importance – the portfolio is the object of an individual limitation, usually named as pre-classification, through a simpler system and usually 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 credit management programmes (CMP) 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 transactions, follow up and control

Risk assessment is a requisite prior to authority being given for any credit transaction in Banco 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 credit transactions, solvency and profitability. Additionally, an assessment and revision of the attributed 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 operations 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, a specific follow up function, comprising 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 regularization of the amounts in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. If the negotiated position is not possible, the Recoveries area will then endeavour to process recovery through the law courts;
- Maintain and strengthen the relations with the customer, safeguarding his deportment within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private, Business and Companies, with specific management models. The thus segmented recoveries management also respects the distinct management levels: preventive management, management of irregular situations and management of delinquencies and bankruptcies. This whole 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 (CRE), is the total sum of the present value of each contract (or Current Replacement Cost) and the respective potential risk, 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 2014, the present value of transactions on the indexing factors of interest rates (Euribor) has generally recorded a moderate reduction, reflecting the movements of the medium and long terms market rates. With respect to the exposure to financial groups, new transactions were carried out to cover the structural risk of interest rates, although the exposure continues relatively low, and equally keeping up the application of collateral providing agreements (ISDA Master Agreements/Credit Support Annex).

Balance Sheet Risk

Control of balance sheet risk

The control of the balance sheet risk covers the risk deriving from changes in interest and foreign exchange rates, as well as the liquidity risk, resulting from maturity lags and appreciation of assets and liabilities. The measurement and control of the balance sheet risk are ensured by a body which is independent from the management.

Methodologies

The interest rate risk in the consolidated balance sheet is measured through the modelling of the items in assets and liabilities sensitive to interest rate variations in line with their indexing and re-appreciation structure. This model allows the measurement and control of the risks, originated directly from the movement of the income curve, namely their impact on net interest income and on the Bank's equity.

As a complement, other risk indicators are estimated based on the equity, such as Value at Risk (VaR) and the stress test.

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by carrying out stress test exercises which endeavour to identify the potential risk on extreme market conditions. In parallel, ratios are estimated on the current items in the balance sheet that are indicators of structural and short term liquidity requirements.

The control of the balance sheet risks is guaranteed through the application of a structure of quantitative limits which aim to keep exposures within the authorized levels. Limits are focused on the following indicators:

- Interest rate: sensitivity of net interest income and of the equity;
- Liquidity: stress scenarios and short term and structural liquidity ratios.

Structural balance sheet risk management

Interest rate risk

The interest rate risk in the consolidated balance sheet is measured through a model of dynamic analysis of the market risk of the balance sheet, 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 the measuring and control of all the risks associated to the balance sheet's market risk, namely, the risk 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 2014, the policy followed was to keep sensitivity at the levels considered as adequate.

Exchange rate risk

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

Liquidity Risk

The 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, we are better protected with respect to potential crises that may affect the environment.

The policy of a financing mix is always based on an adequate level of liquidity risk, in line with the established limits, and it 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.

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 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.

At end-2014, the net financing obtained with the Eurosystem amounted to 3.8 billion euros, representing a 15.6% decrease relative to the situation at the end of 2013, justified by the improvement in the trading gap and by two issues of mortgage bonds amounting to one billion euros (at 3 years) and to 750 million euros (at 5 years), respectively, which were materialized in the first half of the year. In turn, the portfolio of assets eligible as guarantees for financing operations with the Eurosystem amounted to 12.3 billion euros, which, together with the already referred current use of ECB funds, allows the Bank to enjoy very comfortable levels of available liquidity.

The favourable variation of the trade gap, with the significant increase in deposits simultaneously with the issues of mortgage bonds, led to an increase in the relative weight of medium/long term financing in the Bank's financing structure.

Market Risk

Activities subject to market risk

The perimeter of measurement, control and follow up of financial risks comprises operations where equity risks are assumed. This 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.

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

- Negotiation: This heading includes the activity of financial service provided to customers;
- Balance Sheet Management: Risks deriving from the Bank's commercial activity, namely the interest rate and liquidity risks resulting from the timing differentials existing in maturities and re-pricing of assets and liabilities.

Methodologies

Negotiation Activity

The methodology applied, within the scope of Santander Totta, 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 these to the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past 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, insofar as it allows identifying the impact of the movements in the financial variables or the changes in the make-up of the portfolios.

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 (VaR) 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 punctual/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, are 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 throughout the year

The evolution of the risk relative to negotiation activity in the financial markets during 2014, quantified through VaR was that described in the following chart:

VaR was kept at reduced levels, varying between 5,000 and 32,000 euros.

Operational Risk

Definition and objectives

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". It distinguishes it from other types of risks, since it is not associated to products or business, but it is present in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as third party activities or natural catastrophes.

The objective in the case of control and management of operational risk is focused on the identification, measurement, assessment, control and mitigation of that risk.

The priority approach is, thus, to identify and eliminate risk outbreaks, independently from losses having occurred or not. Its measurement also contributes towards the establishment of priorities in the management of operational risk.

To estimate the equity required to cover operational risk, the Group opted, as a starting stage, to follow the Standard Method comprised in the BIS II regulations.

Management Model

The organizational management and control model results from the adaptation of the Group's approach to Basle II.

Supervision and control of operational risk is practised through its governing bodies. As such, the Board of Directors and the Executive Committee periodically include in their agendas the treatment of relevant features in the management and mitigation of operational risk.

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, being accompanied by a central area, responsible for the implementation and follow up of the project through control and supervision

The different stages of the management model allow to:

- Identify the operational risk inherent to all the Bank's activities, products, processes and systems;
- Measure and assess the operational risk objectively, continually and coherently with the Basle II standards, define objectives and analyse the risk profile in line with the respective limits;
- Carry out the continuous follow up of exposures to operational risk with the objective to detect risk levels that have not been assumed;
- Implement control procedures, improving the information available on the origins of the risk as well as the respective implications;
- Establish mitigation measures which extinguish or minimize operational risk.

The control model of the operational risk that was implemented has the following advantages:

- Allows a comprehensive and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information);
- It allows an improvement concerning the information available on the operational risks, whether effective or potential, and their framework in the business and support lines;
- Information on operational risk contributes towards improving processes and controls, reduce losses and revenue volatility.

Limits to operational risk are annually established. An appetite for risk is equally established, which must always be set in the low/medium-low bracket profile.

Compliance and Reputational Risk

Compliance risk is defined as the probability of the occurrence of negative impacts for the institution, which may influence results or equity, deriving from the breach of juridical standards, specific determinations, contractual responsibilities, rules of conduct and relationship with customers, ethical principles and established practices, relative to the practised activity, which may be materialized, for instance, in legal or regulatory sanctions, allocation of business opportunities, reduction of expansion potential or inability to demand contractual responsibilities by third parties.

In its turn, reputational risk is understood to be the probability of occurrence of negative financial impacts for the Institution affecting the results or even its equity, 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 objective of the policy governing compliance and reputational risk is their management such as defined in the above paragraphs, determining the devices and procedures that allow: i) to minimize the probability that it becomes factual; ii) to identify, report to the Board and overcome the situations that may have arisen; iii) to ensure follow up and control; and iv) to provide evidence, being necessary, that the Bank has reputational risk amongst its main concerns and has available the organization and means required for its prevention, detection and, if that is the case, to overcome it.

Without prejudice to all the remaining features that derive from the above, the global policy with respect to compliance and reputational risks 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;
- Code of Conduct;
- Marketing policies and product follow up;
- Financial risks policy;
- Quality policy;
- Policy concerning treatment and protection of personal data;
- Monitoring and follow up of new regulations;
- Liaison with supervisory authorities and follow the actions developed by them;
- Employee training policy;
- Social responsibility and environmental defence policies.

Net Income for the Year, in individual terms and referring to 2014, amounted to € 134,472,548.11 (one hundred and thirty four million, four hundred and seventy two thousand, five hundred and forty eight euros and eleven cents) and the Consolidated Net Income for 2014 amounted to € 165,173,828 (one hundred and sixty five million, one hundred and seventy three thousand, eight hundred and twenty eight euros).

As such, the Board of Directors proposes to the General Meeting that the following distribution of the results:

- Legal Reserve: € 13,447,254.82 (thirteen million four hundred and forty seven thousand, two hundred and fifty four euros and eighty two cents);
- Dividends: € 67,236,249.23 (sixty seven million two hundred and thirty six thousand two hundred and forty nine euros and twenty three cents);
- Income Carried Forward: € 53,789,044.06 (fifty three million seven hundred and eighty nine thousand, forty four euros and six cents).

Lisbon, 23 April 2015

THE BOARD OF DIRECTORS

Prevention of Money Laundering

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

The Bank applies procedures in accordance with legislative provisions, and has adopted the system to Bank of Portugal's Instruction No. 5/2013, complies with duties determined by Law, has available an organic structure exclusively assigned towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Institutional Issues
Staff is trained and regularly updated on this issue in order to detect eventual risk situations and immediately communicate with the competent body when such is justified, has available computer applications to monitor atypical movements, to assess transactions that fit into risk typologies to the Authorities and has automatic information systems to bring into prominence high risk customers, in order to apply reinforced due diligence measures. 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, if it is more demanding.

Complying with the determinations of the Bank of Portugal's Instruction 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 2013 to 31 May 2014 which, once approved by the Board of Directors was submitted to the Bank of Portugal.

On another hand, the Bank, complying with the Bank of Portugal's Instruction No. nº 46/2012, prepared the Self-Assessment Questionnaire on the issue of prevention of money laundering and financing terrorism relative to the period between 1 November 2013 and 30 November 2014, forwarding it to the Bank of Portugal following its prior approval by the Executive Committee.

Shareholder Structure

Shareholder	Nº shares	%
Santander Totta, SGPS, S.A.	641,269,620	97.65%
Taxagest - SGPS, S.A.	14,593,315	2.22%

Movement in Own Shares

In line with the decision of the Annual General Meeting, held on 15 May 2014, Santander Totta SGPS, S.A., directly on its own behalf or through a dependent company, may acquire own shares as well as dispose of those acquired up to the limit and remaining conditions foreseen in law.

On 31 December 2013, Santander Totta SGPS held 70,802,859 own shares corresponding to 0.036% of its share capital. In 2014, Santander Totta SGPS carried out a purchase of 10,473,249 own shares, corresponding to 0.005% of its share capital, thus holding a total of 81,276,108 own shares at year end.

This acquisition is comprised in Santander Totta SGPS's general policy, as to the purchase of shares from shareholders that are outside the Santander Group that wish to sell them.

TRANSACTION WITH OWN SHARES - 2014

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
31/12/2013	**249,427**	**5.73**	**1,428,817**	**0.038%**
Purchases	21,817	6.05	131,977	0.003%
Disposals	0	-	0	-
31/12/2014	**271,244**	**5.75**	**1,560,794**	**0.041%**

Organic Structure by Position

António Vieira Monteiro

Chairman, Risk Management Function and Audit

Chairman's Office – Sebastião Beltrão
Risk Control/Management – Manuel Aragão
Internal Audit – Miguel Ruiz

Risks – Alfredo Diez[(2)]

Corporate Risk Management – Jesus Garcia
Risk Methodology – Inês Furtado
Credit Risks – Amílcar Lourenço
Market & Structural Risks – Cláudia Correia
Non Financial Risks – Esther Casillas

Accounting & Management Control – Ignacio Centenera[(1)]

Accounting – Graça Vale
Management Control – Luís Capitão Mor
Internal Control – Américo Domingues

Human Resources, Organization & Costs – Nuno Costa[(1)]

Human Resources – Isabel Viegas
Real Estate, General Services & Security – Luís Morais
Cost optimization and Purchases – Mário Paulino
Organization, Productivity & Efficiency – Miguel Neves

José Carlos Sítima

Legal Issues & Compliance

Business Legal Consultancy – João Gomes da Silva
Institutional Issues & Compliance – João Labareda
Supervision – João Mendes

Recoveries & Divestment – José Carlos Ribeiro[(2)]

Recoveries – Mário Rodrigues Santos
Divestment – Jacinto Galante

Luis Bento dos Santos

Quality, Communication, Assessments, Universities & Public Policy

Quality – Abel Bernardes
Image & Internal Communication – Rui Santos
Institutional External Communication – João Velez
Public Relations & Events – Cristina Carvalho
Shareholder Relations – José Pacheco
Economic Research – Rui Constantino
Universities – Marcos Ribeiro
Public Policy – António Terra da Motta

José Leite Maia

Retail Banking

Private & Business North – Manuel Cerejeira Castro
Private & Business South – Sofia Frère
Control & Dynamics of P&N Network – Paulo Lourenço
Support to Private & Business Network – Pedro Louceiro
Private Banking – Luís Santos
Real Estate Promoters & Brokers – José Alberto Moura
Control of Irregularities – Jorge Mogo
International - Residents Abroad – António Carneiro

Pedro Castro e Almeida

Companies – Paulo Natal[(2)]

Companies North – Paulo Costa
Companies South – António Velez do Peso
Control & Dynamics of Companies Network – Mota Veiga
Management & Coordination with Risks – Marcos Heitor
International Business – Pedro Correia
Building Credit/Construction Promotion – António Fontes
Institutional Customers – Pedro Fialho

Global Banking & Markets – João Veiga Anjos[(2)]

Corporate and Investment Banking – João Veiga Anjos
Financing Solutions & Advisory – Cristina Melo Antunes
Global Transaction Banking – Hélder Gomes
Treasury – Alexandra Gomes
Middle Office & GBM Control– António Rebocho
Active Credit Portfolio Management and Financial Control – José Viegas
Financial Institutions Group – Carlos Ramalho

(1) Aggregate Manager to the Executive Committee
(2) Assistant to the Board

João Baptista Leite

Technology & Operations

Technology & Business Systems – Elsa Graça
Operations – Luís Alves
Data Integration & Information – Otília Casquilho

José Manuel Elias da Costa (**)

Products & Marketing – Armindo Escalda[(2)]

Private Products & Services – Cláudia Barrocas
Company Products & Services – Jorge Gaspar
Means of Payment – Paula Resende
Marketing – José Saks

Manuel Preto (*)

Finance – Miguel Carvalho[(2)]

Finance – Miguel Carvalho

Commercial Intelligence – Joaquim Filipe[(2)]

Strategy & Multichannel Management – Isabel Guerreiro
Mid & Mass Market Segment – Luis Coito
Select Segment – Jorge Alcobia
Business & Company Segment – Inês Oom de Sousa
Customer & CRM Development – Sara Fonseca
Innovation, Optimization & Commercial Skill – Miguel Paixão

(*) Assists the Chairman of the Executive Committee in the Commercial Intelligence area
(**) Also relates with the areas of Insurance and Asset Management

[(2)] Assistant to the Board

Offices held by Members of the Board of Directors of Banco Santander Totta in other companies

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

Name	Company	Office held
António Basagoiti Garcia-Tuñón	Banco Santander, S.A (Spain).	Member of the Risks Committee of the Board of Directors of the International Committee and of the Committee for Technology, Productivity and Quality
	Santander Totta, SGPS	Chairman of the Board of Directors and Chairman of the Salaries Committee (1)
	Fundación Santander	Member of the Patronage
	Fundación Banesto Sociedad y Tecnologia	Chairman (2)
	Fundación Cultural Banesto	Chairman (2)
	Fundación Eugenio Rodriguez Pascual	Chairman
	Fundación Príncipe de Asturias	Patron and Member of the Jury of the Concordia prize
	A.T. Kearney	External Member of the Advisory Committee
	Círculo de Empresários	Member of the Board
	Real Asociación Amigos del Museo Nacional Centro de Arte Reina Sofia	Member
	Fundación Amigos del Museo del Prado	Member
	Real Club Náutico de Calpe	Economic Vice President
	Fundación Silos	Patron
António José Sacadura Vieira Monteiro	Santander Totta, SGPS	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Portal Universia Portugal, S.A.	Deputy Chairman of the Board of Directors and Chairman of the Executive Committee
	Faculdade de Ciências Sociais e Humanas da Universidade Nova	Member of the General Council
	Câmara de Comércio e Indústria Luso-Espanhola	Deputy Chairman of the Board
	Vieira Monteiro, Lda.	Manager
José Manuel Alves Elias da Costa	Santander Totta, SGPS	Member of the Board of Directors and of the Executive Committee
	Santander Totta Seguros-Companhia de Seguros de Vida, SA	Chairman of the Board of Directors (3)
José Carlos Brito Sítima	Santander Totta, SGPS	Member of the Board of Directors ad of the Executive Committee
	Portal Universia Portugal, S.A.	Chairman of the General Meeting
	Partang, SGPS, S.A.	Member of the Board of Directors
Luís Filipe Ferreira Bento dos Santos	Portal Universia Portugal, S.A.	Member of the Board of Directors ad of the Executive Committee
	Virtualteorema – Estágios Digitais Unipessoal, Lda.	Manager (4)
	Casa da América Latina	Deputy Chairman
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee

(1) Elected on 15/05/14
(2) Relinquished office on 10/07/14
(3) Elected on 25/07/14
(4) Relinquished office on 3/10/14

Name	Company	Office held
Manuel António Amaral Franco Preto	Banco Santander Consumer Portugal, S.A.	Member of the Audit Board
	Serfin International Bank & Trust	Director
	Taxagest – Sociedade Gestora de Participações Sociais, S.A.	Chairman of the Board of Directors (1)
	Santotta – International, SGPS, Sociedade Unipessoal, Lda	Manager
	Totta & Açores Financing, Ltd.	Director
	Totta Ireland, Plc	Director
	Partang, SGPS, S.A.	Member of the Board of Directors
João Baptista Leite	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors
	SIBS – Forward Payment Solutions, S.A.	Member of the Board of Directors (2)
	SIBS, SGPS, S.A.	Member of the Board of Directors (2)
José Urgel Moura Leite Maia	Associação dos Amigos de Recife	Chairman of the Audit Board
Pedro Aires Coruche Castro e Almeida	Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	Chairman of the Board of Directors (3)
	Trem – Aluguer de Material Circulante, ACE	Member of the Board of Directors (4)
	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
	SIBS – *Forward Payment Solutions*, S.A.	Member of the Board of Directors (5)
	SIBS – SGPS, S.A.	Member of the Board of Directors (5)
Luís Manuel Moreira de Campos e Cunha	Santander Totta, SGPS	Chairman of the Audit Board
	Fundação de Serralves	Deputy Chairman
	SEDES – Associação para o Desenvolvimento Económico e Social	Chairman
	Galp Energia, SGPS, S.A.	Member of the Board of Directors
	Fundação Centro Cultural de Belém	Deputy Chairman of the Board (6)
	Universidade Nova de Lisboa	Professor
Ricardo Manuel Duarte Vidal de Castro	Santander Totta, SGPS	Chairman of the Audit Board
	Clube do Autor, S.A.	Manager
Pedro Manuel Alves Ferreira Guerra	Santander Totta, SGPS	Alternate Member of the Audit Board

(1) Previously Member and now Chairman
(2) Elected on 31/01/14
(3) Relinquished office on 24/07/14
(4) Relinquished office on 23/12/14
(5) Relinquished office on 14/01/14
(6) Relinquished office on 3/12/14

Movements in Shares and Securities of Members of the Governing Bodies

In the terms and for the purposes of the provisions of Article No 447 of the code from commercial society and of CMVM Instruction 5/2008, the movements in shares and bonds carried out by members of the Governing Bodies with reference to 2014, were the following:

Name	Securities	Opening Position 31/12/13	Movements in 2014				Closing Position 31/12/14
			Data	Acquisitions	Disposals	Unit Price (€)	
João Baptista Leite	BST Bonds– Caixa EUA - Cx	820	30/06/14		820	50	0
	BST Bonds – Caixa Rendimento América Latina TOP 3	400	31/12/14		400	50	0

I - Introduction

This report is prepared in line with the provisions of article, No. 70, §2, item b) of Código das Sociedades Comerciais (Portuguese Company Law).

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

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

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

   The remaining 0.131% of the total share capital is dispersed among several shareholders, with 0.038% corresponding to BST's own shares.

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

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

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

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

   For shareholders to have the right to participate in the General Meetings they must provide evidence of the registration or deposit of their shares in financial intermediaries until the fifteenth day prior to the date the General Meeting is scheduled to take place.

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

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

   The governing bodies are: the General Meeting, the Board of Directors and the Audit Board. Additionally, a statutory auditor, autonomous from the Audit Board, has been appointed in line with the provisions of article No. 413, §1, item b) and §2 of Código das Sociedades Comerciais.

   The governing bodies mandates have an ordinary duration of three years.

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

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

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

   No special rules exist concerning the appointment or replacement of Directors, or modifications to the articles of association, such events being governed by General Law.

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

   The rationalization and uniformity of operational and technical services supporting the Commercial Network is taken as a permanent goal.

7. The Company has not established any agreements whose entry into force requires a change in the Bank's shareholder structure or that may be subject to alterations or termination deriving from such a change.

   Within the ordinary course of banking activity in its several components there are, however, contracts that confer to the Bank's counterparty the right to terminate them in the event of changes in the Bank's shareholder structure and control, in line with common banking practice.

There are no agreements that confer upon the Bank's officers or employees the right to compensation when the termination of their employment relationship with the institution derives from their own initiative, from deposition or dismissal with just cause or that occurs in connection with a public offering.

8. The Bank's main business areas are:

- Retail Banking – refers essentially to credit granting operations and to the attraction of resources from individuals and business customers with a turnover lower than five million euros, channelled through the branch network and supplementary channels (telephone, internet, etc.);

- Company Banking –This area focuses on companies with turnovers between 5 and 125 million euros. Its activity is supported by the branch network, company centres and specialized services. The products offered to customers include loans to finance working capital, project finance, trade finance, exports and real estate financing;

- Global Banking & Markets – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and brokerage of stock exchange orders received from customers;

- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but are not directly linked with the core business, also including liquidity management, balance sheet hedging and structural financing of the Bank.

9. The global model of the company's governance is described in item IV

There are several interdisciplinary Committees that follow up and control all the institutions activities.

The main Committees are listed below, with a short description of their functions.

Management Committee

Presided by the Chairman of the Executive Committee and comprising some of its members as well as officers responsible for the business areas, it meets twice a month. It exercises the powers delegated by the Executive Committee. The main goals of the Management Committee are the analysis, decision and follow up of:

- Development of commercial activity, ensuring it is carried out within the established objectives and time frames, that the established commercial strategies are adequate, as well as the initiatives related to multi-channel commercial actions, ensuring the interconnection amongst the intervening areas;
- Credit policies, exposure to risk, decision models and credit management programmes;
- Definition of policies, strategy, objectives and follow up of actions concerning customer quality and customer experience.

Higher Credit Council

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

Committee of Internal Governance

Monitoring of matters related to Internal Governance, namely those in concerning the adequacy of the Bank's policies to those of the Santander Group and the adhesion of these policies to the Corporate Markers of Governance, with the aim of setting up of Governance Models that are adequate to the needs and objectives of the companies of the Group.

Market & Financial Risks

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

ALCO – Assets and Liabilities Commitee

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

Human Resources Committee

Analysis and implementation of changes and exceptions to the current HR management policies.

ARC – Analysis and Resolution Committee
Prevention of Money Laundering and Terrorism Financing and communication of potential cases to the relevant authorities as established by Law.

Marketing and Product Follow Up
Approval of new products and services and subsequent monitoring of the products and services implemented with a relevant focus on incidences that may occur and generate reputational risk for the Bank.

Pensions
Execution of the corporate policy over pensions and control of the respective risks.

Internal Control and Compliance
Follow up and supervision of compliance policies and promotion an environment of an internal control environment, specifically through the effective application of the risk management system.

Technological and Operational Risk
Establishment and following up of measures for the control and mitigation of technological and operational risk.

Disposal of Real Estate
Analysis and decision concerning the disposal of properties valued at amounts equal to or in excess of 200,000 euros.

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

Analysis and Follow Up of Provisions
Ensure the correct operational management of provisions set up and decide upon credit provisions that are binding.

Public Policy
Follows up issues related to public policies with relevance in the Bank or other Group companies in Portugal, namely with respect to participation in the preparation or public debate of laws, regulations or rules of conduct, originated by supervisory or professional bodies, as well as the assessment of the projected measures relevant impacts.

Sustainability
Establishes the Social Responsibility Strategic Plan, in articulation with the Santander Group corporate plan.

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

Innovation in Means of Payment
Establish the plan for implementation of innovative solutions in Means of Payment for customers, taking as a reference the corporate strategy established in the Santander Group.

Business Continuity Executive
Promote an organizational culture that ensures business continuity, provide the necessary resources for implementation of the Business Continuity Plan and ensure that the approved and implemented plans and procedures are in line with the Business Continuity Plan for the Group.

Functional Profiles
Establish the profiles of access to the central systems, to departmental systems, to local networks and to the various applications that support the business.

Follow Up of the Branch Network
Analysis and decision concerning proposals for the creation of new branches, refurbishment, displacement, merger or shut down of existing branches and assessment of the respective impacts.

Social Networks
Decide upon proposals to be implemented in the social networks.

Expenditure and Investment
Assess, decide, follow up and control expenditure and investment.

Two new areas were set up in 2013:

- Commercial Intelligence – comprises the strategic definition and management of the segments of Mass-Market, Select, Small Businesses and Corporates, Complementary Channels, Market Assessments and CRM, its interconnection with the areas of Retail Banking and Companies Banking being ensured through the respective areas of dynamization and control of the branch network.

- Divestment and Recoveries – encompasses all the activity developed with respect to credit recovery and the management and sale of assets acquired in the credit recoveries process.

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

Within this framework, the Bank practices a system of risk identification and management in line with articles No. 11 and 12 of the above referred Aviso and has the required organization to foster a proper and appropriate control environment and a sound risk management system.

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

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

The Bank complies with the demands of the Sarbanes Oxley (SOX) American Law since 2006, similarly to the Group to which it belongs. This regulation was made compulsory by the Securities Exchange Commission (SEC) for all corporations quoted on the New York Stock Exchange and is one of the most demanding in terms of requirements for an adequate and reliable Model of Internal Control.

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

The general lines that rule the organization and operation of the referred three missions are described next.

a) Risk Management Function

The Risk Management Function (RMF) is materialized in the Control / Risk Management Function Office (CRMO), established in BST's organic structure.

Due to the high level of interconnection among Group companies, with a significant portion of risk measuring and control ensured by central services of global scope, the RMF is transversal and common to all Credit Institutions and Finance Companies dominated by Santander Totta, SGPS, SA.

This function's general goal is to ensure the effective application of the risk management system in line with art. 16 of the referred Aviso No. 5/2008 of the Bank of Portugal, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted for their control, mitigation and overcoming. The Internal Governance guiding lines of the EBA dated September 2011 (GL44) strengthened the role of the RMF. The Capital Requirements Regulation (CRR) No. 575/2013 (EU) and the Capital requirements Directive 2013/36/EU (CRDIV) became the new juridical framework required for the adjustment of the General Regime of Credit Institutions and Finance Companies (GRCIFC), approved by Decree-Law No 298/92 dated 31 December and re-published with alterations by means of Decree-Law No 157/2014. Article No 115-M of the new GRCIFC reinforced the role of the Risk Management Function in ensuring the adequate identification, assessment and reporting of all material risks, in participating in the strategy definition and decision on the management of material risks, and by reinforcing the recognition of independence and exemption in conflicts of interest of the officer responsible for the RMF. CMVM (the Portuguese Securities Market Regulator) also issued Decree-Law No. 63-A/2013 altering the Securities' Code (namely article No. 305-B) and through it, the level of exigency demanded from Risk Management.

RMF was set up with the highest level of independence, that is, without any direct responsibility concerning any executive or first line control over the activities to be assessed which allows it to carry out its own tests with independence.

This body was attributed by the Executive Committee (EC) the widest possible powers to apply its mission, basing its activity on what is stated in the applicable legislation and on the application of the following principles and duties:

- Full access to all the institution's activities as well as to all information considered as relevant, namely the audit reports;
- Independence from the assessed areas;
- Impartiality, integrity and objectivity;
- Caution in the handling of the information and of the conclusions obtained which, without prejudice to the duties of communication to the authorities or supervision, must be submitted to the Board;
- Promotion of an adequate and efficient level of internal control extensible to the whole organization taking into consideration the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputational and Strategic Risks, without prejudice

to any others that, may become material to the institution;

- Liaise the local team with the Corporate Areas in order to determine the best needs and actions with respect to the development of new tools and the estimation of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Board the Risk management Annual Report in line with in the regulatory terms established;
- Issue all the reports and carry out all the tasks that the Board considers as opportune.

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

The CRMFO is currently applying a specific methodology developed to assess the reach and effectiveness of the controls and mitigation processes of the Risks profile, which has materialized in a number of tests or verifications of the requirements formulated specifically for each type of risk. Such tests and requirements were based on the recommendations issued by the Basle Committee and by the European Banking Authority (EBA, ex-CEBS), by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), by the Federal Reserve System (FED), Sarbanes-Oxley Law (SOX), Financial Services Authority (FSA) and other legislative and regulatory entities. The Portuguese case, especially the regulations covering Internal Control contained in the General Regime of Credit Institutions and Finance Companies (GRCIFC) and connected documentation such as BdP Instruction 5/2008, CMVM Regulatory Instruction 3/2008) was also taken into consideration.

As is usual, the activity developed by the Risk Management Function is documented in a specific annual report, the “RMF Report”, the last of which is dated May 2014. This document is intended to be used as a support to the Santander Totta Internal Control System, with particular relevance being given to the following up of controls and promotion of internal control, namely through several actions included in the referred Report.

It should also be noted that, since the end of 2012, the Bank of Portugal firstly, with the support of international auditors and consultants, under the joint supervision of the International Monetary Fund, European Central Bank and European Commission (IMF/ECB/EU) and, later, that of the European Central Bank within the scope of direct and joint supervision with the Bank of Portugal, have confirmed, their conviction that the policies, procedures and controls instituted by Banco Santander Totta are adequate.

b) <u>Compliance Function</u>

The Bank has given precedence, for some time, to giving autonomy, following up and controlling risks that could materialize in legal or regulatory sanctions, or in financial or reputational losses, as a result of non-compliance with any legal or regulatory provisions that could be considered as applicable, whether legal or regulatory or deriving from an infringement to the Code of Conduct or from procedures that do not conform to ethical standards or the best practices admissible.

The compliance function is incorporated in the Department for Coordination of Institutional and Compliance Issues (DCICI), which includes, a unit specifically dedicated to the Prevention of Money Laundering and Terrorism Financing with staff reserved for its exclusive use. The officer responsible is the Compliance Manager, Dr. João António Cunha Labareda, having the following specific duties and attributions:

- DCICI is a top level Department, reporting directly and exclusively to the Board of Directors, being autonomous from all other areas, specifically from the business areas;
- DCICI has its own staff, composed of employees of the institution, exclusively affected to the exercise of the duties entrusted to the Compliance Department, reporting hierarchically and functionally to the respective Manager;
- DCICI has free access to all information and data that it may request or require concerning the Bank’s activity, as well as to the Institution’s facilities and equipment;
- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, proposes, recommends and carries out whatever actions it believes to be necessary in order to prevent legal, reputational and compliance risks and, should it be the case, to correct any incidences that have occurred;
- The Bank has a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set the ethical principles and procedures that must be taken into account by those subject to the Codes and encourage the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is specifically monitored by DCICI that equally supports and follows compliance with the General

Code whose control, however, is attributed to the Department of Coordination of Human Resources;
- As a complement to the General Code of Conduct, the Bank also has a Programme for Corruption Prevention which reinforces the corporate compliance with the total rejection of any corruptive practices, involving the whole of the corporate organization in this requirement.
  Specific attributions are conferred on the DCICI for the following up and control of the execution of this Programme and its underlying policies;
- Specific policies and for the marketing of products are approved and established, as are the organs and processes responsible for their approval and follow up, that aim to, on the one hand, guarantee the prior checking of all the necessary requirements for the marketing of products to operate without legal, reputational and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, introduce the justifiable measures to overcome the incidence, which may include the interruption or termination of the marketing of the product when circumstances so require. In this context, special relevance is assumed by the assessment and follow up of the reputational risk inherent to the products or that may arise by the occurrence of adverse circumstances that may in some way affect the products, or that have a relevant impact on customer relationship;
- Compliance policy is extensive, in all its scope, to external branches and subsidiaries, although it is conducted with the support and executive guidance of the local units. Several of these units have officers responsible for compliance that locally exercise the corresponding duties. In the remaining cases, where the type of activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in Portugal. DCICI, within the framework of its mission, controls the performance of the compliance function by the respective responsible officers.

On another level, and in order to ensure that its mission is performed in the most efficient and effective way, the Compliance Department promoted the institutionalization of specific compliance committees especially designed for the most sensitive areas, namely those closer related to the financial markets, that operate periodically - usually monthly – and that allow assessing the established practices, evaluating their conformity with the applicable legal and regulatory standards, keeping the areas informed about innovations occurred and guaranteeing that these are implemented, controlling compliance with the information duties and other applicable requirements, identifying possible incidences and, should it be the case, analysing and implementing the appropriate mitigation and preventive measures. These committees are directed and coordinated by DCICI, with the officers responsible for the involved areas taking part in the meetings.

On another hand, both within and out of the scope of these Committees, DCICI maintains regular contact with the other control areas (Audit and General Risk Function), in order to enhance the placing into perspective, the follow up and the global control of risks.

Also worthy of note in this framework, is the institutionalized articulation with the Quality area – responsible for processing and following up customers' complaints – in order to follow up the situation unfolding in this field and, most importantly, to scrutinize, through the analysis of the complaints typology, the existence of possible omissions or inadequate practices that these may point out, so as to provide the appropriate adjustments or corrections.

The Compliance Department also comprises the Internal Control and Compliance Committee that has as general functions the control and management of risk.

Notwithstanding the permanent and systematic contacts with the Bank's Executive Committee, especially with the Board Director responsible for Compliance, the activity developed within this scope is the object of an annual report.

In this context, the Compliance Department Director submitted to the Board the report on compliance activity carried out during the period elapsed since the last report (May 2013) and the end of May 2014.

In line with the above, the Compliance Department Director's opinion is that the Bank is proceeding in accordance with the regulatory framework of the compliance mission, contained in Aviso No. 5/2008.

c) <u>Audit Function</u>

The basic duties of the Internal Audit are:

- Supervising the level of compliance, effectiveness and efficiency of the Group's internal control systems, as well as the reliability and quality of the accounting information. To this purpose internal auditors check that the risks inherent to the Group's activity are adequately covered, particularly the accounting risks, market risks (that include interest and exchange rates risks), risk of the balance sheet structure (that includes liquidity risks), credit risk, counterparty risk, operational risk, (including the adequate launching of products), money laundering risk, regulatory risk and reputational risk;

- Checking that the Units responsible for exercising risk controls comply with their duties and respect the policies established by the Board of Directors, and the applicable internal and external regulations and procedures and . Likewise, internal auditors analyse the Units' organizational structure and check if the human and material resources are being used adequately;
- Carrying out special investigations, both on its own initiative and at the request of the Board of Directors;
- Preparing reports with the results of the audits to each of the Units and advising the Units of the recommendations issued as a result of the audit process, establishing an schedule for the implementation of these recommendations and following up to check that these are being implemented.

The officer responsible for the internal audit mission is appointed by the Board of Directors, which confers on him all the necessary powers for the performance of his duties with independence and with free access to all relevant information. This position is currently assigned to Dr. Miguel Cabeza.

The staff of the Internal Audit Department comprises 28 employees, all with higher education, distributed over the areas of Financial Risks, Credit Risks, Operational Risks and Technological Risks.

The Risk Matrix prioritizes the units covered by the Internal Audit, in line with their inherent degree of risk. The matrix assesses the business risks implicit to the units during the previous accounting year as well as other factors (size of Unit, last rating obtained, and the recommendations degree of implementation).

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

II –Remuneration Policy

1. Remuneration Policy of the Members of the Board and Audit Board

Following a proposal of the Remuneration Committee, the General Meeting held on 29 March 2014 approved the following statement on remunerations policy.

In the terms and for the purposes of the provisions of article no.2, §1 of Law No. 28/2009, dated 19 June and of article No. 16 of Aviso No. 10/2011 of the Bank of Portugal , dated 29 December (Diário da República, 2nd Series, dated 9 January 2012), the proposed remuneration policy of the Members of the Board and Audit Board of Banco Santander Totta, S.A. (the "Bank"), to come into effect in 2014, is approved to be submitted to the General Meeting called to ratify the accounts for 2013, in the following terms:

A. Framework

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

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

The Remuneration Committee comprises the following individuals:

D. António Basagoiti Garcia – Tuñón – Chairman of the Board of Directors
Professor Doctor Luís Manuel Moreira de Campos e Cunha – Chairman of the Audit Board

B. Santander Group Policy

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

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

Consequently, the remuneration policy of the members of the Board of Directors has the following objectives:

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

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

A Committee for the Assessment of Risks in Remunerations exists at Group level since 2010.Its members are individuals with recognized competence and impartiality, and its aims are to to assess the quality of the results, risks incurred and achievement of goals.

It is also worth to mention that the Group has received the assistance of consultants Towers Watson in the definition of its remunerations policy.

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

C. Guiding principles of the remunerations policy in Banco Santander Totta

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

- Simplicity, clarity, transparency, aligned with the Bank's culture, and also considering the Group to which it belongs;
- Consistency with an effective risk and control management to avoid excessive exposure to risk and conflicts of interest, on the one hand, and aiming to maintain coherence with the objectives, values and long term interests of the Bank, whose

capacity for reinforcing its capital base is preserved, its employees, customers and investors;
- Competitiveness, considering both the market practices and fairness principles, since the remuneration policy is based upon uniform, consistent, fair and balanced criteria;
- Alignment with the best practices and recent trends in the financial sector, at national and international levels, with the ultimate objective of discouraging the exposure to excessive risks and promoting the continuity and sustainability of positive performances and results, namely: i) the setting of maximum limits for the Remuneration components that must be balanced “inter se”; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
- Establishing the individual Variable Remuneration considering the assessment of the respective performance, based upon both financial and non-financial criteria, in line with the employees’ duties and level of responsibility, as well as the Bank’s results, also in comparison with other international institutions in the same sector;
- The early termination of contracts is made in accordance with the legal rulings in force at each time;
- No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

D. Components of the remunerations policy

In line with the above principles, the following is assumed:
- The Remuneration Policy of the Members of the Board is framed within the Group’s directives that were laid down in line with the best practices existing in the sector;
- The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
    - Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
    - Annually, by the Director in representation of the Group, with respect to the Chairman of the Bank’s Executive Committee.
- Concerning the non-executive directors, the Chairman of the Board receives a fixed remuneration in Portugal and, as to the other Director, remuneration comprises both a fixed and a variable component, the latter, however, exclusively and directly related with the results of Banco Caixa Geral Totta de Angola, where he performs duties as Executive Director;
- The members of the Audit Board receive only a fixed remuneration which is determined in line with the criteria and practices in use in the remaining Group companies, considering the size of the Bank’s business and market in Portugal;
- Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

D.1. Fixed remuneration

- Fixed Remuneration is paid 14 times per year;
- The Fixed Remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank’s results, the assessment of performance and the market references, while taking into account the differing specificities and dimensions of the Bank in Portugal;
- The Fixed Remuneration of the executive directors has the limits annually set by the Remunerations Committee, and should not be lower than 40% of the Total Remuneration in 2014.

D.2. Variable remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, with the aim of maintaining a balance between the short and medium term;
- Considering what is defined in point **D**, item e),variable remuneration is adequately balanced in relation to fixed remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, the Bank’s quantitative and qualitative objectives are taken in consideration, as well as the indicators included in the Strategic Plan annually established by the Group;
- The weighting of the level of achievement of the strategic objectives set by and for the Bank, either in absolute terms or by comparison with other institutions in the sector, for the purpose of establishing the Variable Remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
- In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be suspended until such claims have been appraised and, should these be considered conclusive, the respective remuneration will not be attributed until such damages have been settled.

D.2.1. Annual variable remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution of Banco Santander, S.A. shares;
- The determination of the performance premium value is based on the following criteria: i) 75% depend upon the after tax results of the Company (55%) and of the Group (20%), and ii) 25% depend upon fulfilment of efficiency in the use of capital (*Return on Risk Weighted Assets*) of the Company (15%) and of the Group (10%);
- The application of the above referred criteria in the attribution of the performance premium is adjusted by weighting i) the individual performance, considering the individual quantitative results achieved, as well as ii) additional qualitative factors, namely the adequacy of risk management and the efficient use of capital; the relative performance of the bank's results when compared with the results of the competitors; the level of customer satisfaction as compared with that of the competitors; the evolution of *core capital* ratios, the Group's economic capital, the accounts and other relevant management factors;
- The performance premium is intended to reward the achievement of annual results and individual accomplishment, and may vary as a function of the rate of performance of the objectives, between 0% and a value that in 2014 is estimated to be not in excess of 150% of the performance premium paid by the Bank in the previous year;
- The deferred portion will represent 40% of the total value of the Variable Remuneration, for executive directors in general and may, in specific circumstances, reach 50%;
- Half of the non-deferred portion will be paid in shares and the remaining half in cash;
- The payment of the deferred portion is determined as a function of the results obtained over a three year period and subject to the following conditions being cumulatively held true: i) permanence in the Company during a given established period; ii) preservation of the level of financial performance of the Santander Group during the referenced three year period; iii) absence of significant variations in the Group's economic capital or risk profile; iv) compliance with internal regulations including those relative to risks, annually approved by the Group;
- Half the amount of the deferred portion is paid in shares and the other half in cash, the payment of the latter being made in three instalments during the three subsequent years, and being dependent upon the fulfilment of the conditions referred above, under item g);
- The shares attributed to the members of the Executive Committee do not benefit from any risk covering contract and will remain, until the end of the respective mandates, subject to the condition of being held, until their value reaches twice the amount of the total remuneration (they may nonetheless be sold for the purpose of paying the taxes resulting from the benefit inherent to the same shares).

D.2.2. Multiannual variable remuneration

- As a component of the multiannual variable remuneration, the Bank will set, in 2015, a Long Term individual incentive, taking into consideration the relative performance of the total return for the shareholder (RTS) of Banco Santander as compared with a group comprising 15 credit institutions, in 2014;
- The individual Long Term incentive takes as a reference the value of 15% of the basis of the Bank's performance premium, corresponding to 100% of that value should the RTS of Banco Santander be placed amongst the eight best of the above referred group of credit institutions, 50% if it is placed between the ninth and twelfth best, and 0% if placed in a lower position;
- The Long Term Incentive will be paid in shares of Banco Santander and deferred for a three year period, in line with the performance of Banco Santander's RTS as compared with the above referred group of credit institutions:
  - One third of the respective value should the RTS of Banco Santander be placed amongst the four best of that group;
  - 87,5% of one third of the respective value in the periods when the RTS of Banco Santander is the fifth best in that group;
  - 75% of one third of the respective value in the periods when the RTS of Banco Santander is the sixth best in that group;
  - 62,5% of one third of the respective value in the periods when the RTS of Banco Santander is the seventh best in that group;
  - 50% of one third of the respective value in the periods when the RTS of Banco Santander is the eighth best in that group;
  - Nil value when the RTS of Banco Santander is placed below the eighth best in the same group.
- For the purposes of the provisions of the previous item, the RTS performance is measured in cumulative terms, in the periods between 1 January 2014 and i) 31 December 2015 for the payment to be made in 2016, ii) 31 December 2016 for the payment to be made in 2017 e iii) 31 December 2017 for the payment to be made in 2018;
- The payment of the individual Long Term Incentive is also subject to the following conditions being cumulatively maintained: i) permanence in the

Bank during a given established period; ii) preservation of the level of the Group's financial performance during the deferment period; iii); compliance with internal regulations, especially those relative to risks; iv) absence of material reformulation of the Group's financial components imposed by the auditors, excepting those resulting from changes in accounting standards; v) inexistence of significant variations in the Group's economic capital or risk profile;

- In the extreme case, shares may be not attributed at all;
- Attributed shares do not benefit from any risk covering contract and remain, until the termination of the mandates of the respective beneficiaries, subject to the condition of being held, until their value reaches twice the amount of the total remuneration (they may nonetheless be sold for the purpose of paying the taxes resulting from the benefit inherent to the same shares).

D.2.3. Identification of the deferred portion and that already paid

Relative to 2010, and regarding two directors, the last third of the deferred variable remuneration was paid in 2014.

Relative to 2011, one third of the deferred variable remuneration remains to be paid.

Relative to 2012, two thirds of the deferred variable remuneration remains to be paid.

Relative to 2013 variable remuneration, the non-deferred portion was paid in 2014. The remaining portion will be deferred over three years.

D.2.4. Amounts paid by other Companies controlled by the Bank or its subsidiaries

It is not expected that the executive directors will receive, in 2014, any payments from other companies controlled by the Bank or by any of its subsidiaries.

E. Benefits

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

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

F. Complementary features

The attribution of option plans for 2014 is not expected.

Considering the provisions of §5 of article No. 403 of Código das Sociedades Comerciais, statutory limitations to compensation for early termination of services by Members of the Board and Audit Board have not been established nor are they expected to be introduced.

It is not foreseeable that, in 2014, any compensation will be paid for early termination of services by Members of the Board and Audit Board.

G. Compliance with the remuneration policies established by the Bank of Portugal

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

As such, the determination of the total remuneration of those Officers, comprising fixed and variable components, as well as the articulation between these components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Aviso, which manifestly constitutes its most important part.

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

2. Remuneration and Other Benefits Attributed to Corporate Officers

This information is provided in order to comply with the provisions of article No. 3 of Law 28/2009, dated 19 June, article No. 17 of the Bank of Portugal's Aviso No. 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), in that part that refers to the disclosure of the annual amount paid in remunerations to Members of the Board and Audit Board. The Remunerations Committee was summoned 6 times in 2014 to exercise its duties.

In aggregate terms, the fixed and variable remunerations paid to Members of the Board and Audit Board in 2014 were, respectively mEuros 3.578 in fixed remunerations and mEuros 4.596 in variable remunerations.

On 31 December 2014 the cumulative amount of credits granted to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to mEuros 809.

Paid and deferred individual remuneration relative to 2014 is shown in the table below.

Annual Remuneration

Board of Directors

Name	Position	Remuneration fixed
António Basagoiti Garcia -Tuñón	Chairman	838
António José Sacadura Vieira Monteiro	Deputy Chairman	568
Carlos Manuel Amaral de Pinho	Non-Executive Member	190
João Baptista Leite	Member	200
José Carlos Brito Sítima	Member	321
José Urgel Moura Leite Maia	Member	227
José Manuel Alves Elias da Costa	Member	302
Luís Filipe Ferreira Bento dos Santos	Member	296
Pedro Aires Coruche Castro e Almeida	Member	337
Manuel António Amaral Franco Preto	Member	200
		3,479

Audit Board

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

Annual Variable Remuneration

Pecuniary portion:

Board of Directors

Name	Position	Bonuses in 2014 (cash)
António José Sacadura Vieira Monteiro	Deputy Chairman	225
Carlos Manuel Amaral de Pinho	Non-Executive Member	90
João Baptista Leite	Member	107
José Carlos Brito Sítima	Member	170
José Urgel Moura Leite Maia	Member	141
José Manuel Alves Elias da Costa	Member	168
Luís Filipe Ferreira Bento dos Santos	Member	135
Pedro Aires Coruche Castro e Almeida	Member	174
Manuel António Amaral Franco Preto	Member	137
		1,346

Portion paid in shares:

Board of Directors

Name	Position	Bonuses in 2014 retained by one year
António José Sacadura Vieira Monteiro	Deputy Chairman	221
Carlos Manuel Amaral de Pinho	Non-Executive Member	89
João Baptista Leite	Member	105
José Carlos Brito Sítima	Member	167
José Urgel Moura Leite Maia	Member	138
José Manuel Alves Elias da Costa	Member	165
Luís Filipe Ferreira Bento dos Santos	Member	133
Pedro Aires Coruche Castro e Almeida	Member	171
Manuel António Amaral Franco Preto	Member	134
		1,323

This amount corresponds to 217,489 Banco Santander, S.A. shares, at a price per share of 6.085 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

The Santander Group, in which the Bank is inserted, also has a long term incentive plan on a worldwide level, which naturally includes Banco Santander Totta, S.A., and which is divided in cycles.

The sixth cycle of the share plan linked to objectives was finalized in July 2014, with no shares being attributed due to the objectives not having been achieved.

Deferred Remuneration

The pecuniary portion of the 2014 deferred remuneration is as follows:

Board of Directors

Name	Position	Bonuses - 2014		
		2016	2017	2018
		Cash	Cash	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	75	75	75
Carlos Manuel Amaral de Pinho	Non-Executive Member	20	20	20
João Baptista Leite	Member	24	24	24
José Carlos Brito Sítima	Member	38	38	38
José Urgel Moura Leite Maia	Member	31	31	31
José Manuel Alves Elias da Costa	Member	37	37	37
Luís Filipe Ferreira Bento dos Santos	Member	30	30	30
Pedro Aires Coruche Castro e Almeida	Member	39	39	39
Manuel António Amaral Franco Preto	Member	30	30	30
		324	324	324

The portion of 2014 deferred remuneration paid in shares is as follows:

Board of Directors

Name	Position	Bonuses - 2014		
		2015	2016	2017
		shares	shares	shares
António José Sacadura Vieira Monteiro	Deputy Chairman	12,097	12,097	12,097
Carlos Manuel Amaral de Pinho	Non-Executive Member	3,233	3,233	3,233
João Baptista Leite	Member	3,826	3,826	3,826
José Carlos Brito Sítima	Member	6,110	6,110	6,111
José Urgel Moura Leite Maia	Member	5,058	5,058	5,057
José Manuel Alves Elias da Costa	Member	6,035	6,035	6,035
Luís Filipe Ferreira Bento dos Santos	Member	4,850	4,850	4,849
Pedro Aires Coruche Castro e Almeida	Member	6,251	6,251	6,250
Manuel António Amaral Franco Preto	Member	4,904	4,904	4,903
		52,364	52,364	52,361

On this date, two thirds of the deferred 2013 remuneration remains deferred, and one third has been paid.

Board of Directors

Name	Position	Bonuses - 2013 paid in February 2015			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.3	4	50	47
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.1	1	17	16
João Baptista Leite	Member	0.1	1	16	15
José Carlos Brito Sítima	Member	0.2	3	33	31
José Urgel Moura Leite Maia	Member	0.1	2	23	22
José Manuel Alves Elias da Costa	Member	0.2	3	29	27
Luís Filipe Ferreira Bento dos Santos	Member	0.2	3	29	27
Pedro Aires Coruche Castro e Almeida	Member	0.2	3	36	33
Manuel António Amaral Franco Preto	Member	0.1	2	20	19
		1.4	23	253	237

37,805 Banco Santander, S.A. shares were attributed, at a price per share of 6.272 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Board of Directors

Name	Position	Bonuses - 2013			
		2016		2017	
		Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	7,485	50	7,485	50
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,495	17	2,495	17
João Baptista Leite	Member	2,380	16	2,381	16
José Carlos Brito Sítima	Member	4,990	33	4,990	33
José Urgel Moura Leite Maia	Member	3,502	23	3,502	23
José Manuel Alves Elias da Costa	Member	4,339	29	4,340	29
Luís Filipe Ferreira Bento dos Santos	Member	4,281	29	4,282	29
Pedro Aires Coruche Castro e Almeida	Member	5,339	36	5,340	36
Manuel António Amaral Franco Preto	Member	2,994	20	2,994	20
		37,805	253	37,809	253

On this date, one third of the deferred 2012 remuneration remains deferred, and one third has been paid

Board of Directors

Name	Position	Bonuses - 2012 paid in February 2015			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.6	10	53	51
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.2	3	19	18
João Baptista Leite	Member	0.2	3	18	17
José Carlos Brito Sítima	Member	0.3	5	27	27
José Urgel Moura Leite Maia	Member	0.3	5	27	26
José Manuel Alves Elias da Costa	Member	0.4	6	32	31
Luís Filipe Ferreira Bento dos Santos	Member	0.3	5	29	28
Pedro Aires Coruche Castro e Almeida	Member	0.4	7	38	37
Manuel António Amaral Franco Preto	Member	0.2	4	21	20
		3.1	49	262	255

40,704 Banco Santander, S.A. shares were attributed, at a price per share of 6.272 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Board of Directors

Name	Position	Bonuses - 2012	
		2016	
		Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	8,169	53
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,884	19
João Baptista Leite	Member	2,723	18
José Carlos Brito Sítima	Member	4,221	27
José Urgel Moura Leite Maia	Member	4,149	27
José Manuel Alves Elias da Costa	Member	4,964	32
Luís Filipe Ferreira Bento dos Santos	Member	4,452	29
Pedro Aires Coruche Castro e Almeida	Member	5,876	38
Manuel António Amaral Franco Preto	Member	3,268	21
		40,706	261

The variable remuneration paid relative to 2011 was the following:

Board of Directors

Name	Position	Bonuses - 2011 paid in February 2015			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.4	3	10	11
Carlos Manuel Amaral de Pinho	Non-Executive Member	-	-	-	-
João Baptista Leite	Member	0.3	2	6	7
José Carlos Brito Sítima	Member	0.4	3	10	11
José Urgel Moura Leite Maia	Member	0.4	3	10	11
José Manuel Alves Elias da Costa	Member	0.6	5	14	15
Luís Filipe Ferreira Bento dos Santos	Member	0.6	4	12	13
Pedro Aires Coruche Castro e Almeida	Member	1.2	8	26	28
		4.0	29	87	96

15,241 Banco Santander, S.A. shares were attributed, at a price per share of 6.272 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Other Benefits

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

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

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

On 31 December 2014, liabilities with this plan amounted to mEuros 18,391 and are duly covered by a provision recorded in the Bank's accounts.

Contractual Terminations

There were no payments, in 2014, of any compensation for early termination of employment of corporate officers.
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Remuneration Policy applicable in 2014 to the Managerial Staff of Banco Santander Totta, S.A.

At its meeting held on 25 June 2014 the Board of Directors approved the following remunerations policy.

REMUNERATIONS POLICY OF THE BANCO SANTANDER TOTTA, S.A. OFFICERS WITH RESPONSIBILITY IN ASSUMING RISKS OR IN CONTROL DUTIES.

In the terms and for the purposes of the provisions of article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy of the employees is disclosed of the employees for those who are not members of the Governing Bodies of Bank Santander Totta, S.A. (the "Bank"), (i) exercise their professional activity with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Bank's risk profile or (ii) exercise their professional activity within the scope of the control functions, comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, as is the case with the officers responsible for the Audit, General Control of Bank Risks, Compliance and Credit & Market Risks Departments, as well as those officers responsible for the Financial, accounting and Management Control areas.

In the definition of this policy's subjective scope consideration was given to the parameters referred in *"the regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU",* such as proposed by the European Banking Authority (EBA).

A. Framework

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

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

B. The Santander Group Policy

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

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

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

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

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

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

Additionally, the Group engaged the assistance of consultants Towers Watson in the definition of their remunerations policy.

C. Guiding Principles of the Remuneration Policy

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

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

D. Components of the Remuneration Policy

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

- The Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the existing practices in the industry;
- The means for the assessment of the Officers performance derive from the referred directives. This assessment is carried out on an annual basis by the Directors responsible for the respective areas. Whenever these officers report to two different areas, the assessment is also carried out by the Group officer responsible for the other area in question;
- Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

D.1. Fixed Remuneration

- Fixed remuneration is paid 14 times a year;
- Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 2014, it will represent a lower proportion than 50% of Total Remuneration.

D.2. Variable Remuneration

- Managerial remuneration equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- Considering what is defined under point **D**, item *c)*, variable remuneration is adequately balanced in relation to fixed remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established at Group level;

- With respect to the Officers covered by Instruction No, 5/2008 of the Bank of Portugal, the determination of Variable Remuneration will be based on the following criteria: (i) individual assessment of the employee, exclusively considering the specific objectives related to the functions exercised by the employee concerned; (ii) the Bank's global performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results;
- With respect to the remaining Officers, the determination of the Variable Remuneration will be based on the following criteria: (i) the Bank's global performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results; (ii) individual performance, considering the quantitative and qualitative results achieved, as well as their contribution towards the Bank's image and reputation.

D.2.1. Annual Variable Remuneration

- As a component of Variable Remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution Banco Santander, S.A. shares;
- The establishment the performance premium value is based on the following criteria: i) 75% depend upon the after tax results of the Company (55%) and of the Group (20%), and ii) 25% depend upon fulfilment of efficiency in the use of capital (*Return on Risk Weighted Assets*) of the Company (15%) and of the Group (10%);
- The application of the above referred criteria in the attribution of the performance premium is adjusted by weighting the individual performance, considering the individual quantitative results achieved, as well as additional qualitative factors, specifically i) the adequacy of risk management and the efficient use of capital, ii) comparison with the results of the competitors, iii) the level of customer satisfaction as compared with that of the competitors, iv) the evolution of the *core capital*, of the Group's economic capital, of the accounts and other relevant management factors;
- The performance premium is intended to compensate the achievement of annual results and individual accomplishment, and may vary as a function of the rate of performance of the objectives, between 0% and a value that in 2014 is estimated not to be in excess of 150% of the performance premium paid by the Bank in the previous year;
- The deferred portion will represent 40% of the total value of the Variable Remuneration;
- Half of the non-deferred portion will be paid in shares and the remaining half in cash;
- The payment of the deferred portion is determined as a function of the results obtained over a three year period and subject to the following conditions being cumulatively held true: i) permanence in the Company during a given established period; ii) preservation of the level of financial performance of the Santander Group during the referenced three year period; iii) occurrence of no significant variations in the Group's economic capital or risk profile; iv) compliance with internal regulations including those relative to risks, annually approved by the Group;
- Half the amount of the deferred portion is paid in shares and the other half in cash, the payment of the latter in three instalments, during the three subsequent years, and dependent upon the fulfilment of the conditions referred to above, under item g);
- The attributed shares do not benefit from any risk covering contract and are subject to the condition of being held for a period of one year from the date of attribution.

D.2.2. Multiannual Variable Remuneration

- As a component of the multiannual variable remuneration, the Bank will set, in 2015, a Long Term individual incentive, taking into consideration the relative deportment, in 2014, of the total return for the shareholder (RTS) of Banco Santander as compared with a group comprising 15 credit institutions;
- The individual Long Term incentive is referenced to the value of 15% of the basis of the Bank's performance premium, corresponding to 100% of that value should the RTS of Banco Santander be placed amongst the first eight of the above referred group of credit institutions, to 50% if it is placed between the ninth and twelfth place, and 0% if placed in a lower position;
- The Long Term Incentive will be paid in shares of Banco Santander and deferred for a three year period, in line with the performance of Banco Santander's RTS as compared with the above referred same group of credit institutions:
  - One third of the respective value should the RTS of Banco Santander be placed amongst the first four of that group;
  - 87,5% of one third of the respective value in the periods when the RTS of Banco Santander is the fifth placed in that group;
  - 75% of one third of the respective value in the periods when the RTS of Banco Santander is the sixth placed in that group;
  - 62,5% of one third of the respective value in the periods when the RTS of Banco Santander is the seventh placed in that group;

  - 50% of one third of the respective value in the periods when the RTS of Banco Santander is the eighth placed in that group;
  - Nil value when the RTS of Banco Santander is placed below the eighth in the same group.
- For the purposes of the provisions of the previous item, the deportment of the RTS to be considered is that verified, in cumulative terms, in the periods between 1 January 2014 and i) 31 December 2015 for the payment to be made in 2016, ii) 31 December 2016 for the payment to be made in 2017 e iii) 31 December 2017 for the payment to be made in 2018;
- The payment of the individual Long Term Incentive is also subject to the following conditions being cumulatively maintained: i) permanence in the Bank during a given established period; ii) preservation of the level of the Group's financial performance during the deferment period; iii); compliance with internal regulations, especially those relative to risks; iv) absence of material reformulation of the Group's financial components imposed by the auditors, excepting those resulting from changes in accounting standards; v) inexistence of significant variations in the Group's economic capital or risk profile;
- As a limit, the attribution of any shares may not take place;
- Attributed shares do not benefit froim any risk covering contract and remain, until the termination of the mandates of the respective beneficiaries, subject to the condition of being held, until their value reaches twice the amount of the total remuneration (without prejudice to the possibility of the sale of shares required to pay the taxes resulting from the benefit inherent to the same such shares).

D.2.3. Identification of the deferred portion and of that already paid

Relative to the 2012 variable remuneration two thirds remain to be paid.

Relative to the 2013 variable remuneration, the portion not subject to deferment was paid in 2014. Payment of the remainder is deferred for three years.

E. Benefits

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

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

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

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

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

There are no pension benefits attributed on a discrete basis.

F. Compliance with the Remuneration Policies established by the Bank of Portugal

The remuneration policy of the Bank's Officers is generally in line with the principles comprised in Instruction No. 10/2011, dated 26 December (Government Gazette, 2nd Series, dated 9 January 2012), also taking into consideration "*the parameters defined in the regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU*", such as proposed by the European Banking Authority (EBA).

This policy is guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determining of the total remuneration of these groups of employees, comprised by a fixed and a variable remuneration, as well as the joint appraisal of these two components, such as made clear in this Declaration, allow the adoption, in general, of the rules contained in Chapter II of the referred Instruction which is clearly its basic nucleus.

The fact that the Bank is comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence between the respective corporate policies which, in their turn, considering the Group's global nature, respect the international regulations that cover this issue. In this context, the adoption of the remaining rulings contained in Instruction No. 10/2011 would imply a procedural redundancy and an artificial regulatory execution without any practical effects. As such, the policy of Banco Santander Totta regarding its Officers' remunerations is contained within these limits without prejudice to the compliance, in global terms and at the time of setting the directives of the Group to which they are liable, with similar rules established by the competent national authorities.

3. Remuneration and Other Benefits attributed to Officers and Managerial Staff

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

Annual Remuneration

Amount of fixed remuneration	mEuros 4,293
Amount of variable remuneration	mEuros 4,291
Number of beneficiaries:	25

2015 Performance premium retained for one year amounting to mEuros 1.242, corresponding to 204,103 shares of Banco Santander, S.A., at a price per share of 6.085 Euros, since this is the market price (Stock Exchange quotation) on the date of the respective attribution.

Deferred Remuneration	Paid	2016	2017	2018
2011				
Pecuniary portion (mEuros)	7	-	-	-
Shares	11	-	-	-

The value of the shares corresponds to 1,762 shares in Banco Santander, S.A., at a price per share of 6.27 Euros, since this is the market price (Stock Exchange quotation) on the date of the respective attribution.

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	Paid	2016	2017	2018
2012				
Pecuniary portion (mEuros)	63	54	-	-
Shares	58	9,745	-	-

The value of the shares corresponds to 9,310 shares in Banco Santander, S.A., at a price per share of de 6.27 Euros, since this is the market price (Stock Exchange quotation) on the date of the respective attribution.

	Paid	2016	2017	2018
2013				
Pecuniary portion (mEuros)	72	67	67	-
Shares	65	10,796	10,797	-

The value of the shares corresponds to 10,386 shares in Banco Santander, S.A., at a price per share of de 6.27 Euros, since this is the market price (Stock Exchange quotation) on the date of the respective attribution.

	Paid	2016	2017	2018
2014				
Pecuniary portion (mEuros)	-	288	288	288
Shares	-	46,502	46,502	46,499

These officers are also included in the worldwide long term incentive plan which is divided in cycles. The sixth cycle of the share plan linked to objectives was finalized in July 2014, no shares having been attributed since the objectives were not achieved.

Other Benefits

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

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

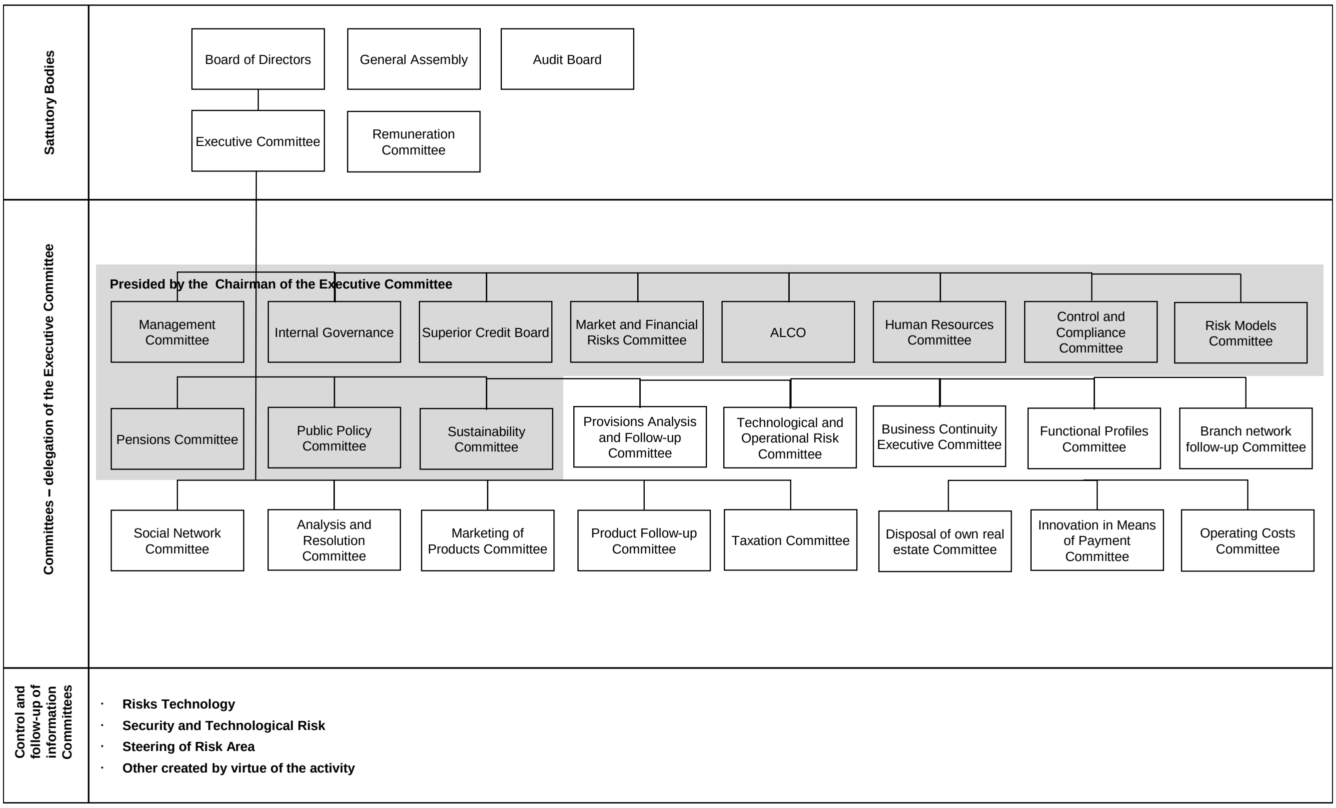
Several Officers benefit from a complementary pension plan, in the terms of the decision of the Bank's Board of Directors dated 25 February 2010.

III. Remuneration Policy for 2015

The Remuneration Policy of the Corporate Officers of Banco Santander Totta, for 2015, will be the object of deliberation at the Annual General Meeting, in the terms of article no. 2, §1 of Law no. 28/2009, dated 19 June and of article no. 16 of Bank of Portugal Instruction no. 10/2011, dated 29 December (Government Gazette, 2nd Series, dated 9 January 2012).

The Remuneration policy for the Managerial Staff of Banco Santander Totta was approved at the meeting of the Board of Directors held on 25 June 2014, and applicable in 2014 and 2015. Until a further decision is taken, this policy is that which is transcribed above. It is expected that this issue will be considered in June 2015.

IV. Model of Internal Governance



Declaration referred to in item c) of § 1 of article no. 245 of the Securities Legislation

Item c) of §1 of article no. 245 of the Securities Legislation determines that each one of the persons responsible for the company issues a declaration the text of which is established therein.

The members of the Board of Directors of Banco Santander Totta, S.A, herein nominally identified individually subscribed the declaration transcribed below:

"I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 245 of the Securities Legislation that, as far as I am aware, the Management Report, the annual Accounts, the Statutory Auditor's Report and remaining financial statements of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2014, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of above named company and of those companies comprised in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced".

The Board of Directors

António Basagoiti Garcia-Tuñon
Chairman

António José Sacadura Vieira Monteiro
Deputy Chairman

Carlos Manuel Amaral de Pinho
Member

João Batista Leite
Member

José Carlos Brito Sítima
Member

José Urgel Moura Leite Maia
Member

José Manuel Alves Elias da Costa
Member

Luís Filipe Ferreira Bento dos Santos
Member

Manuel António Amaral Franco Preto
Member

Pedro Aires Coruche Castro e Almeida
Member

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

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

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2014, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

Audit Board

Chairman: Luís Manuel Moreira de Campos e Cunha

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

Ricardo Manuel Duarte Vidal Castro

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2014 AND 2013 (PRO FORMA)

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheets originally issued in Portuguese - Note 53)

		2014			2013 (pro forma)	January 01, 2013 (pro forma)
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets	Net assets
Cash and deposits at central banks	5	830.474	-	830.474	337.841	352.365
Balances due from other banks	6	241.218	-	241.218	552.921	385.323
Financial assets held for trading	7	2.291.734	-	2.291.734	1.949.115	2.265.495
Financial assets at fair value through profit or loss		-	-	-	-	93.735
Available-for-sale financial assets	8	6.774.498	61.943	6.712.555	4.382.253	3.489.864
Loans and advances to credit institutions	9	1.220.917	-	1.220.917	3.270.970	3.097.422
Loans and advances to customers	10	26.684.869	1.161.618	25.523.251	26.107.521	26.979.649
Hedging derivatives	11	195.035	-	195.035	199.427	284.850
Non-current assets held for sale	12	332.221	123.846	208.375	206.943	206.840
Investment properties	13	420.239	-	420.239	467.949	-
Other tangible assets	14	745.117	446.325	298.792	318.662	336.084
Intangible assets	14	380.023	351.642	28.381	52.468	65.842
Investments in associated companies	15	167.859	1.500	166.359	147.730	142.994
Current tax assets	16	14.603	-	14.603	17.458	4.246
Deferred tax assets	16	458.675	-	458.675	540.675	631.578
Other assets	17	274.042	24.288	249.754	258.595	190.956
Total assets, net		41.031.524	2.171.162	38.860.362	38.810.528	38.527.243

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2014	2013 (pro forma)	January 01, 2013 (pro forma)
Liabilities				
Resources of central banks	18	4.406.312	6.241.410	5.837.242
Financial liabilities held for trading	7	1.995.019	1.619.768	2.048.743
Resources of other credit institutions	19	4.030.724	4.175.058	1.949.574
Resources of customers and other debts	20	21.625.902	20.707.001	21.497.174
Debt securities	21	2.973.111	2.534.161	3.953.519
Hedging derivatives	11	133.690	370.684	455.911
Provisions	22	71.988	62.039	72.271
Current tax liabilities	16	20.034	14.313	4.687
Deferred tax liabilities	16	142.026	58.524	75.303
Equity representative instruments	23	205.979	235.054	-
Subordinated liabilities	24	4.306	4.307	4.311
Other liabilities	25	292.893	292.900	303.417
Total liabilities		35.901.984	36.315.219	36.202.152
Shareholders' equity				
Share capital	26	656.723	656.723	656.723
Share premium account	26	193.390	193.390	193.390
Other equity instruments	26	135.000	135.000	135.000
Revaluation reserves	26	(278.738)	(573.189)	(699.202)
Other reserves and retained earnings	26	1.534.596	1.477.217	1.421.512
(Own shares)		(43.444)	(43.312)	(42.560)
Consolidated net income attributable to the shareholders' of BST	27	165.174	89.164	88.068
Shareholders' equity attributable to the shareholders' of BST		2.362.701	1.934.993	1.752.931
Non-controlling interests	28	595.677	560.316	572.160
Total shareholders' equity		2.958.378	2.495.309	2.325.091
Total liabilities and shareholders' equity		38.860.362	38.810.528	38.527.243

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2014.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (PRO FORMA)

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of income originally issued in Portuguese - Note 53)

	Notes	2014	2013 (pro forma)
Interest and similar income	30	1.194.168	1.271.127
Interest and similar charges	31	(650.629)	(763.859)
Net interest income		543.539	507.268
Income from equity instruments	32	1.222	1.313
Income from services and commissions	33	335.187	370.626
Charges with services and commissions	34	(58.311)	(55.116)
Result of assets and liabilities at fair value through profit or loss	35	(244.097)	20.326
Result of available-for-sale financial assets	36	308.722	4.534
Result of foreign exchange revaluation	37	5.458	4.039
Result from the sale of other assets	38	17.568	2.476
Other operating results	39	(14.314)	(25.545)
Net income from banking activities		894.974	829.921
Staff costs	40	(281.592)	(269.577)
General administrative costs	41	(143.744)	(137.159)
Depreciation in the year	14	(61.857)	(59.777)
Provisions, net of reversals	22	(46.416)	(6.930)
Loan impairment net of reversals and recoveries	22	(111.206)	(197.039)
Impairment of other financial assets net of reversals and recoveries	22	(1.131)	(3.155)
Impairment of other assets net of reversals and recoveries	22	(33.780)	(36.827)
Result from associates	42	19.791	14.069
Income before taxes and non-controlling interests		235.039	133.526
Taxes			
Current	16	(40.700)	(35.321)
Deferred	16	(29.171)	(9.037)
Income after taxes and before non-controlling interests		165.168	89.168
Non-controlling interests	28	6	(4)
Consolidated net income attributable to the shareholders´ of BST	27	165.174	89.164
Average number of ordinary shares outstanding	27	641.879.747	641.959.603
Earnings per share (in Euros)	27	0,26	0,14

The accompanying notes form an integral part of the consolidated statement of income for the year ended December 31, 2014.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (PRO FORMA)

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of income and other comprehensive income originally issued in Portuguese - Note 53)

	December 31, 2014		December 31, 2013 (pro forma)	
	Attributable to the shareholders' of BST	Attributable to non-controlling interests	Attributable to the shareholders' of BST	Attributable to non-controlling interests
Consolidated net income for the year	165.174	(6)	89.164	4
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations				
. Fair value	(48.394)	-	(37.785)	-
. Tax effect	762	-	7.447	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences on foreign subsidiaries	9.067	35.476	(4.487)	(11.811)
. Revaluation reserves of associated companies valued by the equity method				
. Fair value	907	-	767	-
. Tax effect	(157)	-	(157)	-
. Changes in fair value of financial assets available for sale				
. Fair value	490.688	-	278.591	-
. Tax effect	(143.419)	-	(79.604)	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	(22.499)	-	(55.108)	-
. Tax effect	6.746	-	15.760	-
Consolidated comprehensive income for the year	458.875	35.470	214.588	(11.807)

The accompanying notes form an integral part of the consolidated statements of income and other comprehensive income for the year ended December 31, 2014.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (PRO FORMA)

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 53)

				Revaluation reserves										
	Share Capital	Share Premium Account	Other equity instruments	Legal revaluation	Fair value	Foreign exchange fluctuation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income in the year	Non-controlling interests	Shareholders´ equity
Balances as at December 31, 2012	**656.723**	**193.390**	**135.000**	**23.245**	**(1.001.064)**	**(5.857)**	**284.474**	**245.862**	**934.572**	**241.078**	**(42.560)**	**88.068**	**572.160**	**2.325.091**
Effect of the reclassification of non-controlling interests to liabilities associated with the participating units not owned by the Group in investment funds consolidated by the full consolidation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances as at January 1, 2013 (pro forma)	**656.723**	**193.390**	**135.000**	**23.245**	**(1.001.064)**	**(5.857)**	**284.474**	**245.862**	**934.572**	**241.078**	**(42.560)**	**88.068**	**572.160**	**2.325.091**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	453	-	(3.908)	91.523	-	(88.068)	-	-
Distribution of dividends - preference shares	-	-	-	-	-	136	-	-	(30.750)	-	-	-	36	(30.578)
Long-term incentives	-	-	-	-	-	-	-	-	(799)	-	-	-	-	(799)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(752)	-	-	(752)
Other	-	-	-	-	-	-	-	-	(361)	-	-	-	(73)	(434)
Comprehensive income for the year 2013	-	-	-	-	186.465	(4.487)	(56.554)	-	-	-	-	89.164	(11.807)	202.781
Balances as at December 31, 2013 (pro forma)	**656.723**	**193.390**	**135.000**	**23.245**	**(814.599)**	**(10.208)**	**228.373**	**245.862**	**898.754**	**332.601**	**(43.312)**	**89.164**	**560.316**	**2.495.309**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	96	245	46.382	41.239	-	(87.962)	-	-
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	-	-	-	(1.202)	-	(1.202)
Preference shares	-	-	-	-	-	665	-	-	(30.150)	-	-	-	(108)	(29.593)
Long-term incentives	-	-	-	-	-	-	-	-	(222)	-	-	-	-	(222)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(132)	-	-	(132)
Other	-	-	-	-	-	(10)	(1)	-	(115)	-	-	-	(1)	(127)
Comprehensive income for the year 2014	-	-	-	-	420.702	9.067	(136.068)	-	-	-	-	165.174	35.470	494.345
Balances as at December 31, 2014	**656.723**	**193.390**	**135.000**	**23.245**	**(393.897)**	**(486)**	**92.400**	**246.107**	**914.649**	**373.840**	**(43.444)**	**165.174**	**595.677**	**2.958.378**

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the year ended December 31, 2014.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (PRO FORMA)

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of cash flows originally issued in Portuguese - Note 53)

	2014	2013 (Pro forma)
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1.314.804	1.490.692
Payment of interest and commissions	(708.278)	(738.522)
Payments to staff and suppliers	(429.371)	(414.641)
Contributions to the Pension Fund	(79.200)	(56.000)
Foreign exchange and other operating results	21.405	(41.654)
Recovery of uncollectable loans	5.403	7.457
Operating results before changes in operating assets and liabilities	124.763	247.332
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	2.053.709	(171.659)
Financial assets held for trading	(341.611)	433.845
Loans and advances to customers	466.738	556.972
Assets and liabilities at fair value through profit or loss	(277.517)	(14.399)
Non-current assets held for sale	(15.112)	(55.204)
Investment properties	8.870	-
Other assets	27.300	(55.098)
	1.922.377	694.457
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(1.938.176)	2.588.358
Resources of customers and other debts	925.831	(734.970)
Financial liabilities held for trading	375.251	(428.975)
Other liabilities	(1.848)	(1.457)
	(638.942)	1.422.956
Net cash flow from operating activities before income tax	1.408.198	2.364.745
Income tax paid	(31.362)	(31.459)
Net cash flow from operating activities	1.376.836	2.333.286
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1.222	1.313
Purchase of available-for-sale financial assets	(4.910.480)	(1.205.590)
Sale of available-for-sale financial assets	3.280.653	379.880
Income from available-for-sale financial assets	122.171	148.823
Purchase of tangible and intangible assets	(29.489)	(36.798)
Sale of tangible assets	15.919	5.535
Net cash flow from investment activities	(1.520.004)	(706.837)
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance/(redemption) of debt securities	398.605	(1.378.946)
Interest paid on bonds issued and other	(73.215)	(94.338)
Dividends paid	(1.202)	-
Interest paid on subordinated liabilities	(90)	(91)
Net cash flow from financing activities	324.098	(1.473.375)
Net Increase / (Decrease) in cash and cash equivalents	180.930	153.074
Cash and cash equivalents at the beginning of the year	890.762	737.688
Cash and cash equivalents at the end of the year	1.071.692	890.762

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended December 31, 2014.

INTRODUCTION

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

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group during 2014 and 2013 are detailed in Note 46.

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

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

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

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

The Bank has a domestic network of 587 branches (604 branches as of December 31, 2013) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. The Bank has also subsidiaries and representation offices abroad as well as investments in subsidiaries and associated companies.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of presentation of the accounts

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

In 2014, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union:

- IFRS 10 – "Consolidated financial statements" - This standard establishes the requirements relating to the presentation of consolidated financial statements by a parent company, replacing, with regard to these matters, standard IAS 27 – "Consolidated and separate financial statements" and SIC 12 – Consolidation – "Special purpose entities". This standard also introduces new rules regarding the definition of control and the determination of the consolidation perimeter.

- IFRS 11 – "Joint Arrangements" – This standard replaces IAS 31 – "Joint Ventures" and SIC 13 – "Jointly Controlled Entities – Non monetary contribution by ventures" and eliminates the possibility of using the proportional consolidation method in accounting for interests in joint ventures.

- IFRS 12 – "Disclosure of interests on other entities" – This standard sets out a new set of disclosures relating to investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

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- IAS 27 – "Separate financial statements" (2011) (revised) – This amendment restricts the scope of IAS 27 to separate financial statements only.

- IAS 28 – "Investments in associates and joint ventures" (2011) (revised) – This amendment ensures consistency between IAS 28 – "Investments in associates" and the new standards adopted, in particular IFRS 11 – "Joint arrangements".

- IFRS 10 - "Consolidated financial statements" and IFRS 12 – "Disclosure of interests in other entities" (Investment entities) (amendment) – This amendment introduces an exemption from consolidation for certain entities that meet the definition of investment entities. It also establishes rules of measurement of investments held by those investment entities.

- IAS 32 - "Offsetting financial assets and liabilities" (amendment) - This amendment clarifies certain aspects of the standard related to meeting criteria for the offsetting of financial assets and liabilities.

- IAS 36 – "Impairment of assets" (Recoverable amount disclosures for non-financial assets) (Amendment) - This amendment eliminates the need to disclose the recoverable amount of cash generating units containing goodwill or intangible assets with undefined useful life in periods when no impairment loss or reversal has been recognized. This standard also introduces additional disclosures for assets when impairment loss or reversal have been recorded and the recoverable amount of those assets has been determinate based on fair value less costs to sell.

- IAS 39 – "Financial instruments: Recognition and Measurement" (Novation of derivatives and continuation of hedge accounting) – This amendment allows, in certain circumstances, the continuation of hedge accounting when a derivative designated as a hedge instrument is novated, namely when the counterparty is changed.

The adoption of the standards and interpretations above had an impact primarily on the disclosures and presentation of these financial statements.

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were up to the date of approval of these financial statements, endorsed by the European Union:

- IFRIC 21 – "Levies" (amendment) – This amendment establishes criteria about when to recognize a liability to pay a levy as a result of a certain event (for example, participating in a specific market), when the payment is not made for the acquisition of an asset or specific services.

- Improvements to International Financial Reporting Standards (2011-2013 Cycle): These improvements involve the clarification of some aspects regarding several standards, namely IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 3 – Business Combinations, IFRS 13 – Fair Value Measurement and IAS 40 – Investment Property.

These standards, although endorsed by the European Union have not yet been adopted by the Bank as of December 31, 2014, as their application was not yet mandatory.

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

- IFRS 9 – “Financial instruments” (2009) and subsequent amendments – This standard is part of the draft revision of IAS 39 and establishes the requirements for the classification and measurement of financial assets and liabilities and for the application of hedge accounting rules.

- IFRS 14 – “Regulated assets” – This standard establishes the reporting requirements for entities which are adopting IAS/IFRS for the first time, applicable to regulated assets.

- IFRS 15 – “Revenue from contracts with customers” – This standard introduces a recognition structure of revenue based on principles and on a model to be applied to all contracts established with customers.

- IFRS 11 – “Joint Arrangements” (revised) – This amendment clarifies IFRS 3 and should be applied when an investor acquires an interest in a joint arrangement entity when the entity consists of a business as defined by this standard. The application of IFRS 3 is required in the acquisition of the initial interest and the acquisition of subsequent interests.

- IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets” (revised). This amendment clarifies which amortization methods of tangible and intangible assets are permitted.

- IAS 19 – “Employee Benefits” (revised) – This amendment clarifies under which circumstances employee contributions for post-employment benefit plans represent a reduction in the cost of short-term benefits.

- IFRS 10 – “Consolidated financial statements” and IAS 28 – “Investments in associates and joint ventures” (2011) (revised) – These amendments eliminate an existing conflict between the referred standards, related to the sale or contribution of assets between the investor and the associate or joint controlled entity.

- IAS 27 – “Separate financial statements” (2011) (revised) – This amendment introduces the possibility of applying the equity method to the valuation of investments in subsidiaries, associates and jointly controlled entities in the separate financial statements of an entity which presents consolidated financial statements.

- IFRS 10 – “Consolidated financial statements”, IFRS 12 – “Disclosure of interests on other entities” and IAS 28 – “Investments in associates and joint ventures” (2011) (revised) – These amendments encompass the clarification of several aspects related to the consolidation exception by investment entities.

- IAS 1 – “Presentation of financial statements” (Disclosures) (revised) – This amendment introduces a set of instructions and guidelines to improve and simplify the disclosures needed in the actual context of IFRS reporting requirements.

- Improvements to International Financial Reporting Standards (2010-2012 and 2012-2014 Cycles): These improvements involve the review of several standards.

These standards have not been endorsed by the European Union and so they were not adopted by the Bank in the year ended December 31, 2014. Except for the effect of the application of IFRS 9, which up to this date is not possible to estimate, no material impacts are estimated as a result of the adoption of the above mentioned standards.

The Bank's financial statements for the year ended December 31, 2014 are pending approval from the General Shareholders' Meeting. Nevertheless, the Bank's Board of Directors believes that they will be approved without significant amendments.

1.2. Consolidation principles and recording of associated companies

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

Subsidiary companies are those in which the Bank exercises effective control over its current management in order to obtain economic benefits from their activities. Control usually exists when more than 50% of the share capital or the voting rights are held, when the investor is exposed to or has the right to variable returns through its relationship with the investee and has the ability to use its power over the investee to affect its results. Furthermore, as a result of the application of the IAS 27 – "Consolidated and Separate Financial Statements" and IFRS 10 – "Consolidated Financial Statements", the Group includes special purpose entities in its consolidation perimeter, namely vehicles and funds created under securitization operations when it exercises effective financial and operating control over them and when it is exposed to the majority of the risks and benefits associated to their activity.

The financial statements of subsidiaries are consolidated by the full integration method from the date that the Bank has control over their activities to the date that control ceases. The transactions and the significant balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full integration method are accounted for under the caption "Non-controlling interests" (Note 28).

On the other hand, the Bank manages assets held by investment funds whose participating units are held by third parties. The financial statements of those investment funds are not included in the consolidation perimeter of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participating units, situations when they are consolidated by the full integration method. In accordance with IAS 32 and IFRS 10, the amount corresponding to the third party participations in the investment funds that are consolidated by the full integration method is presented as a liability under the caption "Equity representative instruments" (Note 23). The non-controlling interests of the income statement related to investment funds consolidated are recognized as a deduction to the captions "Result from the sale of other assets" (Fundo Multiobrigações) and "Other operating income - Unrealized gains on investment properties" (Fundo Novimovest), given the nature of the main income earned by those funds (Notes 38 and 39).

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a participation (direct or indirect) exceeds 20% or where the Bank has the power to participate in decisions relating to it´s financial and operating policies, but does not have control or joint control over them. Participations in associated companies are recorded in accordance with the equity method of accounting, from the date the Bank has significant influence until the date it ceases.

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

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

Goodwill on associated companies is included in the carrying amount of the investment, which is subject to impairment tests.

The Bank decided not to apply IFRS 3 – “Business combinations”, retrospectively. Therefore, goodwill on acquisitions up to January 1, 2004 was reflected as a deduction to shareholders’ equity in compliance with the former accounting policy. Previously recognized negative goodwill was recorded as an increase in shareholders’ equity, as permitted by IFRS 1.

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

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

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

- Assets and liabilities expressed in foreign currencies are translated to Euros using the exchange rate for Euros on the balance sheet date;

- Non-monetary assets recorded at historical cost, including tangible assets, remain reflected at the original exchange rates; and

- Foreign currency income and expenses are translated to Euros at the average exchange rates of the month in which they are recognized.

Currency exchange differences arising upon translation to Euros are accounted in shareholders’ equity in the caption of “Revaluation reserves – Foreign exchange fluctuation”.

1.3. Summary of the main accounting policies

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

a) Accruals basis

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

b) Foreign currency transactions

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

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

c) Loans and accounts receivable

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

Loans and advances to customers include loans to customers, as well as other securitized loans (commercial paper and bonds), not intended to be sold in the short term, being initially recorded at fair value, less any commissions, plus all the external costs directly attributable to the operations.

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

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

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

On the other hand, the Bank periodically analyses the loans and advances that should have already been paid in full but for which the effort to collect them has not been effective. When the prospects of recovering of those loans are negligible, loans are considered to be uncollectible and impairment losses are recognized for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently are recognized in the income statement in the caption "Loan impairment net of reversals and recoveries".

Impairment

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

For the purpose of determining loan impairment, the Bank´s loan portfolio is segmented as follows:

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

On the other hand, concerning the loans granted to the corporate customers segment, the Bank makes an individual assessment of the customers that have:

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

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

Customers assessed individually with impairment losses less than 0.5% are subsequently assessed on a collective impairment basis, being segmented between customers with responsibilities greater or less than tEuros 300.

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

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

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

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

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

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

When, in a subsequent period, a decrease in the amount of impairment losses occur due to a specific event occurred after the impairment determination, the previously recognized amount is reversed and the impairment loss balance is adjusted. The amount of the reversal is recognized directly by a corresponding charge in the income statement.

Write off of principal and interest

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

Interests on mortgage loans or on loans granted with other real guarantees are suspended from the date of termination of the contract.

Loan sales

Gains and losses on the definitive sale of loans are recorded in the income statement caption "Result from the sale of other assets" (Note 38). These gains or losses correspond to the difference between the sale amount agreed and the book value of these assets, net of impairment losses.

Factoring

Assets resulting from factoring operations with recourse are recorded in the balance sheet as loans granted by the amount of the advance funds on behalf of those contracts.

Assets resulting from factoring operations without recourse are recorded in the balance sheet as loans granted by the amount of the credits taken against the recognition of a liability under the caption "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts." The delivery of funds to the counterparts in factoring operations originate´ s a corresponding debit in the caption "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts" (Note 25).

Commitments resulting from credit lines negotiated with customers and not yet used are recorded as off-balance sheet items.

Non derecognized securitized credit

The Bank does not derecognize from the balance sheet credits sold in securitization operations when:

- retains control over those operations;
- continues to receive a substantial part of their remuneration, and;
- maintains a significant portion of the risk on the transferred credits.

Credits sold and not derecognized are recorded under the caption "Loans and advances to customers" and are subject to the same accounting criteria as other credit operations. The interests and commissions associated to the securitized loan portfolio are accrued over the term of the loans.

The maintenance of risk and/or benefit is represented by the bonds with higher risk level issued by the securitization vehicle. The amounts recorded in assets and liabilities represent the proportion of the risk / benefit held by the Bank (continuous involvement).

The bonds issued by the securitization vehicles held by the Group entities are eliminated from consolidation.

At December 31, 2014 and 2013, there are no derecognized securitized loans.

Finance leasing

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

i) *As lessee*

Assets purchased under finance leases are recorded at their fair value in other tangible assets and in liabilities and the corresponding depreciation is recognized. Lease instalments are split in accordance with the respective financial plan, being the liabilities decreased by the amount corresponding to the payment of the principal. Interest included in the instalments is recorded in the caption "Interest and similar charges".

ii) *As lessor*

Leased assets are recorded in the balance sheet as loans granted, which are repaid by amortising the principal in accordance with the financial plan of the contracts. Interest included in the instalments is recorded in the caption "Interest and similar income".

Guarantees given and irrevocable commitments

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

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

Income from services and commissions obtained in the execution of a significant act, for example a commission from syndicating a loan operation, are recognised in the income statement when the significant service act has been completed.

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

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

Expenses relating to services and commissions are recognised using the same criteria as adopted for income.

e) Financial instruments

Financial assets and liabilities are recognised on the balance sheet at the date of its payment or receipt, unless there is an explicit contractual provision arising from the legal regime applicable that establishes that the rights and obligations related to the traded values are transferred at a different date, in which cases the latter will be the relevant date.

Financial assets and liabilities are subsequently classified into one of the four specific categories set down in IAS 39:

- Financial assets and liabilities held for trading;

- Financial assets and liabilities at fair value through profit or loss;

- Available-for-sale financial assets; and

- Other financial liabilities.

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

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

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

Interest relating to trading derivatives is recorded in the caption “Result of assets and liabilities at fair value through profit or loss” in the income statement.

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

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

The fair value of the derivative financial instruments that are not traded on active markets, including the credit risk component attributed to the parties involved in the transaction ("Credit Value Adjustments" and "Debit Value Adjustments"), is estimated based on the amount that would be received or paid to settle the contract on that date, considering the current market conditions as well as the credit quality of the counterparties

ii) Available-for-sale financial assets

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

Available-for-sale financial assets are stated at fair value, with the exception of equity instruments not listed on active markets and which fair value cannot be reliably measured, which are recorded at their acquisition cost, net of impairment. Subsequent gains or losses resulting from changes in fair value are reflected in a specific equity caption “Revaluation reserves - Fair value” until they are disposed of or until impairment losses are recognised, moment when they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are directly recognised in the income statement.

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

Income from variable return securities is recognized in the income statement caption ”Income from equity instruments” in the date that it is declared. In accordance with this criterion, the interim dividends are recognized as income in the year the distribution is declared.

iii) Reclassification of financial assets

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

iv) Income recognition

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

v) Sale operations with repurchase agreements

Securities sold with repurchase agreements are maintained in their original securities portfolio. Funds received are recorded on the settlement date in a specific liability account, while interests payable are accrued.

vi) Impairment of financial instruments

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

For listed securities, objective evidence of impairment exists when there is a significant or prolonged decline in its fair value. Objective evidence of impairment for unlisted securities exists when there is a negative impact on the estimated future cash flows of the financial asset, provided that it can be reliably estimated.

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

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

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

For financial assets recorded at cost, namely unlisted equity instruments which fair value cannot be reliably measured, the Bank also carries out periodic impairment tests. In this context, the recoverable amount of those assets corresponds to the present value of the estimated future cash flows, using a discount rate that reflects the underlying risk of a similar asset.

vii) Other financial liabilities

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

Bond issues are recorded in the captions “Debt securities” and “Subordinated liabilities”.

Embedded derivatives in bonds issued are recorded separately in the captions “Financial assets and liabilities held for trading”, being revalued at fair value through the income statement.

Secondary market transactions

The Bank carries out repurchases of bonds issued in the secondary market. Purchases and sales of own bonds are included in proportion to the respective accounts of debt issued (capital, interest and commissions) and the differences between the amount settled and the disposal, are recognised immediately in profit or loss.

Fair value

As mentioned above, the financial assets and liabilities recorded in the categories of “Financial assets held for trading”, “Financial liabilities held for trading”, “Financial assets at fair value through profit or loss” and “Available-for-sale financial assets” are measured at fair value.

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

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

- For financial instruments traded on active markets, the closing price on the balance sheet date;

- For debt instruments not traded on active markets (including unlisted securities or with limited liquidity) methods and valuation techniques are used, which include:

  i) Prices (bid prices) obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;

  ii) Indicative quotes (bid prices) obtained from financial institutions that operate as market-makers; and

  iii) Valuation models, which take into account market inputs that would be used to determine the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and the credit risk associated to the instrument.

Amortised cost

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

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

f) Valuation and recording of derivative financial instruments and hedge accounting

Derivative financial instruments traded by the Bank are recognised in the balance sheet at their fair value.

Embedded derivatives in other financial instruments (namely in bonds and structured deposits) are separated from their host contract whenever their risks and characteristics are not closely related to those of the host contract and the whole instrument is not recorded at fair value with changes in fair value recognised in profit or loss.

The Bank uses derivative financial instruments namely to hedge the interest rate risk resulting from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under the financial assets or financial liabilities held for trading captions, being all changes in their fair value recorded by a corresponding entry in the income statement.

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

In accordance with IAS 39, hedge accounting is applicable only when the following requirements are cumulatively met:

- There is formal documentation regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:

  - Identification of the hedging instrument;
  - Identification of the hedged item;
  - Identification of the type of hedged risk; and
  - Definition of the method used to measure the hedging effectiveness and subsequent monitoring.

- Initial expectation that the hedging relationship is highly effective; and

- Throughout the life of the operation, the hedging effectiveness is kept between 80% and 125%. The hedging effectiveness is tested on each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

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

Fair value hedges

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

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

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

Cash flow hedges

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

In this sense, the Bank has entered into derivatives to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

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

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

In addition, the gain or loss in the hedging instrument recognised in equity corresponds to the lower of the following amounts:

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

In this regard, and if applicable, the remaining portion of the gain or loss on the hedging instrument not recognised in equity is recorded in profit or loss.

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

g) Other tangible assets

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

Depreciation of tangible assets is recorded on a monthly basis over the estimated useful life of the assets, which corresponds to the period in which the assets are expected to be available for use and is detailed below:

	Years of useful life
Property for own use	50
Equipment	4 to 10

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

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

On the other hand, the tangible assets of the Bank are subject periodically to impairment tests. The branches are considered as cash flows generating units for this purpose with impairment losses being recognised whenever the recoverable amount of a property (through its use in the operations or through its sale) is lower than its carrying amount.

The criteria followed in the valuation of the properties normally use a market comparison method, and the amount of the appraisal corresponds to the market value of the properties in their current condition.

h) Intangible assets

In this caption the Bank recognises the expenses incurred in the development stage of IT systems implemented and in implementation stage, as well as expenses of acquiring software, in both cases when their impact extends beyond the financial year in which the expenses are incurred. Impairment losses assessments are performed on an annual basis.

Intangible assets are amortised on a monthly basis over its estimated useful life, which corresponds to three years on average. For the new computer platform (Partenon), until December 31, 2013, the expected useful life corresponded to a maximum of five years. In the year ended December 31, 2014, the Bank has revised the estimated useful life of that computer platform and reduced it to three years.

In 2014 and 2013, the Bank did not recognize internally generated intangible assets.

i) Investment properties

Investment properties comprise, essentially, buildings and land held by Novimovest – Real Estate Investment Fund (Novimovest) to earn rentals or for capital appreciation or both, rather than for its use in the provision of goods, services, or for administrative purposes.

Investment properties are stated at their fair value based on periodic appraisals performed by independent appraisers. Changes in the fair value of investment properties are recognized directly in the income statement for the year.

Costs incurred with investment properties in use, such as maintenance, repairs, insurance and property taxes (municipal property tax) are recognized in the income statement for the year to which they relate. Improvements which are expected to generate additional future economic benefits are capitalized.

j) Non-current assets held for sale

The Bank accounts for property and other assets received in settlement of non-performing loans under this caption, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the caption “Other assets” (Note 17). These assets are recorded at the amount agreed under negotiation or court decision, deducted from the estimated sale costs or their forced sale value, if lower. On the other hand, property recovered following the termination of finance lease contracts is recorded as an asset by the outstanding principal amount on the date the contract is terminate.

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

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

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

According to IFRS 5 – "Non-current assets held for sale and discontinued operations", the Bank does not recognize unrealized gains on these assets.

At last, the Bank's Board of Directors considers that the valuation methods adopted for these assets are appropriate and reflect the current market environment.

k) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) arising from a past obligation event relating to which there will be a probable future outflow of resources, and this can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date. Whenever the outflow of resources is not probable, a contingent liability exists. Contingent liabilities need only to be disclosed unless the probability of their disbursed is remote.

Thus, in accordance with IAS 37, the caption "Provisions" includes the provisions to cover specific post-employment benefits granted to some members of the Board of Directors, restructuring plans, tax contingencies, legal processes and other risks arising from the Bank's activity (Note 22).

l) Employees' post-employment benefits

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

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

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

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

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

Past service liabilities at December 31, 2010 have not changed as a result of the above-mentioned Decree-Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011. Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). On the other hand, the Bank maintains the responsibility of paying out the disability pensions and the survival pensions along with any healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

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

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

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

i) the update of pensions referred to above, in accordance to the Collective Labour Agreement for the banking sector;

ii) the employer's contributions to healthcare systems ("Serviços de Assistência Médica Social – SAMS") managed by the respective unions, over the retirement and survival pensions, in accordance with the terms of the Collective Labour Agreement for the banking sector;

iii) the death subsidy;

iv) the survival pension for children;

v) the survival pension for children and living spouse, provided it refers to the same employee; and

vi) the survival pension for the family of a current pensioner, meeting the vesting conditions as from January 1, 2012.

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

Under the transfer of responsibilities to the Social Security, the Bank's Pension Fund assets backing such responsibilities were also transferred. The value of the Pension Fund assets transferred corresponded to the value of the responsibilities assumed under the above mentioned Decree Law, which were determined considering the following assumptions:

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

The assets to be transferred should be comprised by cash and up to 50% in Portuguese government debt securities valued at their respective market value.

Under the terms of the aforementioned Decree-Law, the transfer of the assets was performed by the Bank as follows:

i) Up to December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities; and

ii) By June 30, 2012, the remaining amount to complete the definite present value of the liabilities transferred.

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

Following the transfer of the responsibilities of the pensioners to the Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions established in Decree Law nº 127/2011, of December 31, the Bank calculated the liabilities separately for serving and retired employees, having defined specific assumptions for each case (Note 44).

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

Furthermore, the London branch employees are covered by a defined benefit pension plan for which there is a separate Pension Fund (Note 44).

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

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

Banco Santander de Negócios Portugal, S.A. (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. So, in 2006 BSN established a defined contribution pension fund under which employees have been allowed to make voluntary contributions. BSN's contribution to that fund depended of the results and corresponded to a percentage of the employees' wages, with an annual floor of 1,000 Euros per participant. Following the merger of BSN into BST, the employees of the former BSN have been incorporated in the ACT and in BST's defined benefit pension plan as from May 2010, with recognition of the seniority of employees hired before July 1, 1997. In the first half of 2014, BSN defined contribution pension fund was extinguished after authorization granted by the Supervisory Authority of Insurance and Pension Funds.

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were integrated in the ACT and in the BST's defined benefit pension plan as from April 2011. Additionally, the seniority of the employees hired before July 1, 1997 has been recognised.

Application of IAS 19

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

In 2011 the Bank decided to change the accounting policy for recognizing actuarial gains and losses abandoning the use of the corridor method, having started to recognize actuarial gains and losses in equity (other comprehensive income), as provided in the revised version of IAS 19.

From January 1, 2013, following the revision of IAS 19 - "Employee Benefits", the Bank records under the caption "Staff costs" in the income statement the following components:

- Current service cost;
- Net interest profit / cost with the pension plan;
- Early retirement cost corresponding to the increase in the past service liability due to early retirement; and
- Gains and losses resulting from changes in the conditions of the plan.

Net interest profit / cost with the pension plan is calculated by multiplying the Bank net asset / liability with pensions (liabilities less the fair value of plan assets) by the discount rate used in determining the liabilities with retirement pensions. Thus, the net interest profit / cost represents the interest cost associated with pension liabilities net of the theoretical return of the Fund's assets, both measured based on the discount rate used to calculate pension liabilities.

Gains and losses from remeasurement, namely: (i) gains and losses resulting from differences between actuarial assumptions used and the effective results (experience gains and losses) as well as changes in actuarial assumptions; and (ii) gains and losses arising from the difference between the theoretical return of the Fund's assets and the effective return obtained are recognized against the statement of other comprehensive income.

The liabilities for retirement pensions, less the fair value of the assets of the Pension Fund, are recorded in the captions "Other assets" or "Other liabilities", depending on whether there is a financial surplus or deficit (Notes 17 and 25).

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

At December 31, 2014 and 2013, the rate of coverage of the liabilities of BST for employee benefits, including SAMS and excluding those associated with its London branch, was 100.32% and 99.25%, respectively (Note 44).

m) Long service bonuses

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

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

Long service bonuses liabilities are recorded in the caption "Accrued costs - Relating to personnel – Long service bonuses" (Note 25).

n) Income tax

BST and the Group's companies established in Portugal are subject to the tax regime established in the Corporate Income Tax Code ("CIRC"). The branch accounts are consolidated with those of the Bank for tax purposes. In addition to being subject to Corporate Income Tax, the results of the branch are also subject to local taxes in the country/territory in which it is established. Local taxes are deductible for Corporate Income Tax in Portugal under the terms of article 91 of CIRC and the Double Taxation Agreements signed by Portugal.

In accordance with the State Budget Law for 2011 (Law nº 55–A/2010, of December 3) and article 92 of the Corporate Income Tax Code, tax paid under the terms of item 1, article 90, net of international double taxation and any tax benefits, cannot be lower than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in item 13, article 43 of the Corporate Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum local surcharge of up to 1.5% over taxable income subject to and not exempt from Corporate Income Tax. With the publication of Law nº 12 - A/2010, of June 30, a state surcharge was also introduced, which must be paid by all taxpayers subject to and not exempt from Corporate Income Tax with taxable income in excess of tEuros 2,000.The state surcharge corresponds to 2.5% of the taxable income exceeding that limit.

With the publication of the State Budget Law for 2012 (Law nº 64-B/2011, of December 30), the companies that present higher taxable income in that year and on the two following years were subject to higher state surcharge rates. Companies with taxable income comprised between tEuros 1,500 and tEuros 10,000 were subject to a state surcharge rate of 3% and companies with taxable income exceeding tEuros 10,000 were subject to a rate of 5%.

However, the Law nº 66-B/2012, of December 31 (the State Budget Law for 2013) established a reduction in the limit from which it became applicable the rate of state surcharge of 5% from tEuros 10,000 to tEuros 7,500, applicable to the tax periods started on or after January 1, 2013.

Additionally, following the publication of Law nº 2/2014, of January 16, (CIRC amendment) the taxation of corporate income for 2014 became the one described below:

- Corporate income tax (IRC) rate of 23% on taxable income (25% in year 2013);
- Municipal surcharge at a rate comprised between 0% and 1.5% on taxable income (equal to year 2013); and
- State surcharge at a variable rate on taxable income according to the limits presented below:
  - Less than tEuros 1,500 0%;
  - Between tEuros 1,500 and tEuros 7,500 3%;
  - Between tEuros 7,500 and tEuros 35,000 5%;
  - More than tEuros 35,000 7%.

With the publication of the State Budget Law for 2015 (Law nº 82-B/2014, of December 31), it was approved a reduction in the income tax rate to 21%.

Thus, the above referred changes implied that the rates used by the Bank in the calculation and recognition of deferred taxes for 2013 and 2014 were 23% and 21%, respectively, for tax losses, and 29.5% and 29%, respectively, for other temporary differences.

Tax losses incurred from 2014, inclusive, may be used in the twelve subsequent tax periods. On the other hand, tax losses incurred in 2008 and 2009 could be used in the six subsequent periods, four years for tax losses incurred in 2010 and 2011 and five years for tax losses incurred in the years of 2012 and 2013. However, the deduction of those losses in each year cannot exceed 70% of the respective taxable income (75% until 2014), with the remaining balance (30% in 2014 and 25% in 2013), be deductible up to the end of the tax utilization period.

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

a) Liabilities calculated and approved by taxpayers deducted from own funds (Tier 1) and supplementary own funds (Tier 2) as well as deducted from the deposits under the Deposits Guaranteed Fund coverage. The following balances are deducted from the liability thus computed:
   - Balances that in accordance with the applicable accounting standards are accounted for under shareholders’ equity;
   - Liabilities associated to the recognition of responsibilities with defined benefit plans;
   - Provisions;
   - Liabilities arising from the revaluation of derivative financial instruments;
   - Deferred income, without consideration of that arising from liability operations; and
   - Liabilities arising from assets not derecognised within securitization operations.

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

The rates applicable to the basis of incidence defined in a) and b) above are 0.07% and 0.0003%, respectively, as provided in the amendment made by the Dispatch nº 64/2014, of March 12 to the nº 5 of the Dispatch nº 121/2011, of March 30.

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

The Group does not recognize deferred tax assets or liabilities on deductible or taxable temporary differences associated with investments in subsidiaries and associated companies, as it is unlikely that the difference will be reversed in the foreseeable future.

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

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

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders’ equity, namely potential gains and losses on financial assets available-for-sale and on cash flow hedging derivatives, as well as those associated to actuarial gains and losses related to pension liabilities, which are also recorded in shareholders' equity.

o) Long term incentive plans

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

The recording of such plans corresponds to the recognition of the Bank’s employee’s right to these instruments in the caption “Other reserves” against an entry in the caption “Staff costs” of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentive plans for stocks and stock options in force in Banco Santander S.A. is included in Note 47.

p) Own shares

Own shares are recorded in equity accounts at their acquisition cost and are not subject to revaluation. Gains or losses arising from the sale of own shares, as well as the related taxes, are recorded directly in equity not affecting the net income for the year.

q) Preference shares

Preference shares are recorded as equity instruments when:

- There is no contractual obligation of the Bank to reimburse (either in cash or in another financial asset) the preference shares acquired by the holder;
- The remission or early redemption of the preference shares may only be made at the Bank's option; and
- The dividend distributions made by the Bank to the holders of preference shares are discretionary.

At December 31, 2014 and 2013, the Bank classified as equity instruments the preference shares issued by Totta & Açores Financing and BST International Bank, Inc. - Puerto Rico.

The preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the caption "Non-controlling interests" (Note 28).

r) Insurance brokerage services rendered

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

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

The Bank is not engaged in the collection of insurance premiums on behalf of insurers, neither performs the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the insurance mediation activity performed by the Bank, besides the ones already disclosed.

s) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the captions “Cash and deposits at central banks” and “Balances due from other banks”.

1.4. Comparability of information

Following the adoption as of January 1, 2014 of IFRS 10 – “Consolidated Financial Statements” and the clarifications occurred regarding the classification of non-controlling interests in investment funds consolidated by the full consolidation method, the Group started to record them as a liability in the caption “Equity representative instruments”. For the same reason, the non-controlling interests of results of those funds started to be recorded under the captions “Other operating results” (Note 39) (Novimovest) and “Result from the sale of other assets” (Note 38) (Multiobrigações).

The retrospective application of IFRS 10 requirements, as established by IAS 8, had the following impacts:

	Consolidated Equity on 01-01-2013 (net income included)	Net income 2013	Consolidated Equity on 31-12-2013 (included net income)
Balances as reported (before the retrospective application of the accounting policy change)	2,325,091	89,164	2,730,363
Impact of the retrospective application of IFRS 10			
Reclassification of non-controlling interests in investment funds to liabilities	-	-	(235,054)
Balances (pro forma)	**2,325,091**	**89,164**	**2,495,309**

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

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

Employees’ post-employment benefits

Retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Insurance and Pension Funds Supervisory Authority (ASF). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, mortality and disability tables, pension growth and wages, amongst others.

The assumptions adopted correspond to the best estimate of the Bank’s Board of Directors regarding the future behaviour of the above referred variables.

Valuation of financial instruments not traded on active markets

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

Determination of loan impairment losses

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

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

As described in Note 1.3. e), the unrealised capital losses resulting from the valuation of these assets are recognised under the caption "Revaluation reserve - Fair value". Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses recorded on that reserve are transferred to the income statement.

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

In case of debt instruments recorded in this category, unrealised capital losses are transferred from the caption "Revaluation reserve – Fair value" to the income statement whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer.

Taxes

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

The Bank, as an entity subject to the Bank of Portugal supervision, must present separate (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice nº 1/2005, dated February 21, which form the basis for determining the taxable income.

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

The above referred Decree Law amended some articles of the Corporate Income Tax Code and also revoked paragraph 2 of Article 57 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

In this regard, these new rules were observed to compute the taxable income for the years ended December 31, 2014 and 2013, in accordance with the Bank´s interpretation.

Determination of the outcome of the legal proceedings in progress

The outcome of the legal proceedings in progress, including those mentioned in Note 50, as well as the need for provisioning are estimated based on the opinion of the lawyers / legal advisors of the Bank, which, however may not come to materialize.

3. SEGMENT REPORTING

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

Global Banking & Markets:

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

Retail banking:

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

Commercial banking:

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

Asset management:

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

At the end of 2013, the Bank sold the companies responsible for this business segment to a Santander Group company.

Corporate activities:

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

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

The income statement by business segment as of December 31, 2014 is made up as follows:

	2014				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	102,596	308,053	126,704	6,186	543,539
Income from equity instruments	-	-	-	1,222	1,222
Financial margin	**102,596**	**308,053**	**126,704**	**7,408**	**544,761**
Net commissions	57,369	216,461	20,199	(17,153)	276,876
Other results from banking activity	(55)	(1,483)	(218)	(12,558)	(14,314)
Commercial margin	**159,910**	**523,031**	**146,685**	**(22,303)**	**807,323**
Results from financial operations	(9,125)	1,876	714	94,186	87,651
Net income from banking activities	**150,785**	**524,907**	**147,399**	**71,883**	**894,974**
Operating costs	(15,932)	(344,857)	(61,099)	(3,448)	(425,336)
Depreciation and amortization	(3,030)	(47,398)	(11,429)	-	(61,857)
Net operating income	**131,823**	**132,652**	**74,871**	**68,435**	**407,781**
Impairment and provisions, net of reversals	(41,235)	(75,282)	(39,957)	(36,059)	(192,533)
Result from associates	-	-	17,652	2,139	19,791
Income before taxes	**90,588**	**57,370**	**52,566**	**34,515**	**235,039**
Taxes	(26,270)	(17,460)	(10,331)	(15,810)	(69,871)
Non-controlling interests	-	-	-	6	6
Net income for the year	**64,318**	**39,910**	**42,235**	**18,711**	**165,174**

At December 31, 2014 the assets and liabilities under management of each business segment in accordance with the information used by the Bank's management for decision making, are as follows:

	2014				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	14,795,658	-	-	14,795,658
Consumer credit	-	1,398,725	-	-	1,398,725
Other loans	2,966,050	2,306,703	4,056,115	-	9,328,868
Total allocated assets	2,966,050	18,501,086	4,056,115	-	25,523,251
Total non-allocated assets					13,337,111
Total assets					38,860,362
Liabilities					
Resources in the balance sheet					
Customers' accounts and other resources	938,483	17,665,370	1,725,300	1,296,749	21,625,902
Debt securities issued	-	171,791	48,474	2,752,846	2,973,111
	938,483	17,837,161	1,773,774	4,049,595	24,599,013
Guarantees and sureties given	125,654	157,480	800,895	-	1,084,029

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

The income statement by business segment as of December 31, 2013 is made up as follows:

	2013 (pro forma)					
	Global Banking & Markets	Retail Banking	Commercial Banking	Asset Management	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	95,721	281,023	157,883	(1,784)	(25,575)	507,268
Income from equity instruments	-	-	-	-	1,313	1,313
Financial margin	**95,721**	**281,023**	**157,883**	**(1,784)**	**(24,262)**	**508,581**
Net commissions	63,663	231,843	22,722	5,122	(7,840)	315,510
Other results from banking activity	-	1,421	-	(6,489)	(20,477)	(25,545)
Commercial margin	**159,384**	**514,287**	**180,605**	**(3,151)**	**(52,579)**	**798,546**
Results from financial operations	2,065	839	429	9,187	18,855	31,375
Net income from banking activities	**161,449**	**515,126**	**181,034**	**6,036**	**(33,724)**	**829,921**
Operating costs	(17,063)	(337,141)	(45,758)	(6,774)	-	(406,736)
Depreciation and amortization	(2,230)	(54,202)	(3,189)	(156)	-	(59,777)
Net operating income	**142,156**	**123,783**	**132,087**	**(894)**	**(33,724)**	**363,408**
Impairment and provisions, net of reversals	(10,755)	(182,189)	(75,398)	1,433	22,958	(243,951)
Result from associates	-	-	12,669	-	1,400	14,069
Income before taxes	**131,401**	**(58,406)**	**69,358**	**539**	**(9,366)**	**133,526**
Taxes	(38,106)	17,428	(16,441)	(3,062)	(4,177)	(44,358)
Non-controlling interests	-	-	-	17	(21)	(4)
Net income for the year	**93,295**	**(40,978)**	**52,917**	**(2,506)**	**(13,564)**	**89,164**

At December 31, 2013 the assets and liabilities under management for each business segment in accordance with the information used by the Bank's management for decision making, are as follows:

	2013 (pro forma)				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	15,277,265	-	-	15,277,265
Consumer credit	-	1,399,152	-	-	1,399,152
Other loans	2,758,628	2,632,642	4,039,834	-	9,431,104
Total allocated assets	2,758,628	19,309,059	4,039,834	-	26,107,521
Total non-allocated assets					12,703,007
Total assets					38,810,528
Liabilities					
Resources in the balance sheet					
Customers' accounts and other resources	763,842	16,448,582	2,084,356	1,410,221	20,707,001
Debt securities issued	-	289,272	101,557	2,143,332	2,534,161
	763,842	16,737,854	2,185,913	3,553,553	23,241,162
Guarantees and sureties given	171,674	167,383	846,410	-	1,185,467

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

The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as at December 31, 2014 and 2013, by geographical segments was as follows:

	2014							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	830,474	-	-	-	-	-	-	830,474
Balances due from other banks	240,632	25	-	5,675	630	6,330	(5,744)	241,218
Financial assets held for trading	2,291,734	-	-	-	-	-	-	2,291,734
Available-for-sale financial assets	6,712,555	987,451	-	-	-	987,451	(987,451)	6,712,555
Loans and advances to credit institutions	1,220,665	50,001	-	465,478	334,887	850,366	(850,114)	1,220,917
Loans and advances to customers	25,523,250	-	-	1	-	1	-	25,523,251
Hedging derivatives	195,035	-	-	-	-	-	-	195,035
Non-current assets held for sale	208,375	-	-	-	-	-	-	208,375
Investment properties	420,239	-	-	-	-	-	-	420,239
Other tangible assets	298,758	1	-	-	34	35	(1)	298,792
Intangible assets	28,380	-	-	-	-	-	1	28,381
Investments in associated companies	33,674	-	132,685	-	-	132,685	-	166,359
Current tax assets	14,603	-	-	-	-	-	-	14,603
Deferred tax assets	458,675	-	-	-	-	-	-	458,675
Other assets	249,436	4,498	-	(196)	517	4,819	(4,501)	249,754
Total Net Assets	38,726,485	1,041,976	132,685	470,958	336,068	1,981,687	(1,847,810)	38,860,362
Liabilities								
Resources of central banks	4,406,312	-	-	-	-	-	-	4,406,312
Financial liabilities held for trading	1,995,019	-	-	-	-	-	-	1,995,019
Resources of other credit institutions	4,030,724	628,141	-	23,046	-	651,187	(651,187)	4,030,724
Resources of customers and other debts	21,505,353	-	-	120,549	-	120,549	-	21,625,902
Debt securities	2,973,111	-	-	-	-	-	-	2,973,111
Hedging derivatives	133,690	-	-	-	-	-	-	133,690
Provisions	71,988	-	-	-	-	-	-	71,988
Current tax liabilities	19,772	-	-	-	-	-	262	20,034
Deferred tax liabilities	126,171	-	-	-	-	-	15,855	142,026
Equity representative instruments	205,979	-	-	-	-	-	-	205,979
Subordinated liabilities	4,306	-	-	-	-	-	-	4,306
Other liabilities	291,899	132,960	-	779	187	133,926	(132,932)	292,893
Total Liabilities	35,764,324	761,101	-	144,374	187	905,662	(768,002)	35,901,984
Shareholders' equity								
Shareholders' equity attributable to shareholders of BST	2,961,485	280,875	132,685	30,068	37,396	481,024	(1,079,808)	2,362,701
Non-controlling interests	676	-	-	296,516	298,485	595,001	-	595,677
Total shareholders' equity	2,962,161	280,875	132,685	326,584	335,881	1,076,025	(1,079,808)	2,958,378
Total liabilities and shareholders' equity	38,726,485	1,041,976	132,685	470,958	336,068	1,981,687	(1,847,810)	38,860,362

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

	2013 (pro forma)							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	337,841	-	-	-	-	-	-	337,841
Balances due from other banks	552,432	1,566	-	5,479	438	7,483	(6,994)	552,921
Financial assets held for trading	1,949,115	-	-	-	-	-	-	1,949,115
Available-for-sale financial assets	4,382,253	1,186,994	-	-	-	1,186,994	(1,186,994)	4,382,253
Loans and advances to credit institutions	3,270,749	50,000	-	424,659	327,238	801,897	(801,676)	3,270,970
Loans and advances to customers	26,107,521	-	-	-	-	-	-	26,107,521
Hedging derivatives	199,427	-	-	-	-	-	-	199,427
Non-current assets held for sale	206,943	-	-	-	-	-	-	206,943
Investment properties	467,949	-	-	-	-	-	-	467,949
Other tangible assets	318,636	2	-	-	24	26	-	318,662
Intangible assets	52,468	-	-	-	-	-	-	52,468
Investments in associated companies	32,334	-	115,396	-	-	115,396	-	147,730
Current tax assets	17,458	-	-	-	-	-	-	17,458
Deferred tax assets	540,675	-	-	-	-	-	-	540,675
Other assets	257,890	5,500	-	1,175	694	7,369	(6,664)	258,595
Total Net Assets	38,693,691	1,244,062	115,396	431,313	328,394	2,119,165	(2,002,328)	38,810,528
Liabilities								
Resources of central banks	6,241,410	-	-	-	-	-	-	6,241,410
Financial liabilities held for trading	1,619,768	-	-	-	-	-	-	1,619,768
Resources of other credit institutions	4,175,058	704,921	-	6,676	-	711,597	(711,597)	4,175,058
Resources of customers and other debts	20,568,824	-	-	138,177	-	138,177	-	20,707,001
Debt securities	2,534,161	-	-	-	-	-	-	2,534,161
Hedging derivatives	370,684	-	-	-	-	-	-	370,684
Provisions	62,039	-	-	-	-	-	-	62,039
Current tax liabilities	13,475	-	-	-	-	-	838	14,313
Deferred tax liabilities	41,990	-	-	-	-	-	16,534	58,524
Equity representative instruments	235,054	-	-	-	-	-	-	235,054
Subordinated liabilities	4,307	-	-	-	-	-	-	4,307
Other liabilities	290,702	140,767	-	1,935	178	142,880	(140,682)	292,900
Total Liabilities	36,157,472	845,688	-	146,788	178	992,654	(834,907)	36,315,219
Shareholders' equity								
Shareholders' equity attributable to shareholders of BST	2,535,536	398,374	115,396	23,485	29,623	566,878	(1,167,421)	1,934,993
Non-controlling interests	683	-	-	261,040	298,593	559,633	-	560,316
Total shareholders' equity	2,536,219	398,374	115,396	284,525	328,216	1,126,511	(1,167,421)	2,495,309
Total liabilities and shareholders' equity	38,693,691	1,244,062	115,396	431,313	328,394	2,119,165	(2,002,328)	38,810,528

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

In the years ended at December 31, 2014 and 2013, the income statement by geographical segments was as follows:

	2014							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Interest and similar income	1,194,167	26,396	-	24,206	-	50,602	(50,601)	1,194,168
Interest and similar charges	(647,843)	(12,307)	-	(2,822)	-	(15,129)	12,343	(650,629)
Financial margin	546,324	14,089	-	21,384	-	35,473	(38,258)	543,539
Income from equity instruments	1,222	-	-	-	-	-	-	1,222
Income from services and commissions	335,187	8,805	-	-	-	8,805	(8,805)	335,187
Charges with services and commissions	(58,072)	-	-	-	(238)	(238)	(1)	(58,311)
Result of assets and liabilities at fair value through profit or loss	(244,097)	-	-	-	-	-	-	(244,097)
Result of available-for-sale financial assets	308,722	-	-	-	-	-	-	308,722
Result of foreign exchange revaluation	5,591	-	-	(133)	-	(133)	-	5,458
Result from sale of other assets	17,566	-	-	-	2	2	-	17,568
Other operating results	(14,225)	-	-	(4)	(86)	(90)	1	(14,314)
Net income from banking activities	898,218	22,894	-	21,247	(322)	43,819	(47,063)	894,974
Staff costs	(280,650)	(178)	-	(186)	(578)	(942)	-	(281,592)
General administrative costs	(143,005)	(347)	-	(107)	(285)	(739)	-	(143,744)
Depreciation in the year	(61,834)	(1)	-	-	(22)	(23)	-	(61,857)
Provisions, net of reversals	(46,416)	-	-	-	-	-	-	(46,416)
Loan impairment net of reversals and recoveries	(111,206)	-	-	-	-	-	-	(111,206)
Impairment of other financial assets net of reversals and recoveries	(1,131)	-	-	-	-	-	-	(1,131)
Impairment of other assets net of reversals and recoveries	(33,780)	-	-	-	-	-	-	(33,780)
Result from associates	2,139	-	17,652	-	-	17,652	-	19,791
Income before taxes and non-controlling interests	222,335	22,368	17,652	20,954	(1,207)	59,767	(47,063)	235,039
Current taxes	(37,219)	(3,471)	-	-	(10)	(3,481)	-	(40,700)
Deferred taxes	(29,850)	679	-	-	-	679	-	(29,171)
Income after taxes and before non-controlling interests	155,266	19,576	17,652	20,954	(1,217)	56,965	(47,063)	165,168
Non-controlling interests	(6)	6	(10)	(19)	(13)	(36)	48	6
Consolidated net income attributable to the shareholders of the Bank	155,260	19,582	17,642	20,935	(1,230)	56,929	(47,015)	165,174

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

	2013 (pro forma)							
		International operations					Inter segment	Total
	Portugal	Ireland	Angola	Porto Rico	Outros	Total	balances	consolidado
Interest and similar income	1,271,030	47,944	-	25,697	-	73,641	(73,544)	1,271,127
Interest and similar charges	(758,938)	(9,878)	-	(4,982)	-	(14,860)	9,939	(763,859)
Financial margin	512,092	38,066	-	20,715	-	58,781	(63,605)	507,268
Income from equity instruments	1,313	-	-	-	-	-	-	1,313
Income from services and commissions	370,626	5,498	-	-	-	5,498	(5,498)	370,626
Charges with services and commissions	(54,873)	-	-	(1)	(242)	(243)	-	(55,116)
Result of assets and liabilities at fair value through profit or loss	20,327	-	-	(1)	-	(1)	-	20,326
Result of available-for-sale financial assets	4,534	-	-	-	-	-	-	4,534
Result of foreign exchange revaluation	3,984	-	-	55	-	55	-	4,039
Result from sale of other assets	2,475	-	-	-	1	1	-	2,476
Other operating results	(25,454)	-	-	(4)	(87)	(91)	-	(25,545)
Net income from banking activities	835,024	43,564	-	20,764	(328)	64,000	(69,103)	829,921
Staff costs	(268,637)	(177)	-	(193)	(570)	(940)	-	(269,577)
General administrative costs	(136,461)	(329)	-	(115)	(254)	(698)	-	(137,159)
Depreciation in the year	(59,767)	(1)	-	-	(9)	(10)	-	(59,777)
Provisions, net of reversals	(6,930)	-	-	-	-	-	-	(6,930)
Loan impairment net of reversals and recoveries	(197,039)	-	-	-	-	-	-	(197,039)
Impairment of other financial assets net of reversals and recoveries	(3,155)	-	-	-	-	-	-	(3,155)
Impairment of other assets net of reversals and recoveries	(36,827)	-	-	-	-	-	-	(36,827)
Result from associates	1,400	-	12,669	-	-	12,669	-	14,069
Income before taxes and non-controlling interests	127,608	43,057	12,669	20,456	(1,161)	75,021	(69,103)	133,526
Current taxes	(29,042)	(6,266)	-	-	(13)	(6,279)	-	(35,321)
Deferred taxes	(9,895)	858	-	-	-	858	-	(9,037)
Income after taxes and before non-controlling interests	88,671	37,649	12,669	20,456	(1,174)	69,600	(69,103)	89,168
Non-controlling interests	(4)	-	-	-	-	-	-	(4)
Consolidated net income attributable to the shareholders of the Bank	88,667	37,649	12,669	20,456	(1,174)	69,600	(69,103)	89,164

The accounting policies used in the preparation of the financial information by segments were consistent with those described in Note 1.3. from these accompanying notes.

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

4. GROUP COMPANIES AND TRANSACTIONS OCURRED DURING THE YEAR

At December 31, 2014 and 2013, the subsidiaries and associated companies and their most significant financial data, extracted from their respective standalone financial statements, excluding conversion adjustments to IAS/IFRS, can be summarised as follows:

	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
Company	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
BANCO SANTANDER TOTTA, S.A.	-	-	100.00	100.00	39,994,424	40,260,305	1,918,640	1,471,117	134,473	2,449
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A.	-	-	24.96	24.96	1,843,631	1,371,384	313,771	247,304	70,243	52,120
TOTTA & AÇORES FINANCING (1) (4)	100.00	100.00	100.00	100.00	311,792	311,787	311,792	311,787	12,360	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	37,280	32,592	37,263	32,578	258	320
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,337	1,180	1,161	1,014	8	47
TOTTA IRELAND, PLC (3)	100.00	100.00	100.00	100.00	1,039,176	1,011,636	410,739	298,037	945	2,732
SANTOTTA-INTERNACIONAL, SGPS, S.A.	100.00	100.00	100.00	100.00	106,527	110,807	77,628	74,397	5,376	4,933
TOTTA URBE - Emp. Admin. e Construções, S.A. (2)	100.00	100.00	100.00	100.00	132,009	113,713	125,479	109,961	1,470	1,941
BENIM - Sociedade Imobiliária, S.A.	-	-	25.81	25.81	n/a	n/a	n/a	n/a	n/a	n/a
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	100.00	100.00	100.00	100.00	15,804	49,795	15,788	49,417	(19)	7,784
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (5)	100.00	100.00	100.00	100.00	471,160	431,322	326,584	284,486	20,953	20,457
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	55,727	55,731	55,722	55,724	(2)	761
PARTANG, SGPS, S.A.	0.49	0.49	49.00	49.00	172,497	152,642	161,418	140,714	35,936	25,616
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.50	21.50	21.50	21.50	334,788	315,889	98,274	89,696	10,249	9,785
HIPOTOTTA nº 1 PLC	-	-	-	-	176,126	194,678	(775)	(1,654)	798	(152)
HIPOTOTTA nº 4 PLC	-	-	-	-	1,081,604	1,147,748	(9,483)	(13,619)	2,915	(2,036)
HIPOTOTTA nº 5 PLC	-	-	-	-	930,559	972,764	(4,439)	(8,404)	2,826	(1,155)
LEASETOTTA nº 1 Ltd	-	-	-	-	176	428,640	60	(13,187)	10,919	3,434
HIPOTOTTA nº 1 FTC	-	-	-	-	158,823	179,215	158,163	178,077	310	(24)
HIPOTOTTA nº 4 FTC	-	-	-	-	1,034,833	1,107,500	1,033,635	1,104,994	(1,305)	(1,035)
HIPOTOTTA nº 5 FTC	-	-	-	-	901,075	953,003	897,390	947,977	(123)	(1,932)
LEASETOTTA nº 1 FTC	-	-	-	-	-	347,423	-	350,252	4,143	(1,599)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (6)	77.26	71.60	77.26	71.60	429,050	477,098	330,315	360,442	(17,324)	(28,670)
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (6)	64.84	64.32	64.84	64.32	374,055	374,590	372,261	371,951	3,320	8,824

Note: The financial statements of some subsidiaries, associated companies and entities under joint control are still subject to approval by the respective governing bodies. However, the Group Board of Directors believes that there will be no changes with significant impact on the consolidated net income of the Group.

n/a – not available

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

At December 31, 2014 and 2013, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation was as follows:

Company	Business	Location of headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Parent company
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A.	Banking	Angola	Equity method
TOTTA & AÇORES FINANCING (1) (4)	Banking	Cayman Island	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Island	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC (3)	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Funchal	Full
TOTTA URBE - Emp. Admin. e Construções, S.A. (2)	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate	Portugal	Equity method
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (5)	Banking	Puerto Rico	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
PARTANG, SGPS, S.A.	Holding company	Portugal	Equity method
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Credit Card Management	Portugal	Equity method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
LEASETOTTA nº 1 Ltd	Investment management	Ireland	Full
HIPOTOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
LEASETOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (6)	Investment management	Portugal	Full
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (6)	Investment management	Portugal	Full

(1) The shareholders’ equity of these companies includes preference shares subscribed by Santander Group companies (Note 28).

(2) The shareholders’ equity of this subsidiary includes supplementary capital contributions totalling tEuros 99,760.

(3) As this subsidiary closes its financial year on November 30, the amounts reflected in the columns “Net income of the year” correspond to the net income determined in December of each year. In the periods comprised between January 1 to November 30, 2014 and 2013, the net income of Totta Ireland, PLC amounted to tEuros 23,347 and tEuros 41,105, respectively.

(4) The share capital of this subsidiary is made up of 50,000 ordinary shares with a nominal value of 1 United States Dollar each and 300,000 non-voting preference shares with a nominal value of 1,000 Euros each. Considering preference shares, the Bank’s effective participation in this entity is 0.01%.

(5) The share capital of this subsidiary is made up of 5,000,000 ordinary shares with a nominal value of 1 United States Dollar each and 3,600 non-voting preference shares with a nominal value of 100,000 United States Dollars each. Considering preference shares, the Bank’s effective participation in this entity is 1.37%.

(6) These companies were consolidated for the first time during the year 2013, since the Bank holds more than 50% of their participating units.

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Bank’s consolidated financial statements include special purpose entities (SPE) created for securitization operations since the Bank retains control over them, as it holds the majority of the risks and benefits associated with their activity, namely the bonds issued by those entities with a higher degree of subordination (Note 45). These entities are referred to above as Leasetotta FTC or Hipototta FTC (securitization loans funds) and Hipototta PLC or Leasetotta Ltd. (entities which subscribed the participating units issued by the securitization loans funds).

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

During the year 2013, the Bank increased its participation in Fundo de Investimento Imobiliário - Novimovest, managed by Santander Asset Management, SGFIM, S.A. ("SAM"), to a holding percentage higher than 50%. According to the accounting policy adopted by the Bank, the Investment Funds are consolidated (by the full consolidation method) when the Bank holds control over them, i.e., when more than 50% of their participating units are held.

From July 1, 2013, the Bank started to consolidate that Fund.

For the above referred reasons, at December 31, 2013, the Bank also consolidated Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações, also managed by SAM.

At December 31, 2013, the Funds consolidated for the first time during that year, their activity, the percentage of participation held by the Bank and the amount paid in their acquisition were as follows:

Entity	Developed activity	% participation held	Amount paid
Fundo de Investimento Imobiliário Aberto - Novimovest	Real estate investment fund	71.60%	275,910
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável - Santander Multiobrigações	Securities investment fund	64.32%	239,249

Since the participating units in the Investment Funds referred to above were recorded at their fair value, determined based on the value of the participating units disclosed periodically by SAM in the Portuguese Securities Market Commission (CMVM) site, and given that all the subscriptions of participating units were based on that source of valuation, no goodwill was generated on those acquisitions. Moreover, all subscriptions of participating units in those Funds were made through cash.

At December 31, 2014 and 2013 the balance sheet of those Funds had the following breakdown:

	31-12-2014			31-12-2013		
	Novimovest	Multiobrigações	Total	Novimovest	Multiobrigações	Total
Securities portfolio	3,019	318,129	321,148	3,151	344,421	347,572
Real estate portfolio	401,239	-	401,239	449,758	-	449,758
Accounts receivables	23,640	-	23,640	23,257	-	23,257
Cash and banks	499	54,677	55,176	513	28,150	28,663
Accruals and deferrals	653	1,249	1,902	419	2,019	2,438
	429,050	374,055	803,105	477,098	374,590	851,688
Fund Capital	330,315	372,261	702,576	360,442	371,951	732,393
Adjustments and provisions	5,366	383	5,749	5,285	580	5,865
Accounts payable	87,099	1,405	88,504	104,260	1,718	105,978
Accruals and deferrals	6,270	6	6,276	7,111	341	7,452
	429,050	374,055	803,105	477,098	374,590	851,688

At December 31, 2014 and 2013, the consolidated net income includes a loss of tEuros 13,385 and tEuros 20,529 attributable, respectively, to Novimovest Fund.

At December 31, 2014 and 2013, the consolidated net income includes a profit of tEuros 2,153 and tEuros 0 attributable, respectively, to Santander Multiobrigações Fund.

In December 2013, the Bank, through Santander - Asset Management, SGPS, S.A., sold 100% of its shares in Santander Asset Management, SGFIM, S.A. and in Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. (“Santander Pensões, S.A.”), to an entity of Santander Group, recording a gain of tEuros 12,588 (Note 38), calculated as follows:

	Santander Asset Management, SGFIM, S.A.	Santander Pensões, S.A.	Total
Net assets sold	25,440	3,472	28,912
Cash received	37,400	4,100	41,500
Gain on the operation			12,588

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

5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	2014	2013 (pro forma)
Cash	208,014	221,706
Demand deposits at Central Banks:		
European Central Bank	622,460	116,135
	830,474	337,841

In accordance with European Central Bank Regulation nº 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves consists in all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of customers repayable in less than two years' time, to which 1% is applied and 100,000 Euros is deducted from the amount calculated. The minimum cash reserves earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	2014	2013 (pro forma)
Balances due from domestic banks		
Cheques for collection	64,841	54,077
Demand deposits	709	756
Balances due from foreign banks		
Demand deposits	173,847	496,556
Cheques for collection	1,821	1,532
	241,218	552,921

At December 31, 2014 and 2013, sub captions "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

At December 31, 2014 and 2013, the caption "Balances due from foreign banks – Demand deposits" included a deposit in the amount of tEuros 67,831 and tEuros 165,375, respectively, which is being mobilized as the fulfilment of certain obligations towards third parties, occur.

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

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	2014	2013 (pro forma)
Financial assets held for trading		
Derivatives with positive fair value	1,969,494	1,599,893
Securities – Debt instruments	319,221	346,070
Securities - Participating units	3,019	3,152
	2,291,734	1,949,115
Financial liabilities held for trading		
Derivatives with negative fair value	(1,995,019)	(1,619,768)
Net balance of the fair value of derivative financial instruments	(25,525)	(19,875)

At December 31, 2014 and 2013, the captions of derivative financial instruments were made up as follows:

	2014			2013 (pro forma)		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	31,123	30,886	237	1,250	1,311	(61)
Swaps						
Currency swaps	19,568	-	19,568	1,119	7,400	(6,281)
Interest rate swaps	1,556,561	1,602,271	(45,710)	1,203,389	1,217,597	(14,208)
Equity swaps	36,580	35,348	1,232	76,883	76,233	650
Credit-linked notes	-	7	(7)	-	-	-
Options						
Exchange rate contracts	1,368	1,184	184	831	836	(5)
Contracts on prices	158,355	156,781	1,574	137,076	137,076	-
Caps & Floors	165,939	168,542	(2,603)	179,345	179,315	30
	1,969,494	1,995,019	(25,525)	1,599,893	1,619,768	(19,875)

At December 31, 2014, the captions of assets and liabilities of derivative financial instruments are net of the amounts of approximately tEuros 142,400 and tEuros 110,700, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments".

At December 31, 2013, the captions of assets and liabilities of derivative financial instruments are net of the amounts of approximately tEuros 187,800 and tEuros 168,000, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments".

At December 31, 2014 and 2013, the caption of derivative financial instruments – assets, included the amounts of tEuros 1,420,000 and tEuros 1,030,000, respectively, maintained with entities belonging to the Portuguese Public Sector which are in litigation (Note 50).

At December 31, 2014 and 2013, the majority of the derivative financial instruments held for trading were hedged "back-to-back" with Banco Santander, S.A..

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

At December 31, 2014 and 2013, the caption "Securities - Debt instruments" is made up as follows:

Description	Book value 2014	Book value 2013 (pro forma)
Issued by residents		
Portuguese public debt	11,177	76,613
Others	9,531	23,583
Issued by non residents		
Public foreign issuers	40,935	7,667
Others	257,578	238,207
	319,221	346,070

At December 31, 2013, the Bank started to consolidate by the full consolidation method Fundo Santander Multiobrigações, which holds the debt instruments mentioned above.

At December 31, 2014 and 2013, the caption "Securities – Participating units" corresponds to the Real Estate Investment Fund Maxirent.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

2014	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve: Positive	Fair Value Reserve: Negative	Fair Value Reserve: Total (Note 26)	Impairment (Note 22)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	4,975,473	133,789	37,423	258,110	-	258,110	(130)	5,404,665
Other Portuguese Government entities	7,502	-	-	-	(672)	(672)	-	6,830
Other residents								
Acquired in securitization operations	79,600	72	-	-	(8,045)	(8,045)	-	71,627
Unsubordinated debt	830,723	14,980	-	35,737	(6,957)	28,780	(230)	874,253
Subordinated debt	139,009	22	-	-	(12,135)	(12,135)	(6,603)	120,293
Issued by non-residents								
Other non-residents	117,420	3,477	-	1,457	(344)	1,113	-	122,010
Equity instruments								
Issued by residents								
Valued at fair value	158,113	-	-	621	(10,859)	(10,238)	(48,017)	99,858
Valued at cost	18,765	-	-	-	-	-	(6,217)	12,548
Issued by non-residents								
Valued at fair value	11	-	-	-	-	-	-	11
Valued at cost	1,206	-	-	-	-	-	(746)	460
	6,327,822	152,340	37,423	295,925	(39,012)	256,913	(61,943)	6,712,555

2013 (pro forma)	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve: Positive	Fair Value Reserve: Negative	Fair Value Reserve: Total (Note 26)	Impairment (Note 22)	Book Value
Debt instruments								
Issued by residents								
Treasury Bonds	2,130,470	29,161	105,608	106	(136,469)	(136,363)	(231)	2,128,645
Other Portuguese Government entities	479,002	1,119	-	13,155	(1,456)	11,699	-	491,820
Other residents								
Acquired in securitization operations	86,505	87	-	-	(23,349)	(23,349)	-	63,243
Unsubordinated debt	416,584	8,013	-	7,662	(11,220)	(3,558)	(231)	420,808
Subordinated debt	128,233	36	-	-	(7,256)	(7,256)	(11,193)	109,820
Issued by non-residents								
Foreign government entities	1,007,249	23,108	120,005	109	(75,105)	(74,996)	-	1,075,366
Equity instruments								
Issued by residents								
Valued at fair value	121,633	-	-	374	(326)	48	(42,655)	79,026
Valued at cost	19,732	-	-	-	-	-	(6,683)	13,049
Issued by non-residents								
Valued at fair value	16	-	-	-	-	-	-	16
Valued at cost	1,205	-	-	-	-	-	(745)	460
	4,390,629	61,524	225,613	21,406	(255,181)	(233,775)	(61,738)	4,382,253

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

At December 31, 2014 and 2013, the captions Treasury Bonds and Foreign government entities included capital gains of tEuros 37,423 and tEuros 225,613, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

	2014						2013 (pro forma)					
Description	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book value
Treasury bonds - Portugal												
. Maturing in one year	-	-	-	-	-	-	649,159	4,981	12,388	(7,573)	-	658,955
. Maturing between one and three years	-	-	-	-	-	-	-	-	-	-	-	-
. Maturing between three and five years	1,790,592	42,375	-	54,782	-	1,887,749	517,531	6,447	-	(4,195)	-	519,783
. Maturing between five and ten years	3,184,881	91,414	37,423	203,328	(130)	3,516,916	675,000	17,728	93,220	(124,701)	-	661,247
Treasury bills - Portugal	-	-	-	-	-	-	288,293	-	-	106	-	288,399
Other	-	-	-	-	-	-	487	5	-	-	(231)	261
	4,975,473	133,789	37,423	258,110	(130)	5,404,665	2,130,470	29,161	105,608	(136,363)	(231)	2,128,645
Treasury bonds - Spain												
. Maturing between five and ten years	-	-	-	-	-	-	1,000,000	23,028	120,005	(75,105)	-	1,067,928
Other	-	-	-	-	-	-	7,249	80	-	109	-	7,438
	-	-	-	-	-	-	1,007,249	23,108	120,005	(74,996)	-	1,075,366
	4,975,473	133,789	37,423	258,110	(130)	5,404,665	3,137,719	52,269	225,613	(211,359)	(231)	3,204,011

At December 31, 2014, the Bank held in its portfolio Treasury Bonds of Portugal, in an amount of tEuros 2,002,426, which were used as collateral in financing operations (Note 19).

At December 31, 2013, the Bank held in its portfolio Treasury Bonds of Portugal and Spain, in the amounts of tEuros 1,595,639 and tEuros 1,070,943 respectively, which were used as collateral in financing operations (Note 19).

At December 31, 2014 and 2013, the caption "Debt instruments – Issued by residents - Other residents" includes, amongst others, the following securities:

	2014					2013 (pro forma)				
Description	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value
Acquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	79,550	72	(8,025)	-	71,597	86,455	87	(23,329)	-	63,213
Other	50	-	(20)	-	30	50	-	(20)	-	30
	79,600	72	(8,045)	-	71,627	86,505	87	(23,349)	-	63,243
Unsubordinated debt										
CAIXA GERAL DE DEPOSITOS 3.75% JAN/2018	251,991	8,931	21,143	-	282,065	199,820	7,144	6,521	-	213,485
PARPUBLICA 2013/2015	200,000	78	4,136	-	204,214	-	-	-	-	-
Banco Comercial Português 22/06/2017	105,358	2,512	3,702	-	111,572	-	-	-	-	-
GALP ENERGIA 2013/2017	99,455	429	1,530	-	101,414	99,226	446	1,141	-	100,813
CGD 3% 2014/2019	49,965	1,442	4,582	-	55,989	-	-	-	-	-
SONAE DISTRIBUICAO SET 2007/2015	35,000	82	(442)	-	34,640	35,000	98	(2,295)	-	32,803
Galp Energia Sgps Sa -4,125%-25/01/2019	23,885	894	215	-	24,994	-	-	-	-	-
IBERWIND II P- CONSULTORIA SENIOR A	28,046	29	(4,165)	-	23,910	29,956	32	(5,845)	-	24,143
EDIA 2010/2030	19,250	226	(1,401)	-	18,075	19,250	227	(1,413)	-	18,064
OBRIGAÇÕES ZON MULTIMÉDIA 2014	-	-	-	-	-	24,300	50	(294)	-	24,056
Other	17,773	357	(520)	(230)	17,380	9,032	16	(1,373)	(231)	7,444
	830,723	14,980	28,780	(230)	874,253	416,584	8,013	(3,558)	(231)	420,808
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	122,087	19	-	(6,603)	115,503	111,360	32	-	(11,193)	100,199
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	1	(9,213)	-	4,788	14,000	2	(5,150)	-	8,852
Other	2,922	2	(2,922)	-	2	2,873	2	(2,106)	-	769
	139,009	22	(12,135)	(6,603)	120,293	128,233	36	(7,256)	(11,193)	109,820

In the last quarter of 2012, the Bank acquired to Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its fair value. Following this operation, impairment losses of the same amount were recorded. During the years 2014 and 2013, the Bank reversed impairment losses of tEuros 4,590 and tEuros 4,481, respectively, on that security due to its appreciation.

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

At December 31, 2014 and 2013, the caption "Equity instruments" includes the following securities:

	2014				2013 (pro forma)			
Description	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book value
Recorded at fair value								
FUNDO SOLUÇÃO ARRENDAMENTO	28,925	(1,769)	-	27,156	24,915	(319)	-	24,596
FUNDO RECUPERAÇÃO FCR	33,120	-	(8,109)	25,011	28,491	-	(3,850)	24,641
LUSIMOVEST - F.I. IMOBILIÁRIO	26,379	186	(2,827)	23,738	26,379	-	(1,998)	24,381
BANCO BPI, SA	21,502	(9,010)	-	12,492	-	-	-	-
GARVAL - SOC.DE GARANTIA MUTUA S.A.	1,443	64	-	1,507	1,759	51	-	1,810
Other	13,359	291	(3,685)	9,965	6,690	316	(3,392)	3,614
Securities with 100% impairment losses	33,396	-	(33,396)	-	33,415	-	(33,415)	-
	158,124	(10,238)	(48,017)	99,869	121,649	48	(42,655)	79,042
Recorded at historical cost								
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS S.A.	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (ex-AENOR)	3,749	-	(531)	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions) (ex-AENOR)	3,749	-	(531)	3,218	3,749	-	(531)	3,218
Other	3,986	-	(875)	3,111	4,951	-	(1,339)	3,612
Securities with 100% impairment losses	5,026	-	(5,026)	-	5,027	-	(5,027)	-
	19,971	-	(6,963)	13,008	20,937	-	(7,428)	13,509

At December 31, 2014 and 2013, the Bank held 5,861,770 and 5,020,942 of participating units of the “Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado” in the amounts of tEuros 27,156 and tEuros 24,596, respectively, which were subscribed through a cash payment of tEuros 2 and the remaining through the delivery of land and buildings.

During the years 2014 and 2013, the Bank subscribed capital calls of Fundo Recuperação, FCR in the amounts of tEuros 4,629 and tEuros 3,477, respectively. At December 31, 2014 and 2013, the Bank held in its portfolio 33,110 and 28,427 participating units, respectively, corresponding to a participation of 4.12% in the capital of that Fund.

During 2014 the Bank acquired to Santander Totta Seguros – Companhia de Seguros de Vida, S.A. shares of Banco BPI, S.A. by an amount of tEuros 21,502 (fair value at the acquisition date), which, as of December 31, 2014, were recorded by tEuros 12,492.

At December 31, 2014 and 2013, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets presents the following percentages against their acquisition cost:

	2014				
	Acquisition cost	Interest receivable	Gains/(losses) on hedging operations	Negative reserve	Book Value
Debt instruments					
. Between 0% and 25%	219,676	1,430	-	(15,998)	205,108
. Between 25% and 50%	50	-	-	(20)	30
. Over 50%	16,922	3	-	(12,135)	4,790
	236,648	1,433	-	(28,153)	209,928
Equity instruments					
. Between 0% and 25%	35,001	-	-	(1,849)	33,152
. Between 25% and 50%	21,502	-	-	(9,010)	12,492
	56,503	-	-	(10,859)	45,644
	293,151	1,433	-	(39,012)	255,572

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

	2013 (pro forma)				
	Acquisition cost	Interest receivable	Gains/(losses) on hedging operations	Negative reserve	Book Value
Debt instruments					
. Between 0% and 25%	2,968,000	52,608	225,613	(224,250)	3,021,971
. Between 25% and 50%	100,505	88	-	(28,500)	72,093
. Over 50%	2,873	3	-	(2,105)	771
	3,071,378	52,699	225,613	(254,855)	3,094,835
Equity instruments					
. Between 0% and 25%	24,988	-	-	(326)	24,662
	3,096,366	52,699	225,613	(255,181)	3,119,497

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	2014	2013 (pro forma)
Loans and advances to the European Central Bank	-	1,600,000
Loans and advances to other Portuguese banks		
Deposits	200,000	200,407
Loans	22,212	36,522
Interest receivable	5,806	3,523
	228,018	240,452
Loans and advances to other foreign banks		
Deposits	833,764	1,158,953
Very short term loans and advances	71,574	68,797
Other applications	55,883	172,463
Interest receivable	31,678	30,305
	992,899	1,430,518
	1,220,917	3,270,970

At December 31, 2014 and 2013, the caption "Loans and advances to other foreign banks - Other applications" includes margin accounts of tEuros 46,926 and tEuros 172,446, respectively.

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

10. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	2014	2013 (pro forma)
Unsecuritised loans		
Domestic loans		
To corporate clients		
Loans	3,793,601	3,898,652
Factoring	1,057,039	995,271
Current account loans	738,311	1,011,146
Finance leasing	733,256	460,387
Discount and other credit securities	139,255	144,180
Overdrafts	95,541	105,260
Other credits	19,866	20,309
To individuals		
Mortgage loans	12,199,253	12,554,234
Consumer credit and other loans	1,652,604	1,722,630
Foreign loans		
To corporate clients		
Loans	147,724	132,935
Factoring	71,325	57,974
Current account loans	7,263	11,615
Finance leasing	1,272	2,282
Discount and other credit securities	140	128
Overdrafts	62	440
Other credits	3	3,231
To individuals		
Mortgage loans	334,883	361,067
Consumer credit and other loans	27,812	32,147
	21,019,210	21,513,888
Loans represented by securities		
Non-subordinated debt securities	2,390,245	2,003,612
Non-derecognised securitised assets (Note 45)		
Corporate Clients		
Finance leasing		
. Leasetotta nº 1	-	335,458
To individuals		
Loans		
Mortgage loans		
. Hipototta nº 1	157,613	177,830
. Hipototta nº 4	1,031,230	1,103,384
. Hipototta nº 5	894,145	945,687
Finance leasing		
. Leasetotta nº 1	-	206
	2,082,988	2,562,565

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

	2014	2013 (pro forma)
Overdue loans and interest		
Up to 90 days	41,490	60,190
More than 90 days	1,079,431	949,842
Non-derecognised securitised assets up to 90 days	1,620	1,102
Non-derecognised securitised assets more than 90 days	43,696	62,830
	1,166,237	1,073,964
	26,658,680	27,154,029
Interest receivable		
Unsecuritised loans	39,206	47,101
Loans represented by securities	11,498	4,791
Non-derecognised securitised assets	2,180	3,165
Deferred expenses	69,414	77,414
Commissions associated with amortised cost (net)	(100,355)	(105,303)
Value adjustments of hedged assets	4,246	4,200
	26,189	31,368
	26,684,869	27,185,397
Impairment of loans and advances to customers (Note 22)	(1,161,618)	(1,077,876)
	25,523,251	26,107,521

In 2014 and 2013, the Bank sold mortgage loans and company loans portfolios, most of which had already been written off. As a result of these operations, net gains were recorded in 2014 and 2013 amounting to tEuros 1,128 and tEuros 2,321 respectively (Note 38).

At December 31, 2014 and 2013, the caption “Domestic loans - To individuals – Mortgage loans” included loans allocated to the autonomous pool of the covered bonds issued by the Bank totalling tEuros 8,021,820 and tEuros 8,245,739, respectively (Note 21).

During 2014 the Bank liquidated in advance the securitization operation named Leasetotta nº 1, which justified the increase occurred in the caption “Domestic loans – To corporate clients – Finance leasing”.

Changes in impairment of loans and advances to customers during 2014 and 2013 are presented in Note 22.

At December 31, 2014 and 2013, overdue loans and interest are made up as follows:

	2014	2013 (pro forma)
Up to three months	43,110	61,292
Between three and six months	61,723	32,115
Between six months and one year	127,866	163,839
Between one year and three years	545,546	627,701
More than three years	387,992	189,017
	1,166,237	1,073,964

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

The portfolio of loans and advances to customers as of December 31, 2014 and 2013, by business sector, was as follows:

	2014			
	Performing	Overdue	Total	%
Agriculture and forestry	146,259	7,973	154,232	0.58%
Fishing	3,758	44	3,802	0.01%
Mining	16,617	1,043	17,660	0.07%
Manufacturing:				
Food, beverage and tobacco	363,292	21,155	384,447	1.44%
Textiles, leather and clothing	194,547	8,379	202,926	0.76%
Wood and cork	94,716	5,254	99,970	0.37%
Paper and publishing	193,675	2,361	196,036	0.74%
Chemical industry	171,963	3,774	175,737	0.66%
Ceramics, glass and cement	164,282	3,488	167,770	0.63%
Metal-working	117,888	8,559	126,447	0.47%
Machines and vehicles	162,960	12,526	175,486	0.66%
Electricity, water and gas	683,108	2,474	685,582	2.57%
Construction and public works	1,195,295	228,721	1,424,016	5.34%
Commerce and hotels:				
Wholesale trading	650,927	55,595	706,522	2.65%
Retail sale	948,063	66,781	1,014,844	3.81%
Restaurants and hotels	367,792	21,709	389,501	1.46%
Transport and communications	401,804	16,327	418,131	1.57%
Non-monetary financial institutions	561,191	13,535	574,726	2.16%
Government administration	556,792	2,096	558,888	2.10%
Other service companies	1,262,402	128,172	1,390,574	5.22%
Loans to individuals	15,816,560	532,171	16,348,731	61.33%
Foreign loans	306,597	5,112	311,709	1.17%
Holding companies	881,678	11,911	893,589	3.35%
Other loans	230,277	7,077	237,354	0.89%
	25,492,443	1,166,237	26,658,680	100.00%

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

	2013 (pro forma)			
	Performing	Overdue	Total	%
Agriculture and forestry	151,426	8,971	160,397	0.59%
Fishing	3,122	35	3,157	0.01%
Mining	23,673	1,739	25,412	0.09%
Manufacturing:				
Food, beverage and tobacco	402,914	10,408	413,322	1.52%
Textiles, leather and clothing	172,748	7,202	179,950	0.66%
Wood and cork	95,945	4,358	100,303	0.37%
Paper and publishing	186,370	2,394	188,764	0.70%
Chemical industry	176,807	3,483	180,290	0.66%
Ceramics, glass and cement	247,283	2,088	249,371	0.92%
Metal-working	114,182	7,608	121,790	0.45%
Machines and vehicles	180,979	10,768	191,747	0.71%
Electricity, water and gas	277,654	1,355	279,009	1.03%
Construction and public works	1,354,987	220,361	1,575,348	5.80%
Commerce and hotels:				
Wholesale trading	642,398	50,003	692,401	2.55%
Retail sale	842,497	57,899	900,396	3.32%
Restaurants and hotels	398,633	27,176	425,809	1.57%
Transport and communications	540,288	13,912	554,200	2.04%
Non-monetary financial institutions	702,904	31	702,935	2.59%
Government administration	551,843	2,760	554,603	2.04%
Other service companies	1,307,674	128,433	1,436,107	5.29%
Loans to individuals	16,217,460	489,350	16,706,810	61.53%
Foreign loans	339,914	5,851	345,765	1.27%
Holding companies	811,988	9,967	821,955	3.03%
Other loans	336,376	7,812	344,188	1.27%
	26,080,065	1,073,964	27,154,029	100.00%

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

At December 31, 2014 and 2013, the overdue and performing loans, with and without evidence of impairment, considering the segmentation used for the calculation of impairment losses by the Bank, were as follows:

	2014		
	Overdue loans	Performing loans	Total loans
Loans granted to companies			
. Without objective evidence of impairment	-	8,923,870	8,923,870
. With objective evidence of impairment	613,100	425,763	1,038,863
	613,100	9,349,633	9,962,733
Mortgage loans			
. Without objective evidence of impairment	-	13,934,517	13,934,517
. With objective evidence of impairment	350,449	682,607	1,033,056
	350,449	14,617,124	14,967,573
Consumer loans			
. Without objective evidence of impairment	-	1,028,509	1,028,509
. With objective evidence of impairment	50,726	42,686	93,412
	50,726	1,071,195	1,121,921
Loans granted through credit cards			
. Without objective evidence of impairment	-	236,810	236,810
. With objective evidence of impairment	37,268	4,407	41,675
	37,268	241,217	278,485
Other loans to individuals			
. Without objective evidence of impairment	-	169,572	169,572
. With objective evidence of impairment	114,694	43,702	158,396
	114,694	213,274	327,968
	1,166,237	25,492,443	26,658,680

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

	2013 (pro forma)		
	Overdue loans	Performing loans	Total loans
Loans granted to companies			
. Without objective evidence of impairment	-	9,015,937	9,015,937
. With objective evidence of impairment	562,922	324,947	887,869
	562,922	9,340,884	9,903,806
Mortgage loans			
. Without objective evidence of impairment	-	14,477,439	14,477,439
. With objective evidence of impairment	339,470	664,763	1,004,233
	339,470	15,142,202	15,481,672
Consumer credit			
. Without objective evidence of impairment	-	1,047,541	1,047,541
. With objective evidence of impairment	35,496	48,351	83,847
	35,496	1,095,892	1,131,388
Loans granted through credit cards			
. Without objective evidence of impairment	-	233,736	233,736
. With objective evidence of impairment	35,152	3,508	38,660
	35,152	237,244	272,396
Other loans to individuals			
. Without objective evidence of impairment	-	190,756	190,756
. With objective evidence of impairment	100,924	73,087	174,011
	100,924	263,843	364,767
	1,073,964	26,080,065	27,154,029

11. HEDGING DERIVATIVES

This caption is made up as follows:

	2014			2013 (pro forma)		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	32,926	45,158	(12,232)	46,101	272,356	(226,255)
Equity swaps	38,092	20,577	17,515	51,381	37,484	13,897
AutoCallable options	-	208	(208)	-	49,951	(49,951)
Cash-flows hedge						
Interest rate swaps	124,017	67,747	56,270	101,945	10,893	91,052
	195,035	133,690	61,345	199,427	370,684	(171,257)

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

At December 31, 2014 and 2013, the breakdown of the derivative financial instruments was as follows:

	2014								
		Notional amounts							
	Book	Up to 3	Between 3 and	Between 6 and	Between 1	Over		Notional amounts	
Type of financial Instruments	Value	months	6 months	12 months	and 3 years	3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	237	50,478	46,467	16,221	180	-	113,346	52,872	60,474
. Sold		50,369	46,414	16,173	175	-	113,131	59,219	53,912
Currency swaps									
. Purchased	19,568	1,177,015	-	-	-	-	1,177,015	-	1,177,015
. Sold		1,157,722	-	-	-	-	1,157,722	1,157,722	-
Other	(45,710)	733,977	79,160	457,056	1,049,816	4,458,982	6,778,991	6,710,385	68,606
Equity swaps	1,232	-	133,900	170,004	279,520	70,000	653,424	653,424	-
Currency options									
. Purchased	184	30,560	43,043	51,373	-	-	124,976	-	124,976
. Sold		30,560	43,043	51,373	-	-	124,976	-	124,976
Equity options									
. Purchased	1,574	-	-	29,053	1,819	-	30,872	29,053	1,819
. Sold		-	-	29,053	1,819	-	30,872	29,053	1,819
Caps	(178)	1,047	4,145	38,207	679,144	1,155,913	1,878,456	1,878,456	-
Floors	(2,425)	-	-	5,805	649,000	448,733	1,103,538	1,103,539	(1)
Credit linked notes	(7)	-	-	7,000	-	-	7,000	7,000	-
	(25,525)	3,231,728	396,172	871,318	2,661,473	6,133,628	13,294,319	11,680,723	1,613,596
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	28,636	7,100	25,873	74,588	89,178	179,974	376,713	376,713	-
. Available-for-sale financial assets	(40,868)	-	-	-	-	200,000	200,000	200,000	-
Auto Callable options	(208)	-	-	21,253	-	-	21,253	21,253	-
Equity swaps	17,515	293,305	398,095	610,838	1,870,023	141,301	3,313,562	3,118,223	195,339
Cash flow hedges									
Interest rate swaps									
. Cash flow	56,270	200,000	-	-	1,400,000	1,300,000	2,900,000	2,900,000	-
	61,345	500,405	423,968	706,679	3,359,201	1,821,275	6,811,528	6,616,189	195,339

	2013 (pro forma)								
		Notional amounts							
	Book	Up to 3	Between 3 and	Between 6 and	Between 1	Over		Notional amounts	
Type of financial Instruments	Value	months	6 months	12 months	and 3 years	3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	(61)	30,337	58,904	7,202	81	-	96,524	45,471	51,053
. Sold		30,306	58,916	7,214	81	-	96,517	42,220	54,297
Currency swaps									
. Purchased	(6,281)	1,212,071	-	-	-	-	1,212,071	-	1,212,071
. Sold		1,218,426	-	-	-	-	1,218,426	1,218,426	-
Interest rate swaps									
Cross currency swaps									
. Purchased	-	-	-	-	19,848	85,295	105,143	105,143	-
. Sold		-	-	-	(19,848)	(85,295)	(105,143)	-	(105,143)
Other	(14,208)	196,193	373,775	443,024	1,910,362	3,420,108	6,343,462	6,305,502	37,960
Equity swaps	650	60,402	39,107	58,837	818,959	1,137,609	2,114,914	2,114,914	-
FRA's	-	20,000	-	-	-	-	20,000	20,000	-
Currency options									
. Purchased	(5)	13,489	11,956	10,333	-	-	35,778	-	35,778
. Sold		13,489	11,956	10,333	-	-	35,778	-	35,778
Equity options									
. Purchased	-	-	23,079	-	346,590	-	369,669	369,669	-
. Sold		-	23,079	-	346,590	-	369,669	369,669	-
Caps	30	33,214	41,834	2,804	78,768	1,251,253	1,407,873	1,407,873	-
Floors	-	-	53,171	-	6,611	491,948	551,730	523,559	28,171
	(19,875)	2,827,927	695,777	539,747	3,508,042	6,300,918	13,872,411	12,522,446	1,349,965
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	41,625	48,320	46,510	891,120	191,241	212,566	1,389,757	1,389,757	-
. Available-for-sale financial assets	(267,880)	-	-	400,000	-	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(49,951)	62,160	153,520	1,140	21,253	-	238,073	238,073	-
Equity swaps	13,897	185,571	207,162	586,121	2,426,063	34,303	3,439,220	3,270,182	169,038
Cash flow hedges									
Interest rate swaps									
. Cash flow	91,052	1,000,000	-	-	1,375,000	1,525,000	3,900,000	3,900,000	-
FRA's	-	2,200,000	-	-	-	-	2,200,000	2,200,000	-
	(171,257)	3,496,051	407,192	1,878,381	4,013,557	3,446,869	13,242,050	13,073,012	169,038

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

The Bank carries out derivative transactions in the scope of its activity, managing its own positions based on expectations for the market's evolution, satisfying customer's needs, or covering positions of a structural nature (hedging).

The Bank trades derivatives, namely exchange rates contracts, interest rate contracts or a combination of both. These transactions are carried out over-the-counter (OTC).

The negotiation of derivatives on over the counter (OTC) markets is based, usually, on a standard bilateral contract, which encompasses all the derivative transactions between the parties. In the case of professional relationships, an ISDA Master Agreement - International Swaps and Derivatives Association. In the case of customer relationships, a specific agreement of the Bank.

In these type of contracts, the compensation of liabilities in the event of default is ruled (the scope of such compensation is provided in the contract and is regulated by Portuguese law and, for contracts executed with foreign counterparties or under foreign law by the law applicable in the relevant jurisdiction).

The derivative contract may also include an agreement of collateralization of the credit risk that arises from the transactions covered by it. Generally the derivative contract established between two parties normally includes all OTC derivative transactions carried out, whether they are for hedging or not.

According to IAS 39, embedded derivatives are also separated and recorded as derivatives, in order to recognize in profit or loss the fair value of those operations.

All derivatives (embedded or autonomous) are accounted at fair value.

Derivatives are also recorded in off balance sheet accounts by their theoretical value (notional amount). Notional amount is the reference amount for the calculation of payments and receipts resulting from the operations.

The fair value corresponds to the price of the derivatives if they were traded on the market at the reference date. The evolution of the fair value of the derivatives is recognized in the appropriate balance sheet accounts and has an immediate impact in the income statement.

12. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	2014	2013 (pro forma)
Property received as settlement of defaulting loans	271,204	268,035
Own property for sale	38,790	28,706
Participating units	18,663	18,663
Equipment	3,464	4,021
Other properties	100	100
	332,221	319,525
Impairment (Note 22)	(123,846)	(112,582)
	208,375	206,943

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

The changes occurred under the caption "Non-current assets held for sale" during the years ended December 31, 2014 and 2013 were as follows:

	2014										
	December 31 2013								December 31 2014		
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Notes 14 and 17)	Impairment (Note 22) Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	268,035	(87,677)	110,040	(106,219)	(652)	(30,183)	6,210	19,244	271,204	(92,406)	178,798
. Own property for sale	28,806	(17,978)	124	(1,200)	11,160	(8,067)	121	983	38,890	(24,941)	13,949
Equipment	4,021	(2,927)	1,758	(2,315)	-	(1,823)	1,262	989	3,464	(2,499)	965
Participating units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663
	319,525	(112,582)	111,922	(109,734)	10,508	(40,073)	7,593	21,216	332,221	(123,846)	208,375

	2013 (pro forma)										
	December 31 2012								December 31 2013		
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Note 14)	Impairment (Note 22) Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	245,155	(71,078)	158,002	(135,122)	-	(55,840)	18,718	20,523	268,035	(87,677)	180,358
. Own property for sale	31,528	(15,413)	114	(9,820)	6,984	(6,765)	50	4,150	28,806	(17,978)	10,828
Equipment	5,559	(3,574)	5,477	(7,015)	-	(3,914)	3,376	1,185	4,021	(2,927)	1,094
Participating units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663
	300,905	(94,065)	163,593	(151,957)	6,984	(66,519)	22,144	25,858	319,525	(112,582)	206,943

In 2014, the amount of tEuros 652 associated with property received as settlement of defaulting loans, was transferred to the caption "Other assets – Promises and other assets received as settlement of defaulting loans".

At December 31, 2014 and 2013, the caption "Participation units" includes participation units in the Real Estate Investment Fund - Imorent, acquired as a result of a debt settlement agreement established with a client.

The Bank's intention is to immediately sell all properties received as settlement of defaulting loans. These properties are classified as non-current assets held for sale and are recorded upon their initial recognition at the lowest of their fair value less expected selling costs and the accounting value of the loans recovered. Subsequently, these assets are measured at the lowest of its initial recognition value and its fair value less costs to sell, and they are not depreciated. The unrealized losses on these assets, thus determined, are recognized in the income statement.

The valuation of these properties is made in accordance with one of the following methodologies, applied according to the specific situation of each asset:

a) <u>Market method</u>
The market method has by reference the transaction values of similar and comparable properties to the asset being studied, obtained through market research, and carried out in the area where the asset is located.

b) <u>Income method</u>
The purpose of this method is to estimate the value of the property from the capitalization of its net rent discounted to the present moment, through the discounted cash flows methodology.

c) <u>Cost method</u>
The cost method consists in determining the replacement value of the property taking into consideration the cost of build another one with identical functionality, less the amount of functional, physical and economical depreciation/obsolescence verified.

The valuations of the properties mentioned above are performed by specialized independent entities, which are accredited in the Portuguese Securities Market Commission (CMVM).

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

13. INVESTMENT PROPERTIES

This caption is made up as follows:

	2014	2013 (pro forma)
Properties held by Fundo Imobiliário Novimovest	401,239	449,758
Hotel	19,000	18,191
	420,239	467,949

During 2013, following the subscription of several participating units, the Bank started to consolidate by the full consolidation method Fundo Imobiliário Novimovest, whose main assets are properties for rental.

At December 31, 2014 and 2013, the properties held by Fundo Imobiliário Novimovest had the following characteristics:

	2014	2013 (pro forma)
Land		
Urbanized	38,651	47,809
Non-urbanized	9,378	9,457
Finished constructions		
Rented	278,440	307,213
Not rented	74,770	85,279
	401,239	449,758

On the other hand, during 2014 and 2013, the properties held by Fundo Imobiliário Novimovest generated, amongst others, the following revenues and annual charges:

	2014	2013 (pro forma)
Rents	19,630	22,744
Taxes	(3,913)	(4,762)
Condominium expenses	(1,339)	(1,369)
Maintenance and repair expenses	(1,382)	(945)
Insurances	(279)	(316)
	12,717	15,352

Finally, during the first half of 2013, the Bank received as settlement for a non performing loan a hotel valuated at that date in tEuros18,660. Simultaneously, the Bank celebrated a lease contract for that property for a period of 1 year automatically renewable. At December 31, 2014 and 2013, the Bank updated the fair value of that property taking in consideration a purchase commitment agreement established with a third party and an appraisal report performed by a specialized entity, respectively.

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

The changes occurred under the caption "Investment properties" during the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Balances at December 31, 2013	Increases	Fair value valuation	Sales	Balances at December 31, 2014
Properties held by Fundo Imobiliário Novimovest	449,758	-	(22,507)	(26,012)	401,239
Hotel	18,191	-	809	-	19,000
	467,949	-	(21,698)	(26,012)	420,239

	2013 (pro forma)					
	Balances at December 31, 2012	Increases	Changes in the consolidation perimeter	Fair value valuation	Sales	Balances at December 31, 2013
Properties held by Fundo Imobiliário Novimovest	-	-	523,886	(25,978)	(48,150)	449,758
Hotel	-	18,660	-	(469)	-	18,191
	-	18,660	523,886	(26,447)	(48,150)	467,949

The impact of the fair value valuation of the properties held by Fundo Imobiliário Novimovest was recognised in the income statement caption "Other operating results - Unrealized gains/losses on investment properties" (Note 39). The impact in 2014 of the fair value valuation of the Hotel was recognised in the income statement caption “Result from the sale of other assets” (Note 38).

Investment properties held by the Bank are valued mostly on a biannual basis, or whenever occurs an event which raises doubts about the value included in the last appraisal performed, using specialized independent entities, in accordance with the valuation methodologies described in Note 12.

At December 31, 2014 and 2013, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	31-12-2014			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Investment properties	19,000	-	401,239	420,239

	31-12-2013 (pro forma)			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	467,949	467,949

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

Following the requirements of IFRS 13, for the investment properties with a higher amount in the Bank's portfolio at December 31, 2014 and 2013, a summary of their main characteristics, the valuation techniques adopted and the relevant inputs used in the estimation of their fair value are presented below:

Property description	Status	Amount in 2014	Amount in 2013 (pro forma)	Valuation method	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Rented	33,284	33,284	Income method / Cost method	Rent value by square meter Yield
Stª Cruz do Bispo - plots of land 1,2 and 3					
Land in Matosinhos	Urban area	22,110	31,796	Comparative market method / Residual value method	Yield Land price and construction and sale costs by square meter
Galerias Saldanha Residence					
Shopping center in Lisbon	Rented	29,347	31,006	Income method / Comparative market method	Rent value by square meter Yield
Hotel in Cascais	Rented	19,000	18,191	Purchase agreement (2014) Income method / Depreciated replacement cost method (2013)	Yield Occupation rate
Warehouse in Perafita					
Warehouse in Matosinhos	Rented	16,855	17,315	Income method / Comparative market method	Rent value by square meter Yield
Antero de Quental Avenue, 9					
Offices and shops in Ponta Delgada	Rented	12,441	12,441	Income method / Comparative market method	Rent value by square meter Yield
Estrada da Outurela, 119, Carnaxide					
Offices in Oeiras	Rented	12,021	12,399	Income method / Cost method	Rent value by square meter Yield
Golf courses "Vila Sol" - G1 and G2					
Golf courses in Loulé	Rented	11,738	11,799	Income method / Cost method	Rent value by square meter Yield
Logistics parks SPC - warehouses 1 and 4					
Warehouses in Vila Franca de Xira	Rented	10,216	10,823	Income method / Cost method	Rent value by square meter Yield
Alfena - Land in Valongo					
Land in Valongo	Non - urban area	8,224	8,224	Comparative market method / Cost method/ Residual value method	Land price and construction and sale costs by square meter
		175,236	187,278		

If an increase in the rent value per square meter occurs, or an increase in the occupation rate, or a decrease in the yield occurs, the fair value of the investment properties will increase. On the other hand, if an increase in the construction or sale costs occurs, or an increase in the capitalization rate, or a decrease in the amount of rent per square meter or a decrease in the occupation rate occurs, the fair value of the investment properties will decrease.

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

14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions for the years ended at December 31, 2014 and 2013 were as follows:

	2014																	
							Transfers											
	31-12-2013 (pro forma)				Write-offs and sales		From/to assets held for sale (Note 12)		Transfers		Depreciation		Foreign exchange differences		31-12-2014			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the year	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																		
Property																		
. Property for own use	404,845	132,012	3,843	1,250	552	181	(14,931)	(3,804)	(10)	-	7,259	-	-	-	390,602	135,286	3,843	251,473
. Leasehold expenditure	129,254	110,979	-	526	4,441	4,441	-	-	5	-	5,565	-	19	19	125,363	112,122	-	13,241
. Other property	312	6	20	-	6	-	-	-	-	-	1	-	-	-	306	7	20	279
Tangible assets in progress																		
. Property for own use	537	-	-	906	-	-	-	-	10	-	-	-	-	-	1,453	-	-	1,453
. Leasehold expenditure	5	-	-	-	-	-	-	-	(5)	-	-	-	-	-	-	-	-	-
	534,953	242,997	3,863	2,682	4,999	4,622	(14,931)	(3,804)	-	-	12,825	-	19	19	517,724	247,415	3,863	266,446
Equipment																		
. Furniture and fixtures	22,257	19,528	-	279	100	100	-	-	-	-	1,038	-	5	5	22,441	20,471	-	1,970
. Machinery and tools	3,745	3,652	-	14	9	9	-	-	-	-	35	-	5	5	3,755	3,683	-	72
. Computer hardware	125,098	115,542	-	4,562	1,959	1,959	-	-	-	-	3,841	-	2	2	127,703	117,426	-	10,277
. Indoor facilities	91,840	83,017	-	2,621	75,977	75,969	(139)	(106)	-	-	2,003	-	-	-	18,345	8,945	-	9,400
. Vehicles	19,135	13,131	-	3,470	1,638	1,611	-	-	-	-	1,640	-	10	9	20,977	13,169	-	7,808
. Security equipment	27,016	26,506	-	89	454	454	-	-	-	-	250	-	-	-	26,651	26,302	-	349
. Other equipment	5,730	4,414	-	183	211	194	-	-	2	-	550	-	-	-	5,704	4,770	-	934
. Tangible assets in progress	2	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	-	-
	294,823	265,790	-	11,218	80,348	80,296	(139)	(106)	-	-	9,357	-	22	21	225,576	194,766	-	30,810
Other tangible assets																		
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Work of Art	1,536	-	-	-	-	-	-	-	-	-	-	-	-	-	1,536	-	-	1,536
	1,817	281	-	-	-	-	-	-	-	-	-	-	-	-	1,817	281	-	1,536
	831,593	509,068	3,863	13,900	85,347	84,918	(15,070)	(3,910)	-	-	22,182	-	41	40	745,117	442,462	3,863	298,792
Intangible assets																		
Software purchased	361,034	308,566	-	15,588	63	63	-	-	(503)	-	39,675	-	-	-	376,056	348,178	-	27,878
Intangible assets in progress	-	-	-	-	-	-	-	-	503	-	-	-	-	-	503	-	-	503
Goodwill	3,464	3,464	-	-	-	-	-	-	-	-	-	-	-	-	3,464	3,464	-	-
	364,498	312,030	-	15,588	63	63	-	-	-	-	39,675	-	-	-	380,023	351,642	-	28,381

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

2013 (pro forma)

	31-12-2012			Entrance and/or exit of entities in the consolidation perimeter			Write-offs and sales		Transfers From/to assets held for sale (Note 12)		Depreciation		Foreign exchange differences		31-12-2013 (pro forma)			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the year	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																		
Property																		
. Property for own use	408,502	126,731	3,875	-	-	5,922	1,010	412	(8,569)	(1,601)	7,294	(32)	-	-	404,845	132,012	3,843	268,990
. Leasehold expenditure	134,256	110,170	-	(258)	(258)	790	5,527	5,504	-	-	6,578	-	(7)	(7)	129,254	110,979	-	18,275
. Other property	306	4	20	-	-	6	-	-	-	-	2	-	-	-	312	6	20	286
Tangible assets in progress																		
. Property for own use	131	-	-	-	-	406	-	-	-	-	-	-	-	-	537	-	-	537
. Leasehold expenditure	1	-	-	-	-	4	-	-	-	-	-	-	-	-	5	-	-	5
	543,196	236,905	3,895	(258)	(258)	7,128	6,537	5,916	(8,569)	(1,601)	13,874	(32)	(7)	(7)	534,953	242,997	3,863	288,093
Equipment																		
. Furniture and fixtures	23,219	19,287	-	(669)	(669)	65	356	356	-	-	1,268	-	(2)	(2)	22,257	19,528	-	2,729
. Machinery and tools	3,966	3,854	-	(187)	(187)	22	54	54	-	-	41	-	(2)	(2)	3,745	3,652	-	93
. Computer hardware	124,725	113,064	-	(1,280)	(1,245)	2,720	1,066	1,032	-	-	4,756	-	(1)	(1)	125,098	115,542	-	9,556
. Indoor facilities	92,346	84,120	-	(254)	(254)	3,170	3,356	3,344	(66)	(50)	2,545	-	-	-	91,840	83,017	-	8,823
. Vehicles	17,708	11,970	-	(160)	(133)	2,597	1,007	928	-	-	2,224	-	(3)	(2)	19,135	13,131	-	6,004
. Security equipment	27,593	26,904	-	-	-	154	731	731	-	-	333	-	-	-	27,016	26,506	-	510
. Other equipment	5,801	4,008	-	-	-	139	210	210	-	-	616	-	-	-	5,730	4,414	-	1,316
. Tangible assets in progress	-	-	-	-	-	2	-	-	-	-	-	-	-	-	2	-	-	2
	295,358	263,207	-	(2,550)	(2,488)	8,869	6,780	6,655	(66)	(50)	11,783	-	(8)	(7)	294,823	265,790	-	29,033
Other tangible assets																		
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Work of Art	1,537	-	-	(1)	-	-	-	-	-	-	-	-	-	-	1,536	-	-	1,536
	1,818	281	-	(1)	-	-	-	-	-	-	-	-	-	-	1,817	281	-	1,536
	840,372	500,393	3,895	(2,809)	(2,746)	15,997	13,317	12,571	(8,635)	(1,651)	25,657	(32)	(15)	(14)	831,593	509,068	3,863	318,662
Intangible assets																		
Software purchased	342,991	277,149	-	(1,999)	(1,945)	20,800	758	758	-	-	34,120	-	-	-	361,034	308,566	-	52,468
Goodwill	3,585	3,585	-	-	-	-	121	121	-	-	-	-	-	-	3,464	3,464	-	-
Other	29	29	-	(29)	(29)	-	-	-	-	-	-	-	-	-	-	-	-	-
	346,605	280,763	-	(2,028)	(1,974)	20,800	879	879	-	-	34,120	-	-	-	364,498	312,030	-	52,468

In the year ended December 31, 2013, the column "Entrance and / or exit of entities in the consolidation perimeter" refers to Santander Asset Management, SGFIM, S.A. and Santander Pensões, S.A..

The caption “Software purchased” at December 31, 2014 and 2013 includes software acquired from Santander Tecnologia y Operaciones A.E.I.E., a european economic interest group owned by Santander Group, amounting to, net of depreciation, tEuros 25,414 and tEuros 50,783, respectively.

During 2014, the Bank revised the expected useful life of its IT platform Parthenon from 5 to 3 years. As a result of that review, the depreciation in the year of the caption "Software purchased" increased approximately tEuros 7,300 in comparison with the one recorded in the previous year.

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

15. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2014 and 2013, this caption is made up as follows:

	2014		2013 (pro forma)	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
. Partang, SGPS, S.A.	49.00	132,685	49.00	115,396
. Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	21.50	33,109	21.50	31,265
. Benim - Sociedade Imobiliária, S.A.	25.81	2,065	25.81	2,129
		167,859		148,790
Impairment of investments in associates (Note 22)				
. Benim – Sociedade Imobiliária, S.A. (Benim)		(1,500)		(1,060)
		166,359		147,730

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

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

On the other hand, the Bank has a put option to sell its participation in Partang to CGD exercisable during the period of 4 years starting July 2, 2011 till 2015. Additionally, CGD had a second call option on the Bank’s participation in Partang, with a limit of 80% of Partang’s share capital and voting rights, to be exercise in the first month of the fifth anniversary of the date of the share capital increase of Partang (July 2, 2009). CGD on July 2, 2014 did not exercise its call option.

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

At December 31, 2014 and 2013, Partang owns 51% of Banco Caixa Geral Totta de Angola, S.A..

At December 31, 2014, the investments held in Partang and Unicre included goodwill. Nevertheless, the put option held by the Bank over CGD regarding Partang allows it to fully recover the financial investment performed on that subsidiary. On the other hand, the impairment test performed over the goodwill of Unicre did not evidence any impairment loss arising from that financial investment.

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

The summary of the financial data regarding the main associated company of the Bank in December 31, 2014 and 2013 is as follows:

	Partang	
	2014	2013
Balance sheet		
Current assets	11,176	10,558
Non current assets	161,321	142,084
	172,497	152,642
Current liabilities	11,079	10,555
Non current liabilities	-	1,373
	11,079	11,928
Shareholders equity excluding net income	125,482	115,098
Net income for the year	35,936	25,616
Statement of income		
Operating income	35,949	25,643
Income before tax	35,949	25,643
Net income for the year	35,936	25,616

16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2014 and 2013, these captions were made up as follows:

	2014	2013 (pro forma)
Current tax assets:		
. Corporate income tax receivable	14,538	16,973
. Other	65	485
	---------	---------
	14,603	17,458
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	16,122	9,551
. Tax on rental income (Fundo Novimovest)	3,912	4,762
	---------	---------
	20,034	14,313
	=====	=====
Deferred tax assets:		
. Relating to temporary differences	432,718	500,144
. Tax losses carried forward	25,957	40,531
	-----------	-----------
	458,675	540,675
	======	======
Deferred tax liabilities:		
. Relating to temporary differences	138,521	54,759
. Relating to tax credits	3,505	3,765
	----------	----------
	142.026	58,524
	======	=====

At December 31, 2014 and 2013, the caption "Current tax assets – Corporate income tax receivable" included tEuros 7,856 and tEuros 9,807, respectively, regarding payments performed by the Bank concerning some corrections made by the Tax Authorities to its tax declarations in previous years. Since the Bank does not agree with the fundamentals of such corrections it recorded those payments as an asset and appealed to the competent court.

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

At December 31, 2014 and 2013, income tax for the year was made up as follows:

	2014	2013 (pro forma)
Current tax		
. Of the year	(21,137)	(20,214)
. Special contribution to the banking sector	(13,922)	(10,802)
. Consortiums (“ACE’s”)	(1,833)	(1,597)
. Other	(3,808)	(2,708)
	(40,700)	(35,321)
Deferred tax		
. Increases and reversals of temporary differences	(14,597)	(8,941)
. (Expense)/Income for tax credits	(14,574)	(96)
	(29,171)	(9,037)
	(69,871)	(44,358)

Changes in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Balances at 31-12-2013	Other Comprehensive Income	Income	Other	Balances at 31-12-2014
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	241,282	-	(10,961)	-	230,321
Liabilities relating to potential capital losses	(1,999)	-	41	-	(1,958)
Revaluation of tangible assets	(3,765)	-	260	-	(3,505)
Pensions:					
Early retirement pensions	24,244	-	7,745	-	31,989
Retirement pensions and actuarial deviations	139,771	-	(18,952)	-	120,819
Transfer of pension liabilities to the Social Security	4,921	-	219	-	5,140
Long service bonuses	8,423	-	2,148	-	10,571
Securitization operations:					
Premium/discount on debt issued	(251)	-	37	-	(214)
Recognition of an interest accrual regarding the notes with higher subordination	(8,573)	-	4,213	-	(4,360)
Results on intra-Group securities purchases	(18,417)	-	(1,997)	-	(20,414)
Tax losses carried forward	40,531	-	(14,574)	-	25,957
Valuations and adjustments temporarily not accepted for tax purposes:					
Tangible and intangible assets	(1,518)	-	1,986	-	468
Cash flow hedges	(13,092)	6,746	-	-	(6,346)
Available-for-sale financial assets	68,640	(143,419)	-	343	(74,436)
Deferred commissions	-	-	1,424	-	1,424
Capital gains	(1,767)	-	541	-	(1,226)
Application of the equity method in the valuation of investments in associated companies	(457)	-	65	-	(392)
Incentives plan	2,495	-	(566)	-	1,929
Investments in subsidiaries, associates and joint ventures	1,685	-	(802)	-	883
Other	(2)	-	2	(1)	(1)
	482,151	(136,673)	(29,171)	342	316,649

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

	2013 (pro forma)				
	Balances at 31-12-2012	Other Comprehensive Income	Income	Entrance and/or exit of entities in the consolidation perimeter and regularizations	Balances at 31-12-2013
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	235,044	-	6,238	-	241,282
Liabilities relating to potential capital losses	(5,755)	-	3,756	-	(1,999)
Revaluation of tangible assets	(3,861)	-	96	-	(3,765)
Pensions:					
Early retirement pensions	27,317	-	(3,073)	-	24,244
Retirement pensions and actuarial deviations	162,482	-	(22,711)	-	139,771
Transfer of pension liabilities to the Social Security	5,442	-	(521)	-	4,921
Long service bonuses	7,871	-	552	-	8,423
Securitization operations:					
Premium/discount on debt issued	(283)	-	32	-	(251)
Recognition of an interest accrual regarding the notes with higher subordination	(8,850)	-	277	-	(8,573)
Results on intra-Group securities purchases	(18,034)	-	(383)	-	(18,417)
Tax losses carried forward	27,369	-	14,062	(900)	40,531
Valuations and adjustments temporarily not accepted for tax purposes:					
Tangible and intangible assets	22	-	(1,540)	-	(1,518)
Cash flow hedges	(28,852)	15,760	-	-	(13,092)
Available-for-sale financial assets	148,587	(79,604)	-	(343)	68,640
Deferred commissions	3,263	-	(3,263)	-	-
Capital gains	(1,815)	-	48	-	(1,767)
Application of the equity method in the valuation of investments in associated companies	(461)	-	4	-	(457)
Long-term incentives and executives plan	3,568	-	(1,073)	-	2,495
Investments in subsidiaries, associates and joint ventures	3,226	-	(1,541)	-	1,685
Other	(5)	-	3	-	(2)
	556,275	(63,844)	(9,037)	(1,243)	482,151

The realization of the deferred tax assets, namely those associated with tax losses carried forward, was performed taking in consideration the last Business Plan approved by the Bank's Board of Directors which encompasses a three year period. In accordance with such Business Plan, the deferred tax assets arising from tax losses carried forward will be recovered in a two years period.

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

In 2014 and 2013, the reconciliation between the nominal and the effective income tax rate was as follows:

	2014		2013 (pro forma)	
	Income Tax Rate	Amount	Income Tax Rate	Amount
Income before taxes		235,039		133,526
Income tax based on the current tax rate in force in Portugal and in the countries where the subsidiaries are established	20.20%	47,489	23.12%	30,873
Special contribution to the banking sector	5.92%	13,922	8.09%	10,802
Recognition of deferred tax assets associated with early retirement pensions not recorded previously	-4.66%	(10,954)	0.00%	-
Recognition of deferred tax assets associated with tax losses carried forward not recorded previously	-4.59%	(10,793)	-2.30%	(3,068)
Constitution/(reversal) of provisions	3.01%	7,080	4.42%	5,903
Adjustments in the deferred tax assets associated with corrections made by the tax authorities	2.58%	6,069	0.00%	-
Impact on the effective tax rate of income from associated companies	-2.32%	(5,442)	-3.12%	(4,172)
Insufficiency/(excess) of tax estimate of the previous year	1.62%	3,808	1.56%	2,084
Impact of the income tax rate change in deferred tax calculation	3.95%	9,283	-3.67%	(4,902)
State surtax	2.34%	5,509	-	-
Autonomous taxation	1.27%	2,994	2.02%	2,699
Adjustments in the deferred taxes resulting from long-term incentives				
Tax benefits	0.38%	889	1.33%	1,777
Tax exempt dividends	-0.22%	(507)	-0.29%	(386)
Non taxable results arising from the sale of investments	-0.12%	(290)	-0.18%	(246)
Other	0.00%	-	-2.78%	(3,713)
Income tax for the year	0.35%	814	5.02%	6,707
	29.73%	69,871	33.22%	44,358

Following the changes occurred in the tax legislation for the year 2015, the Bank measured and recognized the deferred tax assets related to tax losses carried forward at a rate of 21% (23% at December 31, 2013) and the deferred taxes associated with temporary differences at a rate of 29% (29.5% on December 31, 2013).

The dividends distributed to the Bank by its subsidiaries and associated companies located in Portugal or in a European Union member state are not taxed in result of the arrangements laid down in Article 51 of the Corporate Income Tax Code, which provides for the elimination of double taxation on distributed profits.

Tax authorities may review the Bank's tax situation during a period of four years (five years for Social Security), except in the cases when tax losses carried forward exist, as well as of any other tax deduction or credit. In those cases, the right to the corrections expires in the year of the usage of that right.

The Bank was subject to tax inspections for the years up to 2012, inclusive. As a result of the tax inspection for 2012, the Bank was subject to an additional assessment of Corporate Income Tax relating to autonomous taxation and several corrections to the tax losses reported in that year. In terms of Stamp Duty Tax, the Bank was also subject to an additional assessment. The corrections made to the tax losses related to several matters, including, amongst others, adjustments in the recognition of actuarial deviations, adjustments in early retirement pensions and utilization of provisions for overdue loans. Some of these corrections are only temporary.

Regarding the additional tax assessments received, the Bank has paid them. However, the Bank has challenged the majority of those additional tax assessments.

The Bank records in the liability caption "Provisions" the amount considered to be necessary to cover the risks arising from the additional tax assessments received as well as the contingencies relating to the years not yet reviewed by the Tax Authorities (Note 22).

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

17. OTHER ASSETS

This caption is made up as follows:

	2014	2013 (pro forma)
Other available funds	327	315
Debtors and other applications		
Debtors resulting from operations with futures	9,523	12,548
VAT recoverable	2,055	1,905
Debtors for loan interest subsidies	3,780	4,617
Other debtors	46,369	56,481
Debtors and other applications - overdue capital	6,666	6,441
Debtors - unrealised capital	38	38
Shareholders' loans:		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestínsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2,458	2,443
Gold, other precious metals, coins and medals	2,483	2,503
Promises and other assets received as settlement of defaulting loans	65,440	72,477
Income receivable	29,796	66,441
Other income receivable - securitization	3,867	4,991
Deferred costs on participations in consortiums		
NORTREM - Aluguer Material Ferroviário ACE	1,138	2,093
TREM II - Aluguer Material Circulante ACE	-	216
Deferred costs	5,592	6,891
Other	94,020	40,803
	274,042	281,693
Impairment losses (Note 22):		
. Shareholders' loans	(2,392)	(2,222)
. Assets received as settlement of defaulting loans	(15,849)	(14,933)
. Debtors and other applications	(6,047)	(5,943)
	(24,288)	(23,098)
	249,754	258,595

The caption "Debtors and other applications - Debtors resulting from operations with futures" corresponds to the current accounts maintained by the Bank in international financial institutions related to the trading of futures. Customer´s futures margin accounts are recorded under the caption " Creditors and other resources - Creditors resulting from operations with futures" (Note 25).

The caption "Debtors and other applications - Other debtors" at December 31, 2014 and 2013, included the amounts of the credit rights held over Lusimovest Fund totalling tEuros 17,600 and tEuros 24,500, respectively, relating to the redemptions settled on account of that Fund. Additionally, at December 31, 2014 and 2013, that caption included tEuros 16,600 and tEuros 16,488, respectively, related to accounts receivable of Novimovest Fund resulting from the sale of properties.

At December 31, 2014 and 2013, the caption "Debtors and other applications - Debtors and other applications - Overdue capital" included tEuros 6,141 and tEuros 5,017, respectively, related to overdue rents from properties leased by Novimovest Fund.

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

At December 31, 2014 and 2013, the caption “Income receivable” included essentially commissions receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. associated with the sale of its insurance products (tEuros 20,128 and tEuros 56,843, respectively, at December 31, 2014 and 2013).

At December 31, 2014 and 2013, the caption “Other income receivable - securitization” corresponds to the interest amount receivable arising from the swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles (Note 45). The amount payable related to these transactions is recorded under the caption “Other liabilities – Accrued costs – Relating to swap agreements” (Note 25).

At December 31, 2014 and 2013, the caption "Other” includes transactions pending settlement in accordance with the following detail:

	31-12-2014		31-12-2013 (pro forma)	
	Other assets	Other liabilities (Note 25)	Other assets	Other liabilities (Note 25)
Interest receivable from swap contracts established with state owned enterprises (Note 50)	178,048	-	45,022	-
Cheques, values in transit and other transactions to be settled	30,308	(770)	25,748	(900)
Compensation system of direct debits	(8)	-	26,317	-
Amounts receivable/(payable) to group companies	(1,940)	-	14,365	-
Confirming contracts	-	-	9,957	-
Transfers within SEPA	(77,400)	-	(45,870)	-
Balances to be settled in ATM's	(34,988)	-	(34,736)	-
	94,020	(770)	40,803	(900)

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	2014	2013 (pro forma)
Resources of the European Central Bank		
Demand deposits	4,406,000	6,200,000
Interest payable	261	41,394
Resources of other Central Banks		
Demand deposits	51	16
	-------------	--------------
	4,406,312	6,241,410
	========	========

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

19. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	2014	2013 (pro forma)
Resources of domestic credit institutions		
Deposits	67,468	136,765
Interest payable	26	39
	67,494	136,804
Resources of foreign credit institutions		
Sale operations with repurchase agreement	2,797,788	3,082,444
Deposits	706,026	711,980
Very short term resources	33,770	41,261
Other resources	425,429	202,242
Interest payable	217	327
	3,963,230	4,038,254
	4,030,724	4,175,058

At December 31, 2014 and 2013, the caption "Resources of foreign credit institutions – Sale operations with repurchase agreement", is made up as follows, by type of underlying asset:

	2014			
Type of underlying asset	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	2,002,426	2,009	(557)	2,003,878
Non-subordinated debt	401,744	182	(122)	401,804
Bonds issued by BST Group in securitization operations	371,789	159	(66)	371,882
Bonds issued by non-residents	20,222	4	(2)	20,224
	2,796,181	2,354	(747)	2,797,788

	2013 (pro forma)			
Type of underlying asset	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1,595,639	891	(270)	1,596,260
Treasury Bonds - Spain	1,070,943	426	(191)	1,071,178
Bonds issued by BST Group in securitization operations	362,758	287	(84)	362,961
Covered bonds issued by BST	52,029	395	(379)	52,045
	3,081,369	1,999	(924)	3,082,444

At December 31, 2014 and 2013, the caption "Resources of foreign credit institutions – Other resources" includes tEuros 400,000 and tEuros 200,000, respectively, related to loans obtained from the European Investment Bank (EIB).

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

20. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	2014	2013 (pro forma)
Term deposits	12,880,868	13,062,376
Demand deposits	5,522,964	4,595,022
Structured deposits	3,006,349	2,766,498
Savings deposits	27,710	36,599
Advance notice deposits	19,346	18,267
	21,457,237	20,478,762
Interest payable	140,635	156,382
Cheques and orders payable	30,097	75,843
Value adjustments of hedging operations	(2,067)	(3,986)
	168,665	228,239
	21,625,902	20,707,001

21. DEBT SECURITIES

This caption is made up as follows:

	2014	2013 (pro forma)
Bonds in circulation		
Covered bonds		
Issued	6,000,000	7,132,300
Repurchased	(4,250,000)	(6,255,750)
Interest payable and other deferred costs and income	13,283	5,365
Bonds issued in securitization operations		
Issued	2,140,550	2,714,309
Repurchased	(1,137,116)	(1,538,636)
Interest payable and other deferred costs and income	(1,330)	(1,496)
Cash bonds		
Issued	273,608	614,557
Repurchased	(105,021)	(255,543)
Interest payable and other deferred costs and income	6,324	11,023
	2,940,298	2,426,129
Other		
EMTN Program	32,300	141,830
Repurchased	(1,250)	(2,940)
Interest payable	2	4
	31,052	138,894
Value adjustments of hedging operations	1,761	(30,862)
	2,973,111	2,534,161

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

In accordance with the corresponding law, the holders of covered bonds have a special credit privilege over the cover pool, which constitutes a guarantee of the debt to which the bondholders have access in case of insolvency of the issuer.

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

Between May 2008 and December 2014, BST made thirteen issues of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". At December 31, 2014 and 2013, the covered bonds had an autonomous pool of assets comprised by:

	2014	2013 (pro forma)
Loans and advances to customers (Note 10)	8,021,820	8,245,739
Interest on loans	7,938	8,649
Commissions	(35,378)	(36,575)
Deferred expenses	8,458	11,222
	8,002,838	8,229,035
Hedging derivatives	4,859	11,642
	8,007,697	8,240,677

Changes in the debt issued by the Bank during the years 2013 and 2014 were as follows:

	Bonds in circulation		EMTN Programme	
	Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2012	6,540,960	(4,036,896)	160,530	-
. Issues made	3,250,000	-	-	-
. Issues repaid	(2,044,103)	1,004,624	(18,700)	-
. Issues repurchased	-	(3,479,021)	-	(2,940)
Balances at December 31, 2013 (pro forma)	7,746,857	(6,511,293)	141,830	(2,940)
. Issues made	2,501,211	-	-	-
. Issues repaid	(3,974,460)	2,755,750	(109,530)	1,690
. Issues repurchased	-	(599,478)	-	-
Balances at December 31, 2014	6,273,608	(4,355,021)	32,300	(1,250)

The debt issues repurchased during 2013 originated losses in the amount of approximately tEuros 11,100, which have been recorded under the caption "Result from the sale of other assets" (Note 38). Nevertheless, those losses were offset by gains arising from the settlement of derivative transactions.

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

At December 31, 2014 and 2013, the Bank had the following bonds issued under its Euro Medium Term Notes Programme:

	2014	2013 (pro forma)
Bonds with remuneration indexed to baskets of shares		
. Maturity between one and three years	-	109,530
Bonds with remuneration indexed to Euribor		
. Maturity between one and three years	32,300	-
. Maturity between three and five years	-	32,300
	----------	----------
	32,300	141,830
	=====	======

Changes in bonds issued associated with securitization operations during 2014 and 2013 were as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2012	4,270,551	(3,004,781)
Redemptions	(1,556,242)	1,479,075
Repurchases:		
- Hipototta No. 4 - Class A	-	(9,803)
- Hipototta No. 5 - Class A2	-	(3,127)
	-	(12,930)
Balances at December 31, 2013 (pro forma)	2,714,309	(1,538,636)
Redemptions	(573,759)	499,820
Repurchases:		
- Hipototta No. 4 - Class A	-	(31,736)
- Hipototta No. 5 - Class A2	-	(66,564)
	-	(98,300)
Balances at December 31, 2014	2,140,550	(1,137,116)

In 2014 and 2013, the Bank repurchased bonds issued associated with securitization operations having recorded capital gains of tEuros 8,900 and tEuros 2,942, respectively (Note 38).

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

22. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment in 2014 and 2013 were as follows:

	2014				
	31-12-2013	Increases	Reversals	Utilizations	31-12-2014
Provision for tax contingencies	4,474	-	(307)	-	4,167
Provision for pensions and other charges	25,478	32,783	(5,468)	(24,608)	28,185
Impairment and provisions for guarantees and other sureties given	9,124	8,263	(5,833)	-	11,554
Other provisions	22,963	31,552	(14,574)	(11,859)	28,082
	62,039	72,598	(26,182)	(36,467)	71,988

	2013 (pro forma)					
	31-12-2012	Changes in the consolidation perimeter	Increases	Reversals	Utilizations	31-12-2013
Provision for tax contingencies	5,246	-	835	(1,607)	-	4,474
Provision for pensions and other charges	31,846	-	9,863	-	(16,231)	25,478
Impairment and provisions for guarantees and other sureties given	14,893	-	540	(6,309)	-	9,124
Other provisions	20,286	168	14,002	(10,394)	(1,099)	22,963
	72,271	168	25,240	(18,310)	(17,330)	62,039

	2014					
	31-12-2013	Impairment losses	Reversal of impairment losses	Utilizations	31-12-2014	Impairment recovery
Impairment of loans and advances to customers (Note 10):						
Domestic loans	287,036	116,807	(174,300)	-	229,543	-
Foreign loans	1,657	-	(556)	-	1,101	-
Non-derecognized securitized loans	14,669	183	(4,208)	-	10,644	-
Other securitized loans and receivables	12,296	74	(5,143)	-	7,227	-
Impairment of overdue loans and interest (Note 10):						
Domestic loans	694,768	258,490	(59,110)	(32,394)	861,754	(5,403)
Foreign loans	20,803	3,673	(5,162)	(91)	19,223	(1)
Non-derecognized securitized loans	46,647	9,647	(25,804)	(383)	30,107	-
Other securitized loans and receivables	-	2,019	-	-	2,019	-
	1,077,876	390,893	(274,283)	(32,868)	1,161,618	(5,404)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 8)	61,738	5,525	(4,834)	(486)	61,943	-
Impairment of investments in associated companies (Note 15)	1,060	440	-	-	1,500	-
	62,798	5,965	(4,834)	(486)	63,443	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 12)	112,582	40,073	(7,593)	(21,216)	123,846	-
Other tangible assets (Note 14)	3,863	-	-	-	3,863	-
Other assets (Note 17)	23,098	25,968	(24,668)	(110)	24,288	-
	139,543	66,041	(32,261)	(21,326)	151,997	-
	1,280,217	462,899	(311,378)	(54,680)	1,377,058	(5,404)

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

	2013 (pro forma)						
	31-12-2012	Changes in the consolidation perimeter	Impairment losses	Reversal of impairment losses	Utilizations	31-12-2013	Impairment recovery
Impairment of loans and advances to customers (Note 10):							
Domestic loans	319,663	-	69,020	(101,647)	-	287,036	-
Foreign loans	2,120	-	-	(463)	-	1,657	-
Non-derecognized securitized loans	22,742	-	187	(8,260)	-	14,669	-
Other securitized loans and receivables	3,460	-	8,836	-	-	12,296	-
Impairment of overdue loans and interest (Note 10):							
Domestic loans	543,351	-	296,873	(54,264)	(91,192)	694,768	(7,456)
Foreign loans	17,269	-	6,671	(2,892)	(245)	20,803	-
Non-derecognized securitized loans	54,480	-	13,329	(20,318)	(844)	46,647	-
Other securitized loans and receivables	2,577	-	-	(2,577)	-	-	-
	965,662	-	394,916	(190,421)	(92,281)	1,077,876	(7,456)
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 8)	58,983	-	11,100	(8,345)	-	61,738	-
Impairment of investments in associated companies (Note 15)	660	-	400	-	-	1,060	-
	59,643	-	11,500	(8,345)	-	62,798	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 12)	94,065	-	66,519	(22,144)	(25,858)	112,582	-
Other tangible assets (Note 14)	3,895	-	-	(32)	-	3,863	-
Other assets (Note 17)	25,842	5,095	12,340	(19,856)	(323)	23,098	-
	123,802	5,095	78,859	(42,032)	(26,181)	139,543	-
	1,149,107	5,095	485,275	(240,798)	(118,462)	1,280,217	(7,456)

At December 31, 2014 and 2013, the provision for pensions and other charges is made up as follows:

	2014	2013 (pro forma)
Restructuring plans	9,804	9,880
Supplementary pension plan of the Board of Directors (Note 46)	18,381	15,598
	---------	----------
	28,185	25,478
	=====	=====

In 2014, the increases and the utilizations of provisions for pensions and other charges are justified essentially by the retirement of some employees of the Bank in accordance with the clause nº 137 of the Collective Labour Agreement.

During 2013, the reduction recorded in the caption "Impairment and provisions for guarantees and other sureties given" resulted essentially from the reduction of lines of commercial paper and the execution of some guarantees.

At December 31, 2014 and 2013, the caption “Other provisions” included:

- Provisions for legal proceedings raised against the Bank by its customers and by its employees in the amounts of tEuros 16,780 and tEuros 4,094, respectively. The Legal Department of the Bank estimates the expected loss for each process, based on its evolution as reported by the responsible lawyer for it; and

- Other provisions in the amounts of tEuros 11,302 and tEuros 18,869, respectively. At December 31, 2014 and 2013, these provisions were allocated essentially to cover several contingencies, including, fraud, operations pending confirmation, open items and fines.

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

23. EQUITY REPRESENTATIVE INSTRUMENTS

At December 31, 2014 and 2013, this caption was made up as follows:

	2014	2013 (pro forma)
Participating units in Fundo Multiobrigações not held by the Bank	130,870	132,701
Participating units in Fundo Novimovest not held by the Bank	75,109	102,353
	-----------	-----------
	205,979	235,054
	======	======

24. SUBORDINATED LIABILITIES

This caption is made up as follows:

	2014	2013 (pro forma)
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-----------	-----------
	288,540	288,540
Repurchased securities	(284,265)	(284,265)
Interest payable	31	32
	--------	-------
	4,306	4,307
	====	=====

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

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

25. OTHER LIABILITIES

This caption is made up as follows:

	2014	2013 (pro forma)
Creditors and other resources		
Creditors resulting from operations with futures (Note 17)	9,523	12,548
Other resources		
Secured account resources	52,698	38,474
Collateral account resources	1,458	3,250
Other resources	1,452	1,438
Public sector		
VAT payable	5,487	3,047
Withholding taxes	19,295	17,622
Social Security contributions	3,931	3,883
Other	558	84
Collections on behalf of third parties	161	162
Contributions to other health systems	1,532	1,534
Other creditors		
Creditors under factoring contracts	31,757	45,443
Creditors for the supply of goods	5,388	9,196
Other creditors	18,637	15,483
Accrued costs:		
Relating to personnel		
Long service bonuses	36,452	28,552
Vacation and vacation subsidy	30,567	31,211
Other variable remuneration	28,011	24,593
Other personnel costs	467	381
General administrative costs	27,371	25,007
Relating to swap agreements (Note 17)	4,356	5,185
Other	3,306	5,146
Liabilities with pensions (Note 44):		
BST liabilities	907,691	846,885
Fair value of BST Pension Fund	(910,580)	(840,543)
London branch liabilities	42,855	35,037
Fair value of the London branch Pension Fund	(38,223)	(30,720)
Other deferred income	1,580	1,873
Amounts to be settled with banks and customers		
Liability operations to be settled	6,393	7,229
Other (Note 17)	770	900
	----------	------------
	292,893	292,900
	======	=======

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

26. SHAREHOLDERS' EQUITY

At December 31, 2014 and 2013, the Bank's share capital was represented by 656,723,284 shares, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	2014		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (own shares)	14,593,315	2.22	14,593
Own shares	271,244	0.04	271
Other	589,105	0.09	589
	656,723,284	100.00	656,723

	2013 (pro forma)		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (own shares)	14,593,315	2.22	14,593
Own shares	249,427	0.04	249
Other	610,922	0.09	611
	656,723,284	100.00	656,723

During 2014 and 2013, the Bank acquired 21,817 and 124,258 own shares by the amount of tEuros 132 and tEuros 752, respectively.

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

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

During 2014 the Bank paid dividends in the amount of tEuros 1,202 (net of the dividends allocated to own shares) which corresponded to a dividend of approximately 0.0018 Euros per share.

During 2013 the Bank did not pay dividends.

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

At December 31, 2014 and 2013, the revaluation reserves were made up as follows:

	2014	2013 (pro forma)
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	256,913	(233,775)
Available-for-sale financial assets of companies consolidated under the equity method	4,354	3,317
Cash-flow hedging instruments	21,883	44,382
Actuarial gains and losses (Note 44)		
Pension Fund - BST	(666,672)	(621,069)
Pension Fund of the London branch of BST	(8,867)	(6,076)
Actuarial gains and losses of companies consolidated under the equity method	(1,508)	(1,378)
Foreign exchange differences	(486)	(10,208)
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	(371,138)	(801,562)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets	(74,436)	68,983
Available-for-sale financial assets of companies consolidated under the equity method	(967)	(788)
Cash-flow hedging instruments	(6,346)	(13,092)
Tax impact of actuarial gains and losses	177,625	176,863
Tax impact from the change in accounting policies of companies consolidated under the equity method	422	400
Relating to the revaluation of tangible assets	(3,765)	(3,861)
Relating to the revaluation of tangible assets of companies consolidated under the equity method	(132)	(132)
	92,400	228,373
	(278,738)	(573,189)

Changes in the caption “Deferred tax reserves – Tax impact of actuarial gains and losses” in 2014 were as follows:

Opening balance	176,863
Tax impact resulting from financial and actuarial deviations of the year	4,958
Tax impact resulting from the adjustments made by the Tax Authorities to the actuarial gains and losses deducted by the Bank in 2011 and 2012	(4,196)
Closing balance	177,625

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to increase capital.

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

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

At December 31, 2014 and 2013, the caption "Other reserves and retained earnings" was made up as follows:

	2014	2013 (pro forma)
Legal reserve	246,107	245,862
Other reserves		
Reserves of consolidated companies	157,336	149,216
Reserves of companies consolidated under the equity method	89,770	81,660
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	284	619
	914,649	898,754
Retained earnings	373,840	332,601
	1,534,596	1,477,217

Legal reserve

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

This reserve may only be used to offset accumulated losses or to increase share capital.

Merger reserve

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

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

27. CONSOLIDATED NET INCOME FOR THE YEAR

The consolidated net income for 2014 and 2013 may be summarised as follows:

	2014		2013 (pro forma)	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	134,473	134,473	2,449	2,449
Net income of the other Group companies:				
BST International Bank, Inc.	20,953	20,953	20,457	20,457
Partang, SGPS, S.A.	35,936	17,609	25,616	12,552
Banco Caixa Geral Totta de Angola, S.A.	70,243	17,554	52,120	13,025
Totta & Açores, Financing, Ltd	12,360	12,360	12,360	12,360
Santotta - Internacional, SGPS, S.A.	5,376	5,376	4,933	4,933
Unicre, Instituição Financeira de Crédito, S.A.	10,249	2,203	9,785	2,104
Santander Multiobrigações - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável	3,320	2,153	-	-
Totta Urbe, Empresa de Administração e Construções, S.A.	1,414	1,414	1,997	1,997
Totta Ireland, Plc.(1)	24,292	24,292	43,837	43,837
Serfin International Bank & Trust	258	258	320	320
Totta & Açores, Inc. - Newark	8	8	47	47
Taxagest, S.A.	(2)	(2)	761	753
Santander Gestão de Activos, SGPS, S.A.	(19)	(19)	7,784	7,784
Novimovest - Fundo de Investimento Imobiliário Aberto	(17,324)	(13,385)	(28,670)	(18,428)
Santander Asset Management, SGFIM, S.A.	-	-	3,202	3,202
Santander Pensões, S.A.	-	-	624	624
	167,064	90,774	155,173	105,567
Elimination of dividends:				
Totta Ireland, Plc.	(26,079)	(26,079)	(45,145)	(45,145)
Unicre, Instituição Financeira de Crédito, S.A.	(1,161)	(1,161)	(985)	(985)
Santander Gestão de Activos, SGPS, S.A.	(7,763)	(7,763)	-	-
Banco Caixa Geral Totta Angola, S.A.	(6,382)	(6,382)	(5,595)	(5,595)
Partang, SGPS, S.A.	(5,390)	(5,390)	(5,047)	(5,047)
Santotta - Internacional, SGPS, S.A.	(5,336)	(5,336)	(10,826)	(10,826)
Santander Pensões, S.A.	-	-	(760)	(760)
		(52,111)		(68,358)
Elimination of the equity method application by Partang in the participation held in BCGTA		(11,394)		(8,110)
Gains on the repurchase by the Group of bonds issued associated with securitization operations (Note 38)		8,900		2,942
Adjustments related with securitization operations:				
Impairment and deferral of commissions related to securitized loans recorded by BST		(8,127)		44,278
Other adjustments		(6,383)		(11,785)
Gains on the sale of Santander Asset Management, SGFIM, S.A and Santander Pensões, S.A.		-		12,588
Reversal of impairment recorded by BST for the participating units held in Novimovest - Fundo de Investimento Imobiliário Aberto		13,807		17,821
Elimination of impairment reversals for supplementary capital contributions between Group companies		-		(5,500)
Elimination of the valuation recorded for the participating units held by BST in Fundo Multiobrigações		(2,153)		-
Other		(2,612)		(2,728)
Consolidated net income for the year		165,174		89,164

(1) The amount reflected corresponds to the net result for the month of December, as this entity closes its financial year on November 30, plus the net result for the period comprised between January 1 to November 30, 2014 and 2013, which amounted to tEuros 23,347 and tEuros 41,105, respectively.

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

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2014	2013 (pro forma)
Consolidated net profit attributable to the shareholders of BST	165,174	89,164
Weighted average number of ordinary shares issued	656,723,284	656,723,284
Weighted average number of own shares	14,843,537	14,763,681
Weighted average number of ordinary shares outstanding	641,879,747	641,959,603
Basic earnings per share attributable to the shareholders of BST (in Euros)	0.26	0.14

Basic earnings per share are equivalent to the diluted ones since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

28. NON-CONTROLLING INTERESTS

Third parties participations in Group's companies in 2014 and 2013 have the following detail by entity:

	2014		2013 (pro forma)	
	Balance sheet	Income statement	Balance sheet	Income statement
Preference shares of BST International Bank, Inc	296,516	-	261,040	-
Preference shares of TAF	300,000	-	300,000	-
Taxagest	557	-	554	(3)
Dividends received in advance	(1,515)	-	(1,407)	-
Other	119	6	129	(1)
	595,677	6	560,316	(4)

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

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

The above-mentioned issues were recorded as equity in accordance with IAS 32. Under this Standard, the preference shares issued are recorded as equity if:

- The Issuer does not have a contractual liability to deliver cash or other financial asset to the holders of the financial instruments; and

- Payment of dividends and repayment of the preference shares are at the sole discretion of the Issuer.

At December 31, 2014 and 2013, the main financial data of BST International Bank, Inc. (BST Puerto Rico) and of Totta & Açores Financing (TAF), was as follows:

	2014		2013	
	BST Puerto Rico (*)	TAF	BST Puerto Rico (*)	TAF
Balance sheet				
Cash and deposits at central banks	-	11,792	-	11,787
Balances due from other banks	570,598	297,750	593,203	297,750
Loans and advances to customers	1	-	-	-
Other assets	1,437	2,250	1,634	2,250
	572,036	311,792	594,837	311,787
Resources of other credit institutions	27,977	-	9,207	-
Resources of customers and other debts	145,653	-	190,623	-
Other liabilities	1,900	-	2,672	-
	175,530	-	202,502	-
Shareholders' equity (excluding net income)	368,719	299,432	365,179	299,427
Net income for the year	27,787	12,360	27,156	12,360
	572,036	311,792	594,837	311,787
Statement of income				
Net interest income	28,358	13,110	27,499	13,110
Operating income	28,176	13,335	27,565	13,335
Income before tax	27,787	12,360	27,156	12,360
Net income for the year	27,787	12,360	27,156	12,360

(*) Amounts expressed in thousands of United States Dollars.

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

29. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	2014	2013 (pro forma)
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,084,029	1,185,467
Documentary credits	216,516	199,314
Assets pledged as guarantee		
Bank of Portugal	143,700	142,677
Deposit Guarantee Fund	75,300	71,645
Investor Indemnity System	5,792	4,980
On loans of securities	-	526,722
Other contingent liabilities	6	6
	1,525,343	2,130,811
Commitments		
Credit lines		
Revocable	4,205,060	4,207,922
Irrevocable	417,809	652,278
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	4,139	3,178
Other revocable commitments	216	215
Other irrevocable commitments	-	11,447
	4,681,316	4,929,132
Liabilities for services rendered		
Deposit and custodial services	57,931,149	51,992,816
Amounts received for collection	125,186	142,214
Assets managed by the Bank		
Other values	7	13
	58,056,342	52,135,043

The increase occurred in 2014 in the caption “Deposit and custodial services” is mainly explained by the appreciation of the deposited assets, namely shares of national companies and Portuguese government debt, as well as by the attraction of new customers to the custodial services offered by the Bank.

At December 31, 2013, the caption “Assets pledged as guarantee - On loan of securities” corresponded to bonds issued by BST which were used as collateral in refinancing operations.

Deposit Guarantee Fund

The Deposit Guarantee Fund was created in November 1994 in accordance with Decree-Law n. 298/92, dated December 31, to guarantee customers’ deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, which was established by Ministerial Order of the Ministry of Finance, was made through the delivery of cash and deposit securities, and was amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

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

In 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amount of tEuros 3,918. In that year, the Bank also accepted an irrevocable commitment to the Deposit Guarantee Fund to pay the remaining 10% of the annual contribution if and when required to do so. The total accumulated unpaid amount of this commitment as of December 31, 2014 and 2013 amounted to tEuros 54,092. Assets pledged as guarantee to the Bank of Portugal are recorded in off-balance sheet accounts at market value. During 2014 and 2013 the Bank paid the full amount of the annual contribution amounting to tEuros 4,222 and tEuros 4,642, respectively (Note 39).

Investor Indemnity System (SII)

The liability towards the Investor Indemnity System is not recorded as a cost but is guaranteed by the acceptance of an irrevocable commitment to pay that liability, if required to do so, being part (50%) of the commitment guaranteed by a pledge of Portuguese Treasury Bonds. At December 31, 2014 and 2013, that liability arised to tEuros 4,139 and tEuros 3,178, respectively.

30. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	2014	2013 (pro forma)
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	229	950
In credit institutions	14	16
Interest on applications		
In domestic credit institutions		
In other credit institutions	4,953	5,474
In foreign credit institutions	36,844	53,150
Interest on loans and advances to customers		
Domestic loans	554,366	593,748
Foreign loans	15,460	16,115
Other loans and receivables (commercial paper)	65,102	64,284
Income from commissions received associated to amortised cost	33,444	35,719
Interest from securitized assets not derecognised	33,402	41,725
Interest on overdue credit (Note 48)	7,178	8,643
Interest and similar income on other financial assets		
Financial assets held for trading	7,593	-
Available for sale financial assets	214,435	157,758
Financial assets at fair value through profit or loss	630	3,506
Hedging derivatives	184,551	248,278
Debtors and other applications	147	-
Other interest and similar income		
Swap agreements	33,480	40,764
Other	2,340	997
	1,194,168	1,271,127

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

31. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	2014	2013 (pro forma)
Interest on customers' deposits		
Public sector	1,365	9,646
Emigrants	13,268	17,421
Other-residents	296,169	346,024
Non-residents	19,813	28,781
	330,615	401,872
Interest on resources of Central Banks		
Bank of Portugal	20,941	25,542
Interest on resources of credit institutions		
Domestic	1,681	1,000
Foreign	37,820	26,922
Interest on debt securities issued		
Bonds	50,678	44,994
EMTN	338	430
Interest on hedging derivatives	173,535	217,973
Interest and commissions on other subordinated liabilities	188	189
Commissions paid associated with amortized cost of credit	61	116
Other interest and similar charges		
Swap agreements	34,772	44,821
	320,014	361,987
	650,629	763,859

32. INCOME FROM EQUITY INSTRUMENTS

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

	2014	2013 (pro forma)
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	1,090	881
Unicampus	88	88
Finangest	-	206
PME Investimentos	-	120
Others	44	18
	1,222	1,313

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

33. INCOME FROM SERVICES AND COMMISSIONS

This caption is made up as follows:

	2014	2013 (pro forma)
On guarantees given		
Guarantees and sureties	15,227	16,294
Documentary credits	3,633	3,605
On commitments to third parties		
Revocable	2,389	4,619
Irrevocable	1,622	2,823
On services rendered		
Card transactions	63,476	63,742
Credit operations	32,494	44,327
Real estate and mutual fund management	18,123	24,994
Annuities	15,357	14,434
Asset management and collection	8,964	12,706
Other	7,990	7,681
On operations carried out on behalf of third parties		
On securities	28,366	39,961
Other	317	424
Other commission received		
Insurance companies (Note 43)	93,802	89,491
Demand deposits	26,354	25,603
Cheques	8,175	11,702
Booklets	8,896	8,192
Other	2	28
	335,187	370,626

34. CHARGES WITH SERVICES AND COMMISSIONS

This caption is made up as follows:

	2014	2013 (pro forma)
On guarantees received		
Guarantees and sureties	1,761	805
On commitments assumed by third parties		
Revocable commitments	-	76
On banking services rendered by third parties		
Customer transactions	29,000	29,548
Credit operations	12,912	12,868
Funds for collection and management	1,974	3,535
Other	9,057	4,524
On operations carried out by third parties		
Securities	1,875	1,972
Other	1,047	1,274
Other commission paid	685	514
	58,311	55,116

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

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

These captions are made up as follows:

	2014	2013 (pro forma)
Financial assets held for trading:		
Debt instruments	1,135	-
Equity instruments	(127)	5,034
Derivative instruments:		
. FRA's	-	(14)
. Swaps:		
Currency swaps	(41)	256
Interest rate swaps	(244,690)	13,792
Equity swaps	1,135	12,892
Other	(2,464)	(10,198)
. Futures:		
Equity swaps	(10)	-
. Options:		
Foreign exchange rate contracts	183	476
Equity swaps	199	(24)
Other	60	135
. Interest rate guarantee contracts	374	63
Financial assets and liabilities at fair value through profit or loss	-	(1,777)
	(244,246)	20,635
Hedging derivatives:		
Swaps		
. Interest rate swaps	180,038	62,331
. Equity swaps	(1,990)	(43,648)
. "Auto-callable" options	2,530	17,701
Value adjustments of hedged assets and liabilities	(180,429)	(36,693)
	149	(309)
	(244,097)	20,326

At December 31, 2014, the balance of the caption “Financial assets held for trading - Derivative instruments: Swaps: Interest rate swaps” includes tEuros 238,335 related to the cancellation of the positive valuation of some hedge items as a consequence of the sale of a group of securities (Note 36) for which hedge accounting had been applied.

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

36. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	2014			2013 (pro forma)		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	171,005	-	171,005	573	-	573
Issued by non-residents						
Foreign public issuers	137,760	-	137,760	3,723	-	3,723
Equity instruments						
Value at fair value	82	-	82	-	-	-
Valued at historical cost	967	(1)	966	-	(2)	(2)
Other	-	(1,091)	(1,091)	240	-	240
	309,814	(1,092)	308,722	4,536	(2)	4,534

At December 31, 2014, the gains recorded under the caption "Available-for-sale financial assets " were mainly justified by the sale of Portuguese and Spanish Treasury Bonds.

37. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	2014	2013 (pro forma)
Gains on the revaluation of the foreign exchange position	52,118	46,506
Losses on the revaluation of the foreign exchange position	(46,660)	(42,467)
	5,458	4,039

38. RESULT FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	2014	2013 (pro forma)
Gains on the repurchase of bonds issued associated with securitization operations (Note 21)	8,900	2,942
Gains on tangible assets	3,806	3,728
Gains on non-current assets held for sale	3,663	2,696
Gains on the sale of loans and advances to customers (Note 10)	1,220	2,321
Gains on disposal of investments in subsidiaries and associates (Note 4)	-	12,588
Other	3,392	1
	20,981	24,276

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

	2014	2013 (pro forma)
Losses on non-current assets held for sale	(1,360)	(3,869)
Losses associated with the participating units of Multiobrigações Fund held by non-controlling interests	(1,180)	-
Losses on tangible assets	(706)	(5,952)
Losses on the sale of loans and advances to customers (Note 10)	(92)	-
Losses on the repurchase of debt issues (Note 21)	-	(11,107)
Other	(75)	(872)
	(3,413)	(21,800)
	17,568	2,476

39. OTHER OPERATING RESULTS

This caption is made up as follows:

	2014	2013 (pro forma)
Other operating income		
Rents received	20,240	11,792
Rents of automatic payment terminals	14,612	15,455
Unrealized gains on investment properties (Note 13)	7,885	2,767
Gains associated with the participating units of Novimovest Fund held by non-controlling interests	4,556	8,886
Income from sundry services rendered	3,714	5,585
Reimbursement of expenses	2,656	2,787
Other	2,190	2,180
	55,853	49,452
Other operating expenses		
Unrealized losses on investment properties (Note 13)	(30,392)	(29,214)
Other operating expenses	(12,341)	(13,883)
Charges related to transactions made by customers	(7,903)	(10,677)
Subscriptions and donations	(5,255)	(5,087)
Expenses with automatic teller machines	(4,456)	(4,848)
Contributions to the Deposit Guarantee Fund (Note 29)	(4,222)	(4,642)
Contributions to the Resolution Fund	(2,528)	(4,205)
Other taxation		
Direct	(1,645)	(1,703)
Indirect	(1,425)	(738)
	(70,167)	(74,997)
	(14,314)	(25,545)

At December 31, 2014 and 2013, the caption "Rents received" includes the amounts of tEuros 19,630 and tEuros 11,036, respectively, related to the income earned by Novimovest Fund in the year 2014 and in the period comprised between June 1, 2013 (first date of consolidation of the Fund) and December 31, 2013.

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

The Decree-Law nº 24/2013 of February 19, established the contributions regime of the banks to the new Resolution Fund created with the purpose of prevention, mitigation and containment of systemic risk. According to the Notice nº 1/2013 and the Instructions nº 6/2013 and 7/2013 of the Bank of Portugal, the Bank should pay an initial and a regular contribution to the Resolution Fund.

40. STAFF COSTS

This caption is made up as follows:

	2014	2013 (pro forma)
Remuneration		
Management and supervisory boards (Note 46)	8,174	6,310
Employees	191,993	186,346
Stock option plans (Note 47)	533	1,802
Other variable remuneration	22,111	17,189
	-----------	-----------
	222,811	211,647
	-----------	-----------
Mandatory social charges		
Charges on remuneration	50,624	50,172
Charges with pensions and other benefits (Note 44)	2.149	1,924
Other mandatory social charges	766	815
Decrease in liabilities with death subsidy (Note 44)	-	(416)
	---------	----------
	53,539	52,495
	---------	----------
Other staff costs		
Staff transfers	678	599
Supplementary retirement plan (Note 44)	583	583
Other	3,981	4,253
	--------	----------
	5,242	5,435
	-----------	----------
	281,592	269,577
	======	======

During 2014 and 2013, the Bank did not record any cost with early retirements as it used part of the provisions recorded for that purpose (Note 22).

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

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

41. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	2014	2013 (pro forma)
Maintenance of software and hardware	42,962	36,624
Specialised services	40,549	40,592
Communications	11,933	12,953
Rent and leases	10,077	10,273
Advertising and publishing	9,526	9,550
External supplies		
Water, electricity and fuel	7,576	7,778
Current consumable material	1,822	1,894
Other	234	278
Travel, lodging and representation expenses	4.560	4,590
Maintenance and repairs	4,414	3,536
Transportation	2,283	2,337
Staff training	1,480	1,807
Insurance	1,125	1,063
Other	5,203	3,884
	143,744	137,159

42. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	2014	2013 (pro forma)
Partang, SGPS, S.A.	17,652	12,668
Unicre - Instituição Financeira de Crédito, S.A.	2,203	1,473
Benim - Sociedade Imobiliária, S.A.	(64)	(72)
	19,791	14,069

Partang SGPS, S.A. is held by the Bank in 49% and holds 51% of the share capital of Banco Caixa Geral Totta Angola, S.A..

43. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered refers mainly to the commissions charged to Santander Totta Seguros - Companhia de Seguros de Vida S.A. for the commercialization of its products, and is made up as follows:

	2014			2013 (pro forma)		
	Life Insurance	Non-Life Insurance	Total (Note 33)	Life Insurance	Non-Life Insurance	Total (Note 33)
Santander Totta Seguros	81,997	162	82,159	77,747	204	77,951
Liberty Seguros	-	10,726	10,726	-	10,268	10,268
Other	-	917	917	-	1,272	1,272
	81,997	11,805	93,802	77,747	11,744	89,491

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

At December 31, 2014 and 2013, the caption “Other assets – Income receivable” (Note 17) includes commission’s receivable from insurance companies, as follows:

	2014	2013 (pro forma)
Santander Totta Seguros	20,128	56,843
Other	918	1,197
	---------	----------
	21,046	58,040
	=====	=====

These amounts refer essentially to the commissions earned on insurance premiums sold and not invoiced during the last quarter of 2014 and during the last three quarters of 2013, respectively.

44. EMPLOYEES’ POST EMPLOYMENT BENEFITS

For the purpose of determining BST’s past service liability relating to the servicing and retired employees, actuarial studies were carried out in 2014 and 2013 by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability and the corresponding current service cost were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy at December 31, 2014 and in the four previous years, as well as the respective coverage, are as follows:

	2014	2013	2012	2011	2010
Estimated past service liability					
- Pensions					
. Current employees	308,223	282,028	251,252	210,669	275,580
. Pensioners	26,343	22,891	21,002	18,455	36,406
. Retired and early retired staff	415,679	399,434	388,656	387,608	855,952
	750,245	704,353	660,910	616,732	1,167,938
- Healthcare benefits (SAMS)	151,903	137,970	129,267	117,422	127,822
- Death subsidy	5,543	4,562	4,331	16,973	18,184
	907,691	846,885	794,508	751,127	1,313,944
Coverage of the liability					
- Net assets of the Fund	910,580	840,543	784,937	758,244	1,312,888
Amount overfunded / (underfunded)	2,889	(6,342)	(9,571)	7,117	(1,056)
Actuarial and financial deviations generated in the year					
- Changes in assumptions	37,912	42,565	73,518	(103,831)	-
- Experience adjustments					
. Other actuarial (gains) / losses	6,580	(1,775)	(25,383)	(23,708)	(29,458)
. Financial (gains) / losses	1,111	(3,115)	(15,796)	339,627	103,392
	7,691	(4,890)	(41,179)	315,919	73,934
	45,603	37,675	32,339	212,088	73,934

The increase in the responsibilities in 2014 and 2013 was mainly explained by the decrease in the discount rate used to calculate the responsibilities for past services.

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

In 2011, a three party agreement was established, between the Finance Ministry, the Portuguese Association of Banks and the Federation for the Financial Sector (FEBASE), regarding the transfer to the Social Security of part of the liabilities with pensioners who at December 31, 2011 were covered by the substitutive regime of the Social Security under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's Pension Fund assets covering such liabilities were also transferred to the Social Security. Following Decree Law n. 127/2011, dated December 31, the amount of the pension liabilities transferred to the Social Security was determined considering the following assumptions:

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

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

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

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

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

	Serving Employee's	Retired Employee's
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

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

The main assumptions used by the Bank for determining its liabilities with pensions as of December 31, 2014 and 2013 were as follows:

	2014	2013 (pro forma)
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	2.50%	4.00%
Actuarial technical rate (discount rate)		
- Serving employees	2.50%	4.30%
- Retired employees	2.50%	3.54%
Salary growth rate for 2015 (2014)	0.50%	0.50%
Salary growth rate for 2016 (2015)	0.75%	0.50%
Salary growth rate after 2016 (2015)	1.00%	2.35%
Pension growth rate for 2015 and 2016 (2014 and 2015)	0.00%	0.00%
Pension growth rate after 2016 (2015)	0.75%	1.35%
Inflation rate	0.75%	1.75%

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

On 2013, the discount rates of 4.30% for serving employees and 3.54% for retired employees correspond to an average rate of 4%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 4% had been used for the entire population.

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector should reduce the pension to be provided under that ACT, the following assumptions were used at December 31, 2014 and 2013:

	2014	2013 (pro forma)
Salary growth rate to calculate the deductible pension:		
. For 2015 (2014)	0.50%	0.50%
. For 2016 (2015)	0.75%	0.50%
. After 2016 (2015)	1.00%	2.35%
Inflation (n. 1 of Article 27)	1.75%	1.75%
Inflation (n. 2 of Article 27)	2.00%	2.00%
Sustainability factor accumulated until 2014	Reduction of 4.78%	
Sustainability factor accumulated until 2013	Reduction of 4.78%	
Sustainability factor accumulated until 2012	Reduction of 3.92%	
Sustainability factor accumulated until 2011	Reduction of 3.14%	
Future sustainability factor	Reduction of 0.5% per year	

On the other hand, Decree-Law nº 167-E/2013, of December 31, changed the retirement age for the general Social Security regime for 2014 and 2015 to 66 years old. Nevertheless, the sustainability factor charge will not apply to the pensioners who retire with that age.

The discount rate used in the calculation of liabilities was determined based on the market rates of low risk corporate bonds, for similar maturities as those of the Plan's liabilities.

The economic environment and the sovereign debt crisis in the South of Europe have brought volatility and disruption to the debt market in the Euro Zone, with a consequent abrupt reduction in the market yields of the debt of the companies with the best ratings and have limited the available basket of these bonds. In order to maintain the representativeness of the discount rate taking into consideration the universe of the Euro Zone, at December 31, 2014 and 2013 the Bank incorporated in the determination of the discount rate information regarding interest rates that is possible to obtain on bonds denominated in Euros, including public debt, which it had considered to be of high quality in terms of credit risk.

Changes in the past service liabilities for the years ended December 31, 2014 and 2013 may be detailed as follows, with regard to the Bank's pension plan:

	2014	2013 (pro forma)
Liabilities at the beginning of the year	846,885	794,508
Current service cost	1,783	1,054
Interest cost	30,942	32,880
Actuarial (gains)/losses	44,492	40,790
Early retirement	19,790	14,028
Amounts paid	(38,532)	(38,285)
Contributions of employees	2,331	2,326
Reduction of liabilities with death subsidy (Note 40)	-	(416)
	-----------	------------
Liabilities at the end of the year	907,691	846,885
	======	======

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

The cost of the year relating to pensions includes the current service cost and the interest cost, deducted from the estimated return from the assets Fund. In 2014 and 2013, pension´s costs are made up as follows (Note 40):

	2014	2013 (pro forma)
Current service cost	1,783	1,054
Interest cost	30,942	32,880
Return on assets calculated with the discount rate	(30,942)	(32,449)
	---------	---------
Defined benefits plan	1,783	1,485
Defined contribution plan	45	42
London Branch plan	321	397
	-------	-------
	2,149	1,924
	====	====

As from January 1, 2009, employees hired by BST are integrated in the Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Article 137 – C of the ACT. That plan is supported by contributions of the employees (1.5%) and from BST (1.5%) taking in consideration the amount of the effective monthly salary. For this purpose, each employee can choose the Pension Fund to which BST transfers its contribution.

Changes occurred in actuarial gains and losses in 2014 and 2013 were as follows:

Balance at December 31, 2012	583,394

Actuarial losses on pensions generated in 2013	32,728
Financial gains on pensions generated in 2013	(2,653)
Actuarial losses on healthcare benefits and death subsidy in 2013	8,062
Financial gains on healthcare benefits and death subsidy in 2013	(462)

Balance at December 31, 2013 (pro forma) (Note 26)	621,069

Actuarial losses on pensions generated in 2014	31,163
Financial losses on pensions generated in 2014	896
Actuarial losses on healthcare benefits and death subsidy in 2014	13,329
Financial losses on healthcare benefits and death subsidy in 2014	215

Balance at December 31, 2014 (Note 26)	666,672
	======

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

The actuarial deviations on pensions occurred in 2014 and 2013 may be explained as follows:

	2014	2013 (pro forma)
Changes in actuarial assumptions	25,033	34,831
Changes in the salary table with impact on pensions and salaries	4,064	(4,362)
Changes in the population	636	2,693
Mortality deviations		
. Due to departures	(5,474)	(4,049)
. Due to maintenance	3,774	3,299
. Due to survival pensions and orphan hood	3,519	3,074
Transfer from early retirement to retirement	(389)	(2,758)
	31,163	32,728

In 2014 the changes of actuarial assumptions included the effect of reducing the discount rate from 4,0% to 2,5%, on average.

In 2013 the changes of actuarial assumptions included the effect of reducing the discount rate from 4,5% to 4,0%, on average.

The estimated increases in salaries and pensions were revised taking in consideration the current economic environment in Portugal and the consequent prospects of smaller increases in the future, or even of maintenance of the current amounts, particularly in the years 2015 and 2016.

The effective salary growth in 2014 and 2013 for purposes of the contributions to the Social Security relating to the employees of the former Totta was 1.02% and 1.63% respectively.

There was no effective increase in the pensions and in the salary table in 2014 and 2013.

The actuarial deviations in healthcare benefits and in the death subsidy in 2014 and 2013 can be explained as follows:

	2014	2013 (pro forma)
Changes in assumptions	12,878	7,734
Changes in salaries	358	130
Other	93	198
	13,329	8,062

In 2015, BST estimates to make a contribution of tEuros 3,049 to its defined benefit plan.

The average duration of BST’s pension liability with employees is 17 years, including serving and retired ones.

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

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. At December 31, 2014 and 2013, the number of participants of the Fund was as follows:

	2014	2013 (pro forma)
Serving employees (1)	5,262	5,409
Pensioners	1,031	996
Retired and early retired staff	5,373	5,339
	11,666	11,744

(1) Of whom 195 and 181 employees are included in the new defined contribution plan as of 31 December 2014 and 2013, respectively.

The main demographic changes occurred in 2014 and 2013, were the following:

	Serving employees			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number at December 31, 2012	177	5,341	5,332	954
Exits:				
. Serving Employees	(16)	(42)	-	-
. By death	-	-	(78)	(30)
Transfers	-	(74)	74	-
Entries	20	3	11	72
Total Number at December 31, 2013 (pro forma)	181	5,228	5,339	996
Exits:				
. Serving Employees	(11)	(45)	-	-
. By death	-	-	(94)	(31)
Transfers	-	(120)	120	-
Entries	25	4	8	66
Total Number at December 31, 2014	195	5,067	5,373	1,031

Changes occurred in BST's Pension Fund during 2014 and 2013 were the following:

Net assets at December 31, 2012	784,937
Contributions made by the Bank (cash)	56,000
Contributions made by the employees	2,326
Net return of the Fund:	
Return on assets calculated with the discount rate	32,449
Fund performance above the discount rate	3,116
Pensions paid	(38,285)
Net assets at December 31, 2013 (pro forma)	840,543
Contributions made by the Bank (cash)	76,410
Contributions made by employees	2,331
Net return of the Fund:	
Return on assets calculated with the discount rate	30,942
Fund performance below the discount rate	(1,114)
Pensions paid	(38,532)
Net assets at December 31, 2014	910,580

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

The return rates of the Pension Fund in 2014 and 2013 were 3.55% and 4.66%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including stocks, bonds, other debt instruments, participations in collective investment institutions, bank deposits and other assets of a monetary nature as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, having the manager of the Fund the choice to adopt a more or less conservative policy, by increasing or decreasing the exposure to shares or bonds, according to its expectations about the market developments and in accordance with the defined investment limits.

The current investment policy of BST´s Pension Fund defines the following limits:

Classes of assets	Limits
Bonds	40% to 95%
Real Estate	0% to 25%
Shares	0% to 20%
Liquidity	0% to 15%
Others	0% to 10%
Commodities	0% to 5%

At December 31, 2014 and 2013, BST's Pension Fund breakdown was as follows:

	2014	2013 (pro forma)
Debt instruments		
. Rating A	1,110	-
. Rating BBB	106,271	83,939
. Rating BB	170,057	164,839
. Rating B	-	22,161
. Without rating attributed either to the issue or the issuer	85,396	36,372
Real estate investment funds	192,145	207,011
Securities investment funds	157,337	141,059
Deposits	94,420	75,556
Real Estate:		
. Retail buildings	54,708	63,316
. Land	860	860
Equity instruments:		
. Portuguese listed companies	3,588	2,582
. Portuguese unlisted companies	152	152
. Foreign listed companies	41,927	44,316
Derivative financial instruments		
. Listed options	(790)	(1,765)
Others	3,399	145
	----------	-----------
	910,580	840,543
	======	======

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

At December 31, 2014 and 2013, the methodology adopted by the Management Company of BST´s Pension Fund to determine the fair value of the assets and liabilities above referred, taking in consideration IFRS 13 (Note 48), was as follows:

	31-12-2014				31-12-2013 (pro forma)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	327,908	13,829	21,097	362,834	246,197	22,846	38,268	307,311
Investment funds	144,334	2	205,146	349,482	138,865	16,004	193,201	348,070
Equity instruments	45,515	-	152	45,668	46,898	-	152	47,050
Derivative financial instruments	(790)	-	-	(790)	(1,765)	-	-	(1,765)
Real estate	-	-	55,568	55,568	-	-	64,176	64,176
	516,967	13,831	281,963	812,762	430,195	38,850	295,797	764,842

At December 31, 2014 and 2013, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	2014	2013 (pro forma)
Leased property	16,509	21,918
Securities (including participating units in Funds managed by the Group)	184,108	160,279
	200,617	182,197

In 2010 a life insurance policy was taken out with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from the new supplementary retirement plan granted to the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2014 and 2013, the premium paid by the Bank amounted to tEuros 583 (Note 40).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disablement.

For all the possibilities, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of death of the beneficiary that amount will be increased by 6,000 Euros.

At December 31, 2014 and 2013, 113 and 111 executives were covered by this plan, respectively.

Defined benefit pension plan – London branch

At December 31, 2014 and 2013, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London branch of BST were the following:

	2014	2013 (pro forma)
Mortality table	AMC00/AFC00	AMC00/AFC00
Actuarial technical rate (discount rate)	3.60%	4.60%
Salary growth rate	3.40%	3.70%
Pension growth rate	2.00%	2.10%
Inflation rate	2.40%	2.70%

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

At December 31, 2014 and 2013, the liabilities with the defined benefit pension plan of the London branch of BST and its coverage were as follows:

	2014	2013 (pro forma)
Estimated liabilities for past services	42,855	35,037
Net assets of the Pension Fund	38,223	30,720
Non-financed amount – London branch	(4,632)	(4,317)

In relation to the specific pension plan of the London branch of BST, the changes in the past service liabilities in the years ended December 31, 2014 and 2013 may be presented as follows:

Liabilities at December 31, 2012	35,303
Current service cost	174
Interest cost	1,513
Actuarial gains	(353)
Amounts paid	(855)
Foreign exchange fluctuations	(745)
Liabilities at December 31, 2013 (pro forma)	35,037
Current service cost	168
Interest cost	1,712
Actuarial losses	4,622
Amounts paid	(1,139)
Foreign exchange fluctuations	2,455
Liabilities at December 31, 2014	42,855

Changes in the Pension Fund of the London branch of BST during the years ended December 31, 2014 and 2013 were as follows:

Net assets at December 31, 2012	31,342
Net return of the Fund	741
Contribution performed by the Bank	152
Pensions paid	(855)
Foreign exchange fluctuations	(660)
Net assets at December 31, 2013 (pro forma)	30,720
Net return of the fund	3,690
Contribution performed by the Bank	2,790
Pensions paid	(1,139)
Foreign exchange fluctuations	2,162
Net assets at December 31, 2014	38,223

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

The costs with the defined benefit plan of BST's London branch in 2014 and 2013 were as follows:

	2014	2013 (pro forma)
Current service cost	168	174
Interest cost	1,712	1,513
Estimated return of assets calculated with the discount rate	(1,559)	(1,290)
	321	397

The changes and the detail of the actuarial gains and losses of BST's London branch Pension Fund in 2014 and 2013 were as follows:

Balance at December 31, 2012	5,968
Actuarial gains on pensions in 2013	(353)
Financial losses on pensions in 2013	548
Foreign exchange fluctuations	(87)
Balance at December 31, 2013 (pro forma) (Note 26)	6,076
Actuarial losses on pensions in 2014	4,622
Financial gains on pensions in 2014	(2,131)
Foreign exchange fluctuations	300
Balance at December 31, 2014 (Note 26)	8,867

At December 31, 2014 and 2013, the BST's London branch Pension Fund portfolio included the following assets:

	2014	2013 (pro forma)
Debt instruments	32,564	25,218
Equity instruments	5,582	5,413
Deposits	77	89
Fund's net asset value	38,223	30,720

At December 31, 2014 and 2013, the balances associated with the pension plans can be detailed as follows:

	2014	2013 (pro forma)
(Insufficient) / excess funding (defined benefit plan)	2,889	(6,342)
Insufficient funding (London branch)	(4,632)	(4,317)
Total (Note 25)	(1,743)	(10,659)

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

The liabilities with defined benefit pension plans exposes the Bank to the following risks:

- Investment risk – the discounted value of the liabilities is calculated based on a discount rate determined by reference to bonds denominated in Euros with high quality in terms of credit risk; if the profitability of the Pension Fund is lower than the discount rate, it will create a shortfall in the funding of the liabilities.

- Interest rate risk – a decrease in the bonds interest rate will increase pension liabilities; however, it will be partially offset by an increase in the profitability of the Pension Fund.

- Longevity risk – the discounted value of the liabilities is calculated considering the best estimate of the expected mortality of the participants before and after the date of retirement. An increase in life expectancy of plan participants will increase pension liabilities.

- Salary risk – the discounted value of the liabilities is calculated based in an assumption of the estimated future salaries of the participants. Thus, an increase in participant´s salaries will increase pension liabilities.

At December 31, 2014, a sensitivity analysis to a variation of the main financial assumptions reported to that date would lead to the following impacts in the current past services liabilities of the Bank (excluding those associated with the London Branch):

(Reduction)/Increase	in %	in amount
Variation of discount rate:		
. Increase of 0.5%	(7.2%)	(65,686)
. Reduction of 0.5%	8.2%	74,417
Variation of salary growth rate:		
. Increase of 0.5%	5.6%	50,729
. Reduction of 0.5%	(4.8%)	(43,462)
Variation of pension growth rate:		
. Increase of 0.5%	7.5%	67,806
. Reduction of 0.5%	(6.9%)	(62,587)

At December 31, 2014 and 2013, the amount of liabilities associated with healthcare benefits (SAMS) resulting from a 1% change in the contribution rate can be presented as follows:

	2014			2013 (pro forma)		
	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	Contribution rate + 1%
Serving employees (Defined benefit plan)	5,067	40,282	54,930	5,228	32,130	43,814
Serving employees (Defined contribution plan)	195	190	258	181	104	142
Pensioners	1,031	5,147	7,019	996	4,784	6,524
Retired and early retired staff	5,373	82,915	113,065	5,339	79,725	108,717
	11,666	128,533	175,273	11,744	116,744	159,196

These sensitivity analysis may not be representative of the changes that may occur in the future in the pension plan since they are being considered alone and some of them are correlated.

45. SECURITIZATION OPERATIONS

Description of the operations

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

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

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

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

In January and February 2011, BST entered into “Mortgage Retransfer Agreements” with Hipototta nº 2 PLC, Hipototta nº 3 PLC and Hipototta nº 10 Ltd. under which it repurchased the loans previously securitised, by the amounts of tEuros 880,636, tEuros 1,548,396 and tEuros 803,494, respectively and the Notes held in its portfolio related to these securitizations have been redeemed at their nominal value.

In March 2011, BST securitised part of its portfolio of commercial paper and loans granted to companies through an operation denominated BST SME nº 1, with a total initial amount of tEuros 2,000,000. Additionally, in June 2011 the Bank proceeded to the securitization of part of its consumer credit portfolio through an operation denominated Totta Consumer nº 1 with a total initial amount of tEuros 1,000,000. The credits from these operations were sold at their nominal value to Tagus. In March 2012, BST liquidated the BST SME nº 1. This liquidation took place through the “SME Receivables Retransfer Agreement”, under which the Bank repurchased the credits initially securitised for tEuros 1,792,480.

In October 2011, BST liquidated Hipototta nº 8. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 907,828.

In May and June 2012, BST entered into “Mortgage Retransfer Agreements” with Hipototta nº 11 and Hipototta nº 12. Under these agreements, BST repurchased the previously securitised loans for tEuros 1,719,660 and tEuros 1,197,009, respectively, and the Notes held in its securities portfolio related to these securitizations have been redeemed at their nominal value.

In August 2012, BST liquidated the Totta Consumer nº 1. This liquidation occurred after a “Consumer Receivables Retransfer Agreement”, under which the Bank repurchased the loans initially securitized for tEuros 626,373.

In May 2013, BST liquidated Hipototta nº 7. The liquidation occurred after a “Mortgage Retransfer Agreement”, under which the Bank repurchased the previously securitised loans for tEuros 1,196,403.

In December 2014, BST liquidated LeaseTotta nº 1 FTC. This liquidation occurred after a “Consumer Receivables Retransfer Agreement”, under which the Bank repurchased the loans initially securitized for tEuros 280,175.

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

The Funds Hipototta FTC are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under those loans to Hipototta Funds. Santander Group do not hold any direct or indirect participation in Navegator.

To finance these operations, Hipototta Funds issued participating units for the same amount of the loans portfolios purchased, which were fully subscribed by the Hipototta PLC Funds, which are incorporated in Ireland.

Furthermore, Hipototta Funds FTC pay all the amounts received from BST and from the Portuguese Treasury ("Direcção Geral do Tesouro") to the Hipototta PLC Funds, segregating the instalments between principal and interest.

To finance these operations, the Hipottota PLC Funds issued bonds with different levels of subordination and rating and, consequently, of return. At December 31, 2014, the bonds issued and still outstanding are as follows:

Hipottta nº 1 PLC

	Amount		Rating			Early	Remuneration	
Issued debt	Initial	Current	S&P	Moody's	Redemption Date	Redemption Date	Up to early redemption date	After early redemption date
Class A	1,053,200	145,770	A-	Baa3	November of 2034	August of 2012	Euribor 3 m + 0.27%	Euribor 3 m + 0.54%
Class B	32,500	9,714	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 0.65%	Euribor 3 m + 0.95%
Class C	14,300	4,281	A-	Ba2	November of 2034	August of 2012	Euribor 3 m + 1.45%	Euribor 3 m + 1.65%
	1,100,000	159,765						
Class D	17,600	11,000			November of 2034	August of 2012	Residual income of the securitized portfolio	
	1,117,600	170,765						

Hipottta nº 4 PLC

	Amount				Early	Remuneration	
Issued debt	Initial	Current	Rating Fitch	Redemption date	redemption rate	Up to early redemption date	After early redemption date
Class A	2,616,040	905,861	A	December of 2048	December of 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%
Class B	44,240	32,956	A	December of 2048	December of 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%
Class C	139,720	104,081	CCC	December of 2048	December of 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%
	2,800,000	1,042,898					
Class D	14,000	14,000		December of 2048	December of 2014	Residual income of the securitized portfolio	
	2,814,000	1,056,898					

Hipottta nº 5 PLC

	Amount		Rating			Early	Remuneration	
Issued debt	Initial	Current	S&P	Moody's	Redemption date	redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February of 2060	February of 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1,693,000	796,849	BBB	Baa3	February of 2060	February of 2014	Euribor 3 m + 0.13%	Euribor 3 m + 0.26%
Class B	26,000	26,000	BBB-	Ba3	February of 2060	February of 2014	Euribor 3 m + 0.17%	Euribor 3 m + 0.34%
Class C	24,000	24,000	BBB-	B2	February of 2060	February of 2014	Euribor 3 m + 0.24%	Euribor 3 m + 0.48%
Class D	26,000	26,000	BB	B3	February of 2060	February of 2014	Euribor 3 m + 0.50%	Euribor 3 m + 1.00%
Class E	31,000	31,000	BB-	Caa2	February of 2060	February of 2014	Euribor 3 m + 1.75%	Euribor 3 m + 3.50%
	2,000,000	903,849						
Class F	10,000	9,038	CCC-	Ca	February of 2060	February of 2014	Residual income of the securitized portfolio	
	2,010,000	912,887						

The bonds issued by Hipototta nº 1 PLC and Hipototta nº 4 PLC pay interest quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta PLC nº 5 pay interest quarterly on February 28, May 30, August 31 and November 30 of each year.

BST has the option to early redeem the bonds on the above-mentioned dates. For all Hipototta, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or less than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, all Hipototta have the option to make partial repayments of the Classes A, B and C notes, as well as the Classes D and E notes in the case of Hipototta PLC nº 5, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

Remuneration of the Class D bonds of Hipototta nº 1 and Hipototta nº 4, and the Class F bonds for Hipottota nº 5 are the last liabilities to be paid.

Remuneration of these classes of bonds corresponds to the difference between the income generated by the securitised loan portfolio and the sum of all costs of the operation, namely:

- Taxation;
- Expenses and commissions calculated over the amount of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were issued, the estimated income of the securitised loans portfolios included in the calculation of the remuneration of the Class D bonds for Hipototta PLC nº 1 and nº 4 corresponded to an average annual rate of 1.1% and 0.9%, respectively. For the Class F notes of Hipototta PLC nº 5 it corresponded to an annual average of 0.9% of the total credit portfolio.

When the securitization operations were issued, subordinated loans were granted by BST to Hipotottas as facilities / credit lines in case of need for liquidity by Hipotottas. There were also been signed "Swap Agreements" between the Santander Group and the first issued Hipotottas and between BST and the remaining securitization vehicles to cover the interest rate risk.

46. RELATED ENTITIES DISCLOSURES

The related entities of the Bank with which it had balances or transactions in 2014 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman islands
Serfin International Bank & Trust	Cayman islands
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A. SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Santander, Asset Management, SGFIM, S.A.	Portugal
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

The related entities of the Bank with which it had balances or transactions in 2013 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman island
Serfin International Bank & Trust	Cayman island
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services, PLC	United Kingdom
All Funds Bank, S.A.	Spain
Banco Banif, S.A.	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander de Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banesco	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal - Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informaticos Generales, S.L.	Spain
Retama Real Estate, SL	Spain
Santander Asset Management, S.A., SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander de Titulizacion SGFT	Spain
Santander Global Facilities	Spain
Santander Investment Securities, Inc.	USA
Santander Investment, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
Santander UK PLC	United Kingdom
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

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

At December 31, 2014 and 2013, the balances and transactions maintained with related entities were as follows:

	2014		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	15,855	-	604
Financial assets held for trading	222,816	35,326	2,671
Available-for-sale financial assets	-	-	5,189
Loans and advances to credit institutions	945,038	826	206,433
Loans and advances to customers	-	35,065	5,551
Hedging derivatives	190,764	-	-
Investments in associated companies	-	166,359	-
Other assets	13,396	5,392	23,237
Liabilities:			
Financial liabilities held for trading	1,806,191	-	52,548
Resources of other credit institutions	1,118,533	101,906	3,933
Resources of customers and other debts	88,755	11,176	1,275,346
Debt securities	84,358	-	33,374
Hedging derivatives	133,100	-	-
Subordinated liabilities	-	-	4,306
Other liabilities	4,384	-	3,183
Costs:			
Interest and similar charges	185,308	290	53,991
Charges w ith services and commissions	256	-	5,996
Result of assets and liabilities at fair value through profit or loss	1,348,551	1,966	35,499
Result of foreign exchange revaluation	5	-	-
General administrative costs	-	-	46,097
Impairment on investments in associated companies	-	440	-
Income:			
Interest and similar income	207,818	60	6,690
Result of assets and liabilities at fair value through profit or loss	716,098	3,814	32,580
Result of foreign exchange revaluation	-	-	51
Income from services and commissions	189	-	102,670
Results from associates	-	19,791	-
Results from other assets	-	-	207
Other operating results			
Off balance sheet items:			
Guarantees provided and other contingent liabilities	19,786	-	15,249
Guarantees received	1	-	16,000
Commitments to third parties	25,788	6,829	174,687
Currency operations and derivatives	15,159,296	29,744	591,437
Responsibilities for services rendered	2,805,584	35,017	2,692,136

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

	2013 (pro forma)		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	8,674	-	1,780
Financial assets held for trading	262,686	25,416	27,450
Available-for-sale financial assets	-	-	9,251
Loans and advances to credit institutions	1,256,990	1,686	218,579
Loans and advances to customers	-	35,717	13,151
Hedging derivatives	174,964	-	-
Investments in associated companies	-	147,730	-
Other assets	17,536	5,047	64,722
Liabilities:			
Financial liabilities held for trading	1,552,750	-	53,544
Resources of other credit institutions	574,924	154,986	7,099
Resources of customers and other debts	132,692	10,801	1,402,466
Debt securities	125,496	-	80,985
Hedging derivatives	370,487	-	-
Subordinated liabilities	-	-	4,307
Other liabilities	5,329	-	1,586
Costs:			
Interest and similar charges	228,345	551	69,893
Charges with services and commissions	26	-	1,320
Result of assets and liabilities at fair value through profit or loss	1,009,308	-	47,942
Result of foreign exchange revaluation	-	-	312
General administrative costs	-	-	39,889
Impairment on investments in associated companies	-	400	-
Income:			
Interest and similar income	268,873	145	5,856
Result of assets and liabilities at fair value through profit or loss	1,181,389	-	45,839
Result of foreign exchange revaluation	642	-	-
Income from services and commissions	161	-	86,660
Results from associates	-	14,069	-
Results from other assets	-	-	12,588
Other operating results	-	-	203
Off balance sheet items:			
Guarantees provided and other contingent liabilities	11,642	-	96,969
Guarantees received	710	-	1,400
Commitments to third parties	19,669	6,058	48,386
Currency operations and derivatives	20,678,434	23,078	819,796
Responsibilities for services rendered	2,761,815	32,487	2,741,556

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

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

At December 31, 2014 and 2013 the loans and advances granted to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 809 and tEuros 1,009, respectively. Fixed and variable remuneration at these dates amounted to tEuros 8,174 and tEuros 6,310, respectively (Note 40).

The Santander Group, which includes BST, also has a worldwide long term incentive plan, described in Note 47, which is divided into cycles. For the members of the Board of Directors the amount recorded in the caption "Staff costs" in the years ended December 31, 2014 and 2013 is presented below:

	2014	2013 (pro forma)
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	-	118
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	7	11
	-----	-----
	7	129
	===	===

The cycles of the share plans linked to objectives of the members of the Board of Directors ended on the dates indicated below and shares were attributed at the following amount per share:

Cycle	Maturity date	Number of shares attributed	Value per share
First	July 6, 2009	97,676	8.49 Euros
Second	July 8, 2010	136,719	8.77 Euros
Third	July 11, 2011	133,727	7.51 Euros
Fourth	July 9, 2012	35,850	4.88 Euros
Fifth	July 31, 2013	-	n.a.
Sixth	July 31, 2014	-	n.a.

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. l).

In the Shareholders' General Meeting held on May 30, 2007, the BST's shareholders approved the "Regulation for supplementary attribution of retirement pensions for age or disability" for the executive members of the Board of Directors of the former Totta that are executive members of the BST's Board of Directors (Executive Committee) which be in office for more than fifteen years, consecutive or interpolated. Under this Regulation they will be entitled to a pension supplement equivalent to 80% of its gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when the time in office is less than fifteen years. For these situations, actually, it is defined that the supplement of the pension will be 65% of gross annual salary, whenever the time in office is equal to or is more than ten years, and 75% of gross annual salary, whenever the time in office is equal to or is more than twelve years. This defined benefit plan is a supplementary plan dependent from the general Social Security system.

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

At December 31, 2014 and 2013, the liabilities with this plan amounted to tEuros 18,381 and tEuros 15,598, respectively, and were covered by a provision of the same amount recorded in the caption “Provision for pensions and other charges” (Note 22).

With regard to employment termination benefits, in accordance with the Commercial Company´s Law (“Código das Sociedades Comerciais”), whenever the term of a member of the management or supervisory board is early terminated by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

Statutory Auditors

The fees invoiced or to be invoiced by the statutory auditors of the Bank and its subsidiaries in 2014, excluding VAT, were as follows:

Statutory audit and external auditor services rendered (a)	731
Other assurance services (a)	989
Tax consulting (b)	138
Other (b)	575

	2,433
	====

(a) Represents the amounts agreed for 2014, regardless of its invoicing date.
(b) Represents the amounts invoiced during 2014.

47. LONG-TERM INCENTIVE PLANS

The “Share Plan Linked to the Santander Group’s Objectives” was approved in a Shareholders’ General Meeting of Banco Santander, S.A.. This plan is divided into cycles, and so far six cycles have been approved. BST is also included in this plan.

Each beneficiary of the plan has the right to receive a maximum number of Banco Santander, S.A.’s shares. The final number allocated is determined by multiplying the maximum number of shares initially allocated, by the sum of coefficients indexed to the evolution of Banco Santander, S.A. in comparison with other entities included in a predefined group. That comparison is performed taking in consideration two parameters: total shareholders’ return and increase in earnings per share for the first three cycles and for the remaining cycles the comparison is measured by the total shareholders’ return only.

The maturity dates of the cycles of the “Share Plan Linked to the Santander Group’s Objectives”, the total number of shares granted and the value per share are as follows:

Cycle	Maturity date	Total number of shares granted	Value per share
First	July 6, 2009	326,681	8,49 Euros
Second	July 8, 2010	540,822	8,77 Euros
Third	July 11, 2011	571,640	7,51 Euros
Fourth	July 9, 2012	200,897	4,88 Euros
Fifth	July 31, 2013	-	n.a.
Sixth	July 31, 2014	-	n.a.

As described in Note 1.3. o), the accounting of the share incentive plans consists in recognizing the right of the Bank’s employees to such instruments in the income statement for the year under the caption “Staff costs”, as it corresponds to a remuneration for services rendered. Management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees covered by the worldwide Plan.

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

In 2014 and 2013, the total cost of the "Share Plan Linked to the Santander Group's Objectives" for all the employees of the Bank covered by it was as follows:

	2014	2013 (pro forma)
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	-	736
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	533	1,066
	-------	--------
	533	1,802
	====	====

The employees are entitled to the shares upon their permanence in the Santander Group. The cost per share, as well as the dates of the delivery of the shares are summarised in the following table:

Stock's Plans	Number of shares	Cost per share (Euros)	Estimated delivery date of the shares	Number of employees	Entitlement date
Plans in place at December 31, 2012					
PI13	702,873	5.5707	jul-2013	318	2010
PI14	609,358	4.5254	jul-2014	309	2011
Changes in 2013:					
PI13 - Shares not available	(702,873)	-	jul-2013	(318)	-
PI14 - Reversals	(2,600)	-	jul-2014	(1)	-
Plans in place at December 31, 2013 (pro forma)					
PI14	606,758	4.5254	jul-2014	308	2011
Changes in 2014:					
PI14 - Shares not available	(606,758)	-	-	(308)	-

In 2014 and 2013 the Group employees did not received any shares, since the minimum parameters defined in the plan were not achieved.

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

48. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

BALANCE SHEET

Categories of financial instruments

At December 31, 2014 and 2013, financial instruments presented the following book value:

	2014				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net value
Assets					
Cash and deposits at central banks	-	622,460	208,014	-	830,474
Balances due from other banks	-	174,556	66,662	-	241,218
Financial assets held for trading	2,291,734	-	-	-	2,291,734
Available-for-sale financial assets	6,754,527	-	19,971	(61,943)	6,712,555
Loans and advances to credit institutions	-	1,220,917	-	-	1,220,917
Loans and advances to customers	37,394	26,647,475	-	(1,161,618)	25,523,251
Hedging derivatives	195,035	-	-	-	195,035
	9,278,690	28,665,408	294,647	(1,223,561)	37,015,184
Liabilities					
Resources of central banks	-	4,406,312	-	-	4,406,312
Financial liabilities held for trading	1,995,019	-	-	-	1,995,019
Resources of other credit institutions	-	4,030,724	-	-	4,030,724
Resources of customers and other debts	3,555,668	18,040,137	30,097	-	21,625,902
Debt securities	175,460	2,797,651	-	-	2,973,111
Hedging derivatives	133,690	-	-	-	133,690
Subordinated liabilities	-	4,306	-	-	4,306
	5,859,837	29,279,130	30,097	-	35,169,064

	2013 (pro forma)				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net value
Assets					
Cash and deposits at central banks	-	116,135	221,706	-	337,841
Balances due from other banks	-	497,312	55,609	-	552,921
Financial assets held for trading	1,949,115	-	-	-	1,949,115
Available-for-sale financial assets	4,423,054	-	20,937	(61,738)	4,382,253
Loans and advances to credit institutions	-	3,270,970	-	-	3,270,970
Loans and advances to customers	42,609	27,142,788	-	(1,077,876)	26,107,521
Hedging derivatives	199,427	-	-	-	199,427
	6,614,205	31,027,205	298,252	(1,139,614)	36,800,048
Liabilities					
Resources of central banks	-	6,241,410	-	-	6,241,410
Financial liabilities held for trading	1,619,768	-	-	-	1,619,768
Resources of other credit institutions	-	4,175,058	-	-	4,175,058
Resources of customers and other debts	3,621,415	17,009,744	75,842	-	20,707,001
Debt securities	1,326,599	1,207,562	-	-	2,534,161
Hedging derivatives	370,684	-	-	-	370,684
Subordinated liabilities	-	4,307	-	-	4,307
	6,938,466	28,638,081	75,842	-	35,652,389

In 2014 and 2013 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

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

INCOME STATEMENT

In the years ended December 31, 2014 and 2013, the net gains and losses on financial instruments were as follows:

	2014					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,629,977	(1,866,631)	(236,654)	-	-	-
Available-for-sale financial assets	342,117	(7,056)	335,061	490,688	-	490,688
Balances in central banks and other credit institutions	42,040	-	42,040	-	-	-
Loans and advances to customers	1,218,386	(593,193)	625,193	-	-	-
Hedging derivatives	392,060	(200,465)	191,595	-	(22,499)	(22,499)
Resources in central banks and other credit institutions	-	(60,442)	(60,442)	-	-	-
Resources of customers and other debts	44,757	(332,779)	(288,022)	-	-	-
Debt securities	70,970	(100,167)	(29,197)	-	-	-
Subordinated liabilities	-	(188)	(188)	-	-	-
	3,740,307	(3,160,921)	579,386	490,688	(22,499)	468,189
Guarantees given	19,435	(3,139)	16,296			
Credit lines	9,270	(5,124)	4,146			

	2013 (pro forma)					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,855,042	(1,832,630)	22,412	-	-	-
Financial assets at fair value through profit or loss	3,841	(2,112)	1,729	-	-	-
Available-for-sale financial assets	75,747	(11,262)	64,485	278,591	-	278,591
Balances in central banks and other credit institutions	59,590	-	59,590	-	-	-
Loans and advances to customers	1,156,998	(556,752)	600,246	-	-	-
Hedging derivatives	433,812	(367,122)	66,690	-	(55,108)	(55,108)
Resources in central banks and other credit institutions	-	(53,464)	(53,464)	-	-	-
Resources of customers and other debts	95,610	(401,938)	(306,328)	-	-	-
Debt securities	34,453	(65,155)	(30,702)	-	-	-
Subordinated liabilities	-	(189)	(189)	-	-	-
	3,715,093	(3,290,624)	424,469	278,591	(55,108)	223,483
Guarantees given	24,849	(217)	24,632			
Credit lines	8,802	(323)	8,479			

The above referred amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which for the years ended December 31, 2014 and 2013 corresponded to net gains of tEuros 5,458 and tEuros 4,039, respectively (Note 37).

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

In the years ended December 31, 2014 and 2013, the income and expenses with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	2014			2013 (pro forma)		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	229	-	229	950	-	950
Balances due from other banks	14	-	14	16	-	16
Available-for-sale financial assets	214,435	-	214,435	157,758	-	157,758
Loans and advances to credit institutions	41,797	-	41,797	58,624	-	58,624
Loans and advances to customers	708,952	(61)	708,891	760,234	(116)	760,118
	965,427	(61)	965,366	977,582	(116)	977,466
Liabilities						
Resources of central banks	-	(20,941)	(20,941)	-	(25,542)	(25,542)
Resources of other credit institutions	-	(39,501)	(39,501)	-	(27,922)	(27,922)
Resources of customers and other debts	-	(330,615)	(330,615)	-	(401,872)	(401,872)
Debt securities	-	(51,038)	(51,038)	-	(45,447)	(45,447)
Subordinated liabilities	-	(188)	(188)	-	(189)	(189)
	-	(442,283)	(442,283)	-	(500,972)	(500,972)
Guarantees given	18,860	-	18,860	19,899	-	19,899
Credit Lines	4,011	-	4,011	7,442	-	7,442

In the years ended December 31, 2014 and 2013, commissions income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	2014			2013 (pro forma)		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advance to customers	37,954	(13,958)	23,996	49,889	(14,142)	35,747
Liabilities						
Resources of customers and other debts	44,428	-	44,428	46,179	-	46,179

In 2014 and 2013, the Bank recognised financial income relating to “Interest and similar income” on overdue or impaired credit operations amounting to tEuros 7,178 and tEuros 8,643, respectively (Note 30).

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

OTHER DISCLOSURES

Hedge accounting

At December 31, 2014 and 2013, hedging derivatives and financial instruments designated as hedged items were as follows:

	2014					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedges						
Loans and advances to customers	32,887	33,108	4,246	37,354	32,888	(4,291)
Available-for-sale financial assets	200,000	205,260	37,423	242,683	200,000	(40,868)
Resources of customers and other debts	(3,508,013)	(3,557,735)	2,067	(3,555,668)	3,511,255	41,824
Debt securities	(167,375)	(173,699)	(1,761)	(175,460)	167,385	8,410
Cash flow hedges						
Loans and advances to customers	3,207,528	3,207,528	-	3,207,528	2,250,000	124,017
Debt securities	1,005,866	1,005,866	-	1,005,866	650,000	(67,747)
	770,893	720,328	41,975	762,303	6,811,528	61,345

	2013 (pro forma)					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedges						
Loans and advances to customers	38,085	38,323	4,200	42,523	38,086	(4,477)
Available-for-sale financial assets	2,075,000	2,118,830	225,613	2,344,443	2,075,000	(267,880)
Resources of customers and other debts	(3,576,534)	(3,625,401)	3,986	(3,621,415)	3,579,439	33,602
Debt securities	(1,341,104)	(1,357,461)	30,862	(1,326,599)	1,449,525	(23,554)
Cash flow hedges						
Loans and advances to customers	4,492,042	4,492,042	-	4,492,042	5,450,000	80,640
Debt securities	1,141,190	1,141,190	-	1,141,190	650,000	10,412
	2,828,679	2,807,523	264,661	3,072,184	13,242,050	(171,257)

Cash flow hedges

The expected periods for the occurrence of the cash flows that will affect the profit or loss of the year are as follows:

	2014					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	27,459	9,076	9,644	24,358	(14,266)	56,271

	2013 (pro forma)					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	40,959	8,125	6,861	48,869	(13,762)	91,052

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

The gains and losses recognised in the income statement for the years ended December 31, 2014 and 2013, arising from fair value hedging operations, were as follows:

	2014			2013 (pro forma)		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	(71)	71	-	(1,738)	1,738	-
Available-for-sale financial assets	(188,189)	188,189	-	(95,965)	95,965	-
Resources of customers and other debts	(1,718)	3,781	2,063	49,207	(29,353)	19,854
Debt securities	9,549	(11,463)	(1,914)	11,803	(31,966)	(20,163)
	(180,429)	180,578	149	(36,693)	36,384	(309)

Fair value of financial instruments

At December 31, 2014 and 2013, financial instruments were made up as follows:

	2014			2013 (pro forma)		
	Valued at fair value	Not valued at fair value	Total	Valued at fair value	Not valued at fair value	Total
Assets						
Cash and deposits at central banks	-	830,474	830,474	-	337,841	337,841
Balances due from other banks	-	241,218	241,218	-	552,921	552,921
Financial assets held for trading	2,291,734	-	2,291,734	1,949,115	-	1,949,115
Available-for-sale financial assets	6,699,547	13,008	6,712,555	4,368,744	13,509	4,382,253
Loans and advances to credit instituions	-	1,220,917	1,220,917	-	3,270,970	3,270,970
Loans and advances to customers	37,354	25,485,897	25,523,251	42,523	26,064,998	26,107,521
Hedging derivatives	195,035	-	195,035	199,427	-	199,427
	9,223,670	27,791,514	37,015,184	6,559,809	30,240,239	36,800,048
Liabilities						
	-	4,406,312	4,406,312	-	6,241,410	6,241,410
Resources of central banks	1,995,019	-	1,995,019	1,619,768	-	1,619,768
Financial liabilities held for trading	-	4,030,724	4,030,724	-	4,175,058	4,175,058
Resources of other credit institutions	3,555,668	18,070,234	21,625,902	3,621,415	17,085,586	20,707,001
Resources of customers and other debts	175,460	2,797,651	2,973,111	1,326,599	1,207,562	2,534,161
Debt securities	133,690	-	133,690	370,684	-	370,684
Hedging derivatives	-	4,306	4,306	-	4,307	4,307
Subordinated liabilities	5,859,837	29,309,227	35,169,064	6,938,466	28,713,923	35,652,389

The financial assets and liabilities for which hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

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

At December 31, 2014 and 2013, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	2014					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	320,347	1,093	1,970,294	-	-	2,291,734
Available-for-sale financial assets	6,307,851	152,340	256,913	37,423	(54,980)	6,699,547
Loans and advances to customers	32,887	261	-	4,246	(40)	37,354
Hedging derivatives	-	-	195,035	-	-	195,035
	6,661,085	153,694	2,422,242	41,669	(55,020)	9,223,670
Liabilities						
Financial liabilities held for trading	-	-	1,995,019	-	-	1,995,019
Resources of customers and other debts	3,508,013	49,722	-	(2,067)	-	3,555,668
Debt securities	167,375	6,324	-	1,761	-	175,460
Hedging derivatives	-	-	133,690	-	-	133,690
	3,675,388	56,046	2,128,709	(306)	-	5,859,837

	2013 (pro forma)					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	355,921	1,650	1,591,544	-	-	1,949,115
Available-for-sale financial assets	4,369,692	61,522	(233,773)	225,613	(54,310)	4,368,744
Loans and advances to customers	38,085	324	-	4,200	(86)	42,523
Hedging derivatives	-	-	199,427	-	-	199,427
	4,763,698	63,496	1,557,198	229,813	(54,396)	6,559,809
Liabilities						
Financial liabilities held for trading	-	-	1,619,768	-	-	1,619,768
Resources of customers and other debts	3,576,534	48,867	-	(3,986)	-	3,621,415
Debt securities	1,340,822	16,639	-	(30,862)	-	1,326,599
Hedging derivatives	-	-	370,684	-	-	370,684
	4,917,356	65,506	1,990,452	(34,848)	-	6,938,466

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

The methods used to determine fair value for the financial instruments were based on listed prices on active markets or other valuation techniques, such as discounted cash flows. At December 31, 2014 and 2013, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	2014			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	304,871	1,761,896	224,967	2,291,734
Available-for-sale financial assets	6,130,956	320,079	248,512	6,699,547
Loans and advances to customers	-	37,354	-	37,354
Hedging derivatives	-	195,035	-	195,035
	6,435,827	2,314,364	473,479	9,223,670
Liabilities				
Financial liabilities held for trading	-	1,995,019	-	1,995,019
Resources of customers and other debts	-	3,555,668	-	3,555,668
Debt securities	-	175,460	-	175,460
Hedging derivatives	-	133,690	-	133,690
	-	5,859,837	-	5,859,837

	2013 (pro forma)			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	267,025	1,540,019	142,071	1,949,115
Available-for-sale financial assets	3,417,440	686,315	264,989	4,368,744
Loans and advances to customers	-	42,523	-	42,523
Hedging derivatives	-	199,427	-	199,427
	3,684,465	2,468,284	407,060	6,559,809
Liabilities				
Financial liabilities held for trading	-	1,619,768	-	1,619,768
Resources of customers and other debts	-	3,621,415	-	3,621,415
Debt securities	-	1,326,599	-	1,326,599
Hedging derivatives	-	370,684	-	370,684
	-	6,938,466	-	6,938,466

In accordance with IFRS 7 and IFRS 13, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published in active markets, comprising mainly government debt, some private debt, investment funds and shares.

- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets valued with indicative bids provided by external counterparties and the majority of the derivative financial instruments used for hedging and trading. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flows models and "Black-Scholes" based models for options and structured products. The discounted cash flows models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or entity with similar rating.

  For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Currency options	Black-Scholes model, Monte Carlo model
Equity options	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

  Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

  - Counterparties with listed credit default swaps – published price quotations in active markets;

  - Counterparties without listed credit default swaps:
    - Published price quotations in active markets for counterparties with similar risk; or
    - Probability of default estimated taking into consideration the internal rating assigned to the client (see section credit risk of these Notes) x loss given default (specific for project finance clients and 60% for other clients as of December 31, 2014 – 45% on December 31, 2013).

  When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Bank classified its derivative financial instruments in Level 2. When such valuation resulted from internal information prepared by the Bank, those financial instruments were classified in Level 3.

- Level 3 – In this level the Bank classifies the financial instruments that are valued using internal models with some inputs that do not correspond to market observable data. Some unlisted securities for which the Bank uses market data extrapolations were classified in this category.

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

In 2014 and 2013, the changes in financial instruments classified in the column "Level 3" were as follows:

	Financial assets held for trading		Available for sale	
	Securities	Derivatives	financial assets	Total
Financial instruments classified as Level 3 as of December 31, 2012	-	-	40,023	40,023
Entries in the consolidation perimeter ("Multiobrigações Fund")	32,802	-	-	32,802
Acquisitions	3,886	-	13,807	17,693
Sales	-	-	(694)	(694)
Reclassifications	-	106,119	239,561	345,680
Changes in fair value	(736)	-	(21,190)	(21,926)
Impairment recognized in the year	-	-	(6,518)	(6,518)
Financial instruments classified as Level 3 as of December 31, 2013 (pro forma)	35,952	106,119	264,989	407,060
Acquisitions	719	47,258	12,502	60,479
Sales	(32,802)	(29,492)	(36,002)	(98,296)
Changes in fair value	(199)	97,412	14,760	111,973
Impairment recognized in the year	-	-	(7,737)	(7,737)
Financial instruments classified as Level 3 as of December 31, 2014	3,670	221,297	248,512	473,479

The reclassifications occurred in 2013 to Level 3 can be explained as follows:

- Reclassification from Level 1 and Level 2 of participating units held in unlisted real estate investment funds or in investment funds with reduced liquidity;
- Reclassification from Level 2 of debt instruments whose valuation was based, essentially, in credit spreads calculated internally by the Bank;
- Classification in Level 3 of derivative financial instruments whose respective Credit Value Adjustments / Debit Value Adjustments were calculated taking into consideration credit spreads calculated internally by the Bank.

At December 31, 2014 and 2013, the valuation techniques, the inputs used and the relationship between those inputs and the fair value determined for financial instruments classified in Level 3 were as follows:

Financial instruments	Valuation techniques	Inputs used	Relationship between the inputs used and the fair value determined
Financial assets held for trading			
Debt securities	Price provided by the counterparty	. No information	Not applicable.
Participating units in Real Estate Funds	Price disclosed by the respective Management Company	. Yields . Rents per square meter . Occupancy rates	If an increase of the rent per square meter occurs or an increase in the occupancy rate or a decrease in the yield occurs, the fair value determined will increase. If a decrease in the amount of the rent per square meter occurs or a decrease of the occupancy rate or an increase of the yield occurs, the fair value determined will decrease.
Derivative financial instruments	Discounted cash flows/ Valuation models	. Probability of default (PD) taking into consideration internal credit ratings assigned by the Bank . Specific LGD's	If a higher probability of default or a higher LGD is used, the fair value of the financial instrument will decrease. On the other hand, if a lower probability of default or a lower LGD is used, the fair value of the financial instrument will increase.
Available-for-sale financial assets			
Debt securities	Discounted cash flows	. *Credit spread calculated* internally by the Bank	If a higher credit spread is used, the fair value of the security will decrease. On the other hand, if a lower credit spread is used, the fair value of the security will increase.
Participating units in real estate funds	Price disclosed by the respective Management Company	. Yields . Rents per square meter . Occupancy rates	If an increase of the rent per square meter occurs or an increase in the occupancy rate or a decrease in the yield occurs, the fair value determined will increase. If a decrease in the amount of the rent per square meter occurs or a decrease of the occupancy rate or an increase of the yield occurs, the fair value determined will decrease.
Participating units in Venture Capital Funds	Price disclosed by the respective Management Company	. No information	Not applicable.

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

The most representative interest rate curves used by maturity and currency were the following:

	31-12-2014		31-12-2013	
	EUR	USD	EUR	USD
Overnight	0.02%	0.22%	0.28%	0.31%
1 month	0.10%	0.23%	0.44%	0.25%
3 months	0.17%	0.26%	0.39%	0.25%
6 months	0.17%	0.29%	0.38%	0.27%
9 months	0.16%	0.35%	0.39%	0.29%
1 year	0.16%	0.44%	0.40%	0.31%
3 years	0.22%	1.29%	0.74%	0.86%
5 years	0.36%	1.80%	1.26%	1.80%
7 years	0.53%	2.09%	1.70%	2.51%
10 years	0.82%	2.34%	2.21%	3.18%

At December 31, 2014 and 2013, the book value and the fair value of the financial instruments valued at amortised cost or historical cost was as follows:

	2014		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	830,474	830,474	-
Balances due from other banks	241,218	241,218	-
Available-for-sale financial assets	13,008	13,008	-
Loans and advances to credit institutions	1,220,917	1,273,301	52,384
Loans and advances to customers	25,485,897	23,639,357	(1,846,540)
	27,791,514	25,997,358	(1,794,156)
Liabilities			
Resources of central banks	4,406,312	4,403,630	2,682
Resources of other credit institutions	4,030,724	4,009,901	20,823
Resources of customers and other debts	18,070,234	18,203,397	(133,163)
Debt securities	2,797,651	2,768,244	29,407
Subordinated liabilities	4,306	4,306	-
	29,309,227	29,389,478	(80,251)

	2013 (pro forma)		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	337,841	337,841	-
Balances due from other banks	552,921	552,921	-
Available-for-sale financial assets	13,509	13,509	-
Loans and advances to credit institutions	3,270,970	3,358,931	87,961
Loans and advances to customers	26,064,998	23,114,032	(2,950,966)
	30,240,239	27,377,234	(2,863,005)
Liabilities			
Resources of central banks	6,241,410	6,122,608	118,802
Resources of other credit institutions	4,175,058	4,197,975	(22,917)
Resources of customers and other debts	17,085,586	17,230,163	(144,577)
Debt securities	1,207,562	920,474	287,088
Subordinated liabilities	4,307	4,301	6
	28,713,923	28,475,521	238,402

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

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows. At December 31, 2014 and 2013, the financial instruments recorded at amortized cost or historical cost presented the following detail by valuation methodology:

	2014			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	830,474	-	830,474
Balances due from other banks	-	241,218	-	241,218
Available-for-sale financial assets	-	-	13,008	13,008
Loans and advances to credit institutions	-	1,220,917	-	1,220,917
Loans and advances to customers	-	-	25,485,897	25,485,897
	-	2,292,609	25,498,905	27,791,514
Liabilities				
Resources of central banks	-	4,406,312	-	4,406,312
Resources of other credit institutions	-	4,030,724	-	4,030,724
Resources of customers and other debts	-	-	18,070,234	18,070,234
Debt securities	-	-	2,797,651	2,797,651
Subordinated liabilities	-	-	4,306	4,306
	-	8,437,036	20,872,191	29,309,227

	2013 (pro forma)			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	337,841	-	337,841
Balances due from other banks	-	552,921	-	552,921
Available-for-sale financial assets	-	-	13,509	13,509
Loans and advances to credit institutions	-	3,270,970	-	3,270,970
Loans and advances to customers	-	-	26,064,998	26,064,998
	-	4,161,732	26,078,507	30,240,239
Liabilities				
Resources of central banks	-	6,241,410	-	6,241,410
Resources of other credit institutions	-	4,175,058	-	4,175,058
Resources of customers and other debts	-	-	17,085,586	17,085,586
Debt securities	-	-	1,207,562	1,207,562
Subordinated liabilities	-	-	4,307	4,307
	-	10,416,468	18,297,455	28,713,923

The main assumptions used in the calculation of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- The fair value of variable rate loans was determined considering the average spread of the production in the last quarter which has been used to discount the future portfolio cash flows. Regarding the fixed rate loans, future cash flows were discounted at the average rates applied by the Bank in the last quarter of the year;

- The fair value of demand deposits from customers was considered to be equal to its book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the year for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the year; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes identification, measurement, integration and evaluation of different credit risk exposures and analysis of return in relation to risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group Risk Area, which is responsible for managing the special client vigilance system, the credit risk segmentation based on the characteristics of customers and products and for the scoring and rating systems (applicable to mortgage loans, consumer credit and credit cards) used by the Bank.

Counterparty risk consists in the potential credit risk on transactions in financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks with certain customer segments, a perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables that the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating variables relating to the credit quality of each counterparty in the quantitative control.

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

At December 31, 2014 and 2013, the maximum exposure to credit risk and the corresponding book value of the financial instruments were as follows:

	2014		2013 (pro forma)	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	830,474	830,474	337,841	337,841
Balances due from other banks	241,218	241,218	552,921	552,921
Financial assets held for trading	2,291,734	2,291,734	1,949,115	1,949,115
Available-for-sale financial assets	6,712,555	6,712,555	4,382,253	4,382,253
Loans and advances to credit institutions	1,220,917	1,220,917	3,270,970	3,270,970
Loans and advances to customers	25,523,251	30,146,120	26,107,521	30,967,721
Hedging derivatives	195,035	195,035	199,427	199,427
	37,015,184	41,638,053	36,800,048	41,660,248
Guarantees given and open documentary credits (Note 29)	1,300,545	1,300,545	1,384,781	1,384,781

The maximum exposure in “Loans and advances to customers” at December 31, 2014 includes tEuros 417,809 and tEuros 4,205,060 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 652,278 and tEuros 4,207,922 at December 31, 2013, respectively).

Loans granted

The Bank monthly reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in “Carta-Circular” nº 02/2014/DSP issued by Bank of Portugal, in February 26, 2014, the Bank presents the following information reported to December 31, 2014:

- Credit exposure and respective impairment by segment:

	Exposure at 31-12-2014						Impairment at 31-12-2014		
Segment	Total Exposure	Performing loans	of which cured credit	of which restructured	Non-performing loans	of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	7,564,464	7,200,093	3,429	229,547	364,371	194,706	(282,266)	(75,813)	(206,453)
Building and CRE	3,036,506	2,553,175	14	357,260	483,331	232,453	(351,994)	(54,868)	(297,126)
Mortgage	14,950,326	14,491,944	2,025	993,184	458,382	166,322	(301,645)	(106,856)	(194,789)
Retail	1,890,535	1,666,376	319	221,511	224,159	125,367	(236,011)	(34,014)	(201,997)
Guarantees not included in other segments	988,087	988,087	-	-	-	-	(1,256)	(706)	(550)
	28,429,918	26,899,675	5,787	1,801,502	1,530,243	718,848	(1,173,172)	(272,257)	(900,915)

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

Reconciliation between the maximum credit exposure referred to in the table above and the total exposure presented previously is as follows:

Maximum exposure to credit risk	30,146,120
Commitments on credit lines revocable	(4,205,060)
Guarantees given and other contingent liabilities – guarantees and sureties	1,084,029
Guarantees given and other contingent liabilities – documentary credits	216,516
Impairment losses	1,161,618
Deferred expenses	(69,414)
Commissions related to deferred cost (net)	100,355
Value adjustments of hedged assets	(4,246)
Total credit exposure	28,429,918

The detail of total impairment is as follows:

Impairment of loans to customers (Note 10)	(1,161,618)
Provisions and impairment for guarantees and commitments (Note 22)	(11,554)
	(1,173,172)

The aging of the credit exposure and its impairment losses is as follows:

		Total exposure at 31-12-2014			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	7,564,464	7,154,113	45,980	-	364,371
Building and CRE	3,036,506	2,504,283	48,892	-	483,331
Mortgage	14,950,326	14,336,868	155,076	-	458,382
Retail	1,890,535	1,637,097	29,279	-	224,159
Guarantees	988,087	988,087	-	-	-
	28,429,918	26,620,448	279,227	-	1,530,243
Impairment					
Corporate	(282,266)	(60,175)	(15,638)	-	(206,453)
Building and CRE	(351,994)	(49,173)	(5,695)	-	(297,126)
Mortgage	(301,645)	(34,706)	(72,150)	-	(194,789)
Retail	(236,011)	(18,257)	(15,757)	-	(201,997)
Guarantees	(1,256)	(706)	-	-	(550)
	(1,173,172)	(163,017)	(109,240)	-	(900,915)
	27,256,746	26,457,431	169,987	-	629,328

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

The credit exposure and its impairment losses by year of production is as follows:

	Corporate			Building and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	2,832	206,965	(5,097)	3,734	157,453	(8,670)	127,884	4,385,491	(98,462)	114,634	132,074	(4,731)	1,961	140,372	(190)
2005	1,147	74,882	(5,106)	888	94,858	(8,212)	26,270	1,351,318	(29,167)	18,124	25,569	(794)	189	18,798	(23)
2006	1,178	90,316	(5,580)	1,078	95,410	(12,595)	27,245	1,595,630	(34,632)	18,473	30,277	(1,531)	213	23,179	(111)
2007	1,801	130,537	(7,960)	1,604	147,108	(21,325)	36,880	2,201,465	(52,906)	27,504	55,737	(3,992)	226	63,910	(26)
2008	2,238	209,194	(14,057)	2,172	195,682	(26,234)	27,030	1,614,876	(43,611)	30,947	61,985	(7,693)	505	70,806	(68)
2009	2,941	255,713	(24,413)	2,483	194,248	(36,357)	17,792	1,126,442	(19,776)	29,001	70,789	(15,587)	508	35,397	(98)
2010	5,634	366,789	(35,851)	3,320	272,111	(46,129)	15,898	1,161,120	(12,140)	54,716	151,913	(32,989)	542	77,830	(157)
2011	7,972	360,604	(42,976)	3,873	320,765	(56,232)	7,720	511,073	(6,263)	68,483	195,891	(52,903)	572	45,255	(476)
2012	8,419	489,537	(53,745)	3,819	426,386	(79,051)	4,995	329,726	(2,770)	81,923	269,566	(57,378)	619	47,430	(11)
2013	10,542	763,572	(52,601)	3,448	308,230	(37,974)	4,010	300,413	(1,138)	90,847	407,421	(37,808)	893	155,723	(39)
2014	118,482	4,616,355	(34,880)	18,097	824,255	(19,215)	4,576	372,772	(780)	78,564	489,313	(20,605)	2,127	309,387	(57)
	163,186	7,564,464	(282,266)	44,516	3,036,506	(351,994)	300,300	14,950,326	(301,645)	613,216	1,890,535	(236,011)	8,355	988,087	(1,256)

At December 31, 2014, the impairment losses estimated individually and through the statistical model of collective analysis, by segment, were as follows:

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	350,672	7,213,792	7,564,464	(113,681)	(168,585)	(282,266)
Building and CRE	924,918	2,111,588	3,036,506	(276,135)	(75,859)	(351,994)
Mortgage	-	14,950,326	14,950,326	-	(301,645)	(301,645)
Retail	-	1,890,535	1,890,535	-	(236,011)	(236,011)
Guarantees not included in other segments	9,744	978,343	988,087	(1,034)	(222)	(1,256)
	1,285,334	27,144,584	28,429,918	(390,850)	(782,322)	(1,173,172)

At December 31, 2014, the credit risk analysed individually and through the statistical model of collective analysis, had the following composition by sector, for the “Corporate” and "Building and CRE" segments:

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	60,470	1,770,414	1,830,884	(23,388)	(10,571)	(33,959)
Scientific, technical and similar consultancy activities	30,093	168,710	198,803	(8,135)	(6,964)	(15,099)
Human health and social support activities	9,684	146,274	155,958	(2,617)	(3,797)	(6,414)
Extraterritorial organizations and other international institutions activities	-	24,538	24,538	-	(236)	(236)
Manufacturing industries	58,352	1,487,066	1,545,418	(16,760)	(43,626)	(60,386)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	516	82,716	83,232	(10)	(1,044)	(1,054)
Construction	684,308	1,309,813	1,994,121	(212,921)	(47,675)	(260,596)
Real Estate	227,852	422,896	650,748	(58,192)	(10,587)	(68,779)
Education	1,000	29,355	30,355	(650)	(956)	(1,606)
Other service activities	17,916	54,099	72,015	(1,473)	(1,765)	(3,238)
Transport and storage	6,009	221,922	227,931	(1,398)	(10,175)	(11,573)
Art, entertainment, recreation and sports activities	9,387	19,727	29,114	(939)	(1,475)	(2,414)
Agriculture, Livestock, Hunting, Forestry and Fishing	3,775	78,867	82,642	(1,139)	(2,699)	(3,838)
Wholesale and retail trade	104,259	1,497,295	1,601,554	(38,061)	(78,585)	(116,646)
Administrative and support activities	17,230	186,298	203,528	(12,125)	(6,388)	(18,513)
Information and communication activities	783	173,332	174,115	(267)	(4,056)	(4,323)
Electricity, gas and water	(20,778)	730,329	709,551	-	(1,590)	(1,590)
Hotels, restaurants and similar	63,968	300,756	364,724	(11,592)	(10,938)	(22,530)
Extractive industries	613	16,019	16,632	(5)	(1,089)	(1,094)
Public administration, defense and social security	-	604,787	604,787	-	(71)	(71)
Others	153	167	320	(144)	(157)	(301)
	1,275,590	9,325,380	10,600,970	(389,816)	(244,444)	(634,260)

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

At December 31, 2014, the credit risk analysed individually and through the statistical model of collective analysis had the following composition by geography:

	Portugal		England	
	Exposure	Impairment	Exposure	Impairment
Individual	1,285,334	(390,850)	-	-
Collective	26,345,957	(755,931)	798,627	(26,391)
	27,631,291	(1,146,781)	798,627	(26,391)

The risk analysis for customers or economic groups where the Bank has an exposure higher than 500,000 Euros are made by risk analysts that follow those customers and are supported by an internally developed rating model approved by the regulators. The risk level inherent to the customer is implied in the allocation of internal rating levels, which can go from 1 to 9, and the probability of default in a one year that the Bank monitors and calibrates in a constant and in a regular way. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Owners/Management;
. Access to credit;
. Profitability;
. Generation of funds;
. Solvency.

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Owners/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	
Generation of funds	25%	55%
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information on the business sector and external databases. The final rating, by each weighting parameter, is subsequently introduced into the Bank's IT system.

In general terms, the Bank's internal rating classification may be described in the following manner:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with moderate credit risk;
Rating 7 – 9: Customer with low credit risk.

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

At December 31, 2014, the loans portfolio of the Bank presents the following segmentation by internal rating:

	Risk Level				
	High	Medium	Low	Without rating	Total
Corporate	247,552	4,280,905	1,351,484	1,684,523	7,564,464
Building and CRE	482,922	1,853,631	107,463	592,490	3,036,506
Mortgage	2,183,434	1,437,204	10,318,509	1,011,179	14,950,326
Retail	363,638	297,380	897,056	332,461	1,890,535
Guarantees not included in other segments	9,940	656,948	213,721	107,478	988,087
	3,287,486	8,526,068	12,888,233	3,728,131	28,429,918

At December 31, 2014 and 2013, the book value of executed guarantees and other collaterals relating to credit operations granted amounted to tEuros 263,017 and tEuros 271,850, respectively, and present the following detail:

	2014	2013 (pro forma)
Non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	271,204	268,035
. Participating units	18,663	18,663
. Equipment	3,464	4,021
Investment properties (Note 13)	19,000	18,191
Other assets received as settlement of defaulting loans (Note 17)	65,440	72,477
Available-for-sale financial assets	22,121	22,121
	399,892	403,508
Impairment of non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	(92,406)	(87,677)
. Participating units	(4,000)	(4,000)
. Equipment	(2,499)	(2,927)
Impairment of other assets received as settlement of defaulting loans (Note 17)	(15,849)	(14,933)
Impairment of available-for-sale financial assets	(22,121)	(22,121)
	(136,875)	(131,658)
	263,017	271,850

The detail of the fair value and the net book value of property received as settlement of defaulting loans, by type of asset, is as follows:

	2014		
Asset	Items of real estate property	Asset's fair value (*)	Book value
Land			
Urban	129	23,623	19,005
Rural	78	10,523	8,288
Buildings			
Commercial	449	52,937	44,856
Residencial	1,571	126,560	96,547
Others	32	8,931	6,112
Others	14	5,097	3,990
	2,273	227,671	178,798

* does not include costs to sell and estimated historic loss on disposal of such assets

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

The detail of the net book value of property received as settlement of defaulting loans, by aging, is as follows:

Asset	2014				
	Up to 1 year	From 1 year to 2,5 years	From 2,5 years to 5 years	Over 5 years	Total
Land					
Urban	214	2,769	15,166	856	19,005
Rural	90	6,540	722	936	8,288
Buildings					
Commercial	5,649	31,427	4,531	3,249	44,856
Residencial	34,000	41,304	17,022	4,221	96,547
Others	-	2,533	2,994	585	6,112
Others	1,368	2,576	46	-	3,990
	41,321	87,149	40,481	9,847	178,798

Restructured credit

At December 31, 2014 and 2013, the restructured credit operations were identified in accordance with the Instruction nº 32/2013 of Bank of Portugal (which replaced the Instruction nº 18/2012) which established the definition of restructured credit due to client's financial difficulties.

According to the referred Instruction, the institutions shall identify and mark in their information systems credit operations of clients with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, postponement of the reimbursement deadline, introduction of grace periods, capitalized interest, reduction in interest rates, forgiveness of interest or principal) or the institution enters into new credit lines for settling (totally or partially) the existing debt service, in which cases the institutions should include the reference "restructured credit by financial difficulties of the client."

A client is considered to be in a difficult financial position whenever he has failed to fulfil any of its financial obligations to the institution or if it is predictable, given the information available, that such situation will occur.

Unmarking restructured credit by financial difficulties of the client can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

The movement occurred in the restructured credit operations during 2014 was as follows:

	31-12-2014
Opening balance of the restructured portfolio (gross of impairment)	2,352,993
Restructured loans in the year	563,837
Accrued interest of the restructured portfolio	(1,192)
Restructured loans settlement (partial or total)	(372,288)
Other	(23,000)
Closing balance of the restructured portfolio (gross of impairment)	2,520,350

At December 31, 2014, the portfolio of restructured credits by restructuring measure adopted had the following detail:

	2014								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	36,117	987,824	61,542	8,751	177,463	153,884	44,868	1,165,287	215,426
Others	27,987	813,678	89,707	10,875	541,385	254,350	38,862	1,355,063	344,057
	64,104	1,801,502	151,249	19,626	718,848	408,234	83,730	2,520,350	559,483

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

Collaterals

At December 31, 2014, the coverage of overdue loans by collaterals was as follows:

Degree of coverage	Exposure: Non overdue amount associated with overdue loans	Exposure: Overdue (Note 10)	Exposure: Total	Collaterals: Mortgages	Collaterals: Other collaterals	Collaterals: Total	Impairment
Companies							
>= 100%	59,188	45,087	104,275	178,573	6,122	184,695	(14,991)
>= 80% and < 100%	6,987	39,536	46,523	30,990	5,425	36,415	(17,781)
>= 60% and < 80%	935	39,723	40,658	23,877	1,094	24,971	(18,132)
< 60%	12,692	60,534	73,226	21,079	2,175	23,254	(35,305)
Without guarantees	559,152	439,216	998,368	-	-	-	(410,965)
Mortgage							
>= 100%	303,112	2,297	305,409	578,589	732	579,321	(40,736)
>= 80% and < 100%	18,908	124	19,032	24,061	3	24,064	(6,288)
>= 60% and < 80%	6,213	47	6,260	8,288	6	8,294	(5,444)
< 60%	2,772	1,526	4,298	4,062	163	4,225	(7,240)
Without guarantees	39,335	340,567	379,902	-	-	-	(135,081)
Other particular							
>= 100%	2,740	5,738	8,478	8,524	4,237	12,761	(5,430)
>= 80% and < 100%	1,576	336	1,912	-	1,836	1,836	(356)
>= 60% and < 80%	850	203	1,053	-	736	736	(291)
< 60%	2,375	1,658	4,033	-	1,130	1,130	(1,862)
Without guarantees	83,465	189,646	273,111	-	-	-	(201,013)
	1,100,300	1,166,237	2,266,537	878,043	23,659	901,702	(900,915)

At December 31, 2014, the degree of coverage of performing loans, for which impairment was assigned based on an individual analysis, was as follows:

Degree of coverage	Performing loans	Collaterals: Mortgages	Collaterals: Other collaterals	Collaterals: Total	Impairment
>=100%	202,105	381,619	2,077	383,696	(23,017)
>= 80% and < 100%	31,924	26,250	2,559	28,809	(10,704)
>= 60% and < 80%	23,942	6,044	10,014	16,058	(9,283)
< 60%	10,288	347	1,862	2,209	(1,321)
Without guarantees	326,136	-	-	-	(69,025)
	594,395	414,260	16,512	430,772	(113,350)

Encumbered assets

It is considered as an encumbered asset, an explicit or implicitly asset given collateral or subject to an agreement to ensure, collateralize or improve credit quality in any operation in which it cannot be freely withdrawn.

According to the requirements defined in Notice nº 28/2014 of January 15, 2015 of the Bank of Portugal, the Bank discloses information regarding encumbered assets.

At December 31, 2014, the detail of the encumbered and unencumbered assets is as follows:

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Cash and deposits at central banks and balances due from other banks	-	-	863,678	-
Equity instruments	-	-	115,896	115,896
Debt securities	5,294,786	5,294,786	3,719,575	3,719,575
Loans and advances to customers and to credit institutions	10,351,176	-	13,978,309	-
Other assets	-	-	4,536,942	-
	15,645,962	5,294,786	23,214,400	3,835,471

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

At December 31, 2014, the liabilities associated with encumbered assets and the collaterals received are as follows:

	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bonds or ABS
Carrying amount of financial liabilities	11,899,212	15,645,962
Other	364,000	-
	12,263,212	15,645,962

At December 31, 2014 and 2013, the book value of the debt instruments was made up as follows, by external rating, in accordance with the Standard & Poor's rating classification:

	2014	2013 (pro forma)
Financial assets held for trading		
Rating S&P		
AA+ / AA / AA-	1,257	2,098
A+ / A / A-	103,947	53,382
BBB+ / BBB / BBB-	133,495	96,913
BB+ / BB / BB-	23,741	101,171
B+ / B / B-	-	7,816
Without external rating	56,781	84,690
	319,221	346,070
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	-	7,437
BBB+ / BBB / BBB-	-	1,068,428
BB+ / BB / BB-	5,888,016	2,450,332
B+ / B / B-	111,574	354,691
Without external rating	600,088	408,814
	6,599,678	4,289,702
	6,918,899	4,635,772

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

The liquidity risk management policy is decided in the top organization area responsible for Asset and Liability Management (ALM), the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

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

The Bank financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level given the credit lines available, the dispersion of the maturities and minimization of funding activity related costs.

Under its liquidity management policy, at December 31, 2014 and 2013 the Bank has a Euro Medium Term Notes (EMTN) program of tEuros 5,000,000, of which tEuros 32,300 and tEuros 141,830 are used, respectively.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

The projected cash flows of the financial instruments (not discounted) at December 31, 2014 and 2013, in accordance with their contractual maturity, were as follows:

	2014							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	208,014	78	238	632	623,094	-	-	832,056
Balances due from other banks	241,218	-	-	-	-	-	-	241,218
Financial assets held for trading	2,291,734	-	-	-	-	-	-	2,291,734
Available-for-sale financial assets	2	87,567	417,616	855,294	2,511,162	3,614,804	178,095	7,664,540
Loans and advances to credit institutions	80,897	54,609	613,661	477,306	2,175	49,954	-	1,278,602
Loans and advances to customers	315,350	2,204,676	3,184,363	5,225,099	4,068,893	14,240,783	-	29,239,164
Hedging derivatives	195,035	-	-	-	-	-	-	195,035
Investments in associates	-	-	-	-	-	-	166,359	166,359
	3,332,250	2,346,930	4,215,878	6,558,331	7,205,324	17,905,541	344,454	41,908,708
Liabilities								
Resources of central banks	3,800,088	-	-	-	609,694	-	-	4,409,782
Financial liabilities held for trading	1,995,019	-	-	-	-	-	-	1,995,019
Resources of other credit institutions	224,704	2,804,571	316,626	303,951	4,636	405,393	-	4,059,881
Resources of customers and other debts	6,219,756	2,733,455	5,150,978	7,533,068	430,177	95,839	-	22,163,273
Debt securities	1,761	87,294	154,066	1,259,767	906,769	685,837	-	3,095,494
Hedging derivatives	133,690	-	-	-	-	-	-	133,690
Subordinated liabilities	-	-	-	-	-	-	4,319	4,319
	12,375,018	5,625,320	5,621,670	9,096,786	1,951,276	1,187,069	4,319	35,861,458

	2013 (pro forma)							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	222,107	72	221	588	587	123,086	-	346,661
Balances due from other banks	552,921	-	-	-	-	-	-	552,921
Financial assets held for trading	1,949,115	-	-	-	-	-	-	1,949,115
Available-for-sale financial assets	2	299,222	1,106,694	532,235	1,100,163	1,963,112	142,567	5,143,995
Loans and advances to credit institutions	1,679,810	42,892	124,521	1,411,556	63,308	53,578	-	3,375,665
Loans and advances to customers	665,187	2,908,286	3,989,822	4,465,835	3,072,981	15,022,088	-	30,124,199
Hedging derivatives	199,427	-	-	-	-	-	-	199,427
Investments in associates	-	-	-	-	-	-	147,730	147,730
	5,268,569	3,250,472	5,221,258	6,410,214	4,237,039	17,161,864	290,297	41,839,713
Liabilities								
Resources of central banks	41,410	2,200,138	-	4,030,742	-	-	-	6,272,290
Financial liabilities held for trading	1,619,768	-	-	-	-	-	-	1,619,768
Resources of other credit institutions	474,345	2,869,871	86,833	575,931	5,370	206,009	-	4,218,359
Resources of customers and other debts	5,227,653	3,018,611	5,135,818	7,348,145	359,500	296,950	-	21,386,677
Debt securities	(30,862)	55,762	1,228,197	348,438	188,069	812,124	-	2,601,728
Hedging derivatives	370,684	-	-	-	-	-	-	370,684
Subordinated liabilities	-	-	-	-	-	-	4,320	4,320
	7,702,998	8,144,382	6,450,848	12,303,256	552,939	1,315,083	4,320	36,473,826

The projected cash flows of the financial instruments were determined based on principles and assumptions used by the Bank to manage and control liquidity resulting from its operations, namely the following ones:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve were calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months; and

- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity security prices, precious metals and commodities.

The standard methodology applied for the Bank trading activity is Value at Risk (VaR). Historical simulation with a 99% confidence level and a time horizon of one day is used as the basis being applied statistical adjustments to enable the more recent occurrences that affect the level of risk assumed to be included quickly and effectively. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measures.

The VaR calculated represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

In addition, other measures are carried out that enable additional risk control to be maintained. In abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios with different financial variables, in order to obtain the corresponding potential impact on results. In resume, the analysis of scenarios tries to identify the potential risk in extreme market conditions and scenarios at the limits of probability, not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being made of changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measures and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results of parallel changes in the interest rate curves. Because of the unusual nature of derivative operations, specific sensitivity measures are carried out daily, namely calculation of sensitivity to changes in the underlying prices (delta and gamma), volatility (vega) and time (theta).

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

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed to protect the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed to protect the volume of effective losses or protecting the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and re-pricing structure, which determine the sensitivity of the financial margin and the sensitivity of the asset value of balance sheet instruments.

Interest rate risk

At December 31, 2014 and 2013, financial instruments by exposure to interest rate risk were as follows:

	2014				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	622,460	208,014	-	830,474
Balances due from other banks	-	-	241,218	-	241,218
Financial assets held for trading	121,600	197,621	3,019	1,969,494	2,291,734
Available-for-sale financial assets	5,344,934	804,792	562,829	-	6,712,555
Loans and advances to credit institutions	890,877	282,915	47,125	-	1,220,917
Loans and advances to customers	2,821,989	22,676,129	25,133	-	25,523,251
Hedging derivatives	-	-	-	195,035	195,035
	9,179,400	24,583,917	1,087,338	2,164,529	37,015,184
Liabilities					
Resources of central banks	606,000	3,800,051	261	-	4,406,312
Financial liabilities held for trading	-	-	-	1,995,019	1,995,019
Resources of other credit institutions	3,167,409	863,072	243	-	4,030,724
Resources of customers and other debts	15,758,146	5,699,091	168,665	-	21,625,902
Debt securities	1,918,587	1,034,484	20,040	-	2,973,111
Hedging derivatives	-	-	-	133,690	133,690
Subordinated liabilities	-	4,275	31	-	4,306
	21,450,142	11,400,973	189,240	2,128,709	35,169,064

	2013 (pro forma)				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	116,135	221,706	-	337,841
Balances due from other banks	-	-	552,921	-	552,921
Financial assets held for trading	72,497	273,573	3,152	1,599,893	1,949,115
Available-for-sale financial assets	3,457,589	790,358	134,306	-	4,382,253
Loans and advances to credit institutions	2,432,516	804,626	33,828	-	3,270,970
Loans and advances to customers	2,382,892	23,698,903	25,726	-	26,107,521
Hedging derivatives	-	-	-	199,427	199,427
	8,345,494	25,683,595	971,639	1,799,320	36,800,048
Liabilities					
Resources of central banks	-	6,200,016	41,394	-	6,241,410
Financial liabilities held for trading	-	-	-	1,619,768	1,619,768
Resources of other credit institutions	3,582,505	592,187	366	-	4,175,058
Resources of customers and other debts	15,696,775	4,781,987	228,239	-	20,707,001
Debt securities	1,341,104	1,209,023	(15,966)	-	2,534,161
Hedging derivatives	-	-	-	370,684	370,684
Subordinated liabilities	-	4,307	-	-	4,307
	20,620,384	12,787,520	254,033	1,990,452	35,652,389

<u>Financial instruments – non-trading</u>

The methodology used for the calculation of the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities based on changes of 100 basis points (bp's) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- all assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;

- the assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each sensitive operation (contract);

- operations are sub-grouped by re-pricing/maturity date for each previously defined group;

- the intended time ranges for measurement of the interest rate gaps are defined;

- for each group, the flows are re-grouped based on the ranges created;

- for each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- the total inflows and outflows are calculated for each range and the difference between them, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap enables an approximation to the sensitivity of the net assets value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- the volumes remain constant in the balance sheet and are automatically renewed;

- the movements in interest rates are assumed to be parallel, while the possibility of actual changes for different terms of the interest rate curve is not considered; and

- different elasticity between the various products is not considered.

In terms of variation in net asset´s value, an increase in the interest rates originates a decrease in the amount of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance remain unchanged during the period under analysis;

- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- New business features (term, spread, indexing factor and other) – the conditions applied in the budget for each product are used. When these features cease to be within market conditions for certain products, the average conditions in place in the last month or new commercial directives for each product under review are used.

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

At December 31, 2014 and 2013, the sensitivity of the Bank's financial instruments to positive and negative changes of 100 basis points (bp's) in the interest rates, over a time frame of one year, corresponds to:

	2014		2013 (pro forma)	
Assets	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
Cash and deposits at central banks	263	9,556	96	(195)
Available-for-sale financial assets	(364,218)	208,326	(146,096)	144,720
Loans and advances to credit institutions	(8,362)	3,714	(14,643)	8,042
Loans and advances to customers	(134,640)	53,400	(136,262)	111,563
	(506,957)	274,996	(296,905)	264,130
Hedging derivatives	(54,126)	9,259	(3,830)	(43,088)
Liabilities				
Resources of central banks	(22,764)	6,170	(1,444)	7,820
Resources of other credit institutions	(4,825)	542	(7,210)	2,940
Resources of customers and other debts	(401,951)	136,480	(362,651)	288,137
Debt securities	(58,746)	15,003	(13,668)	5,254
	(488,286)	158,195	(384,973)	304,151

Financial instruments held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;

- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);

- Exponential deterioration factor: Enables that the amount of changes in market factors to be exponentially weighted over time, by giving less weight to more distant observations in time. The exponential deterioration factor applied is calculated periodically taking in consideration the Market Risk methodology;

  In any case, the values of VaR are the highest arising from the calculation made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow accumulation of different units; and

- Time window of market data: A 2 year time window is used or at least 520 items of data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between them, are well reflected in the historical period selected.

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

In addition, a complete revaluation of the portfolio requires a valuation for each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At December 31, 2014 and 2013, the VaR associated to the interest rate risk corresponds to:

	2014	2013 (pro forma)
VaR Percentile 99%	(1)	(4)
VaR Weighted Percentile 99%	(1)	(2)

Foreign exchange risk

The profile defined for foreign exchange risk is very conservative and is based on the hedging policy adopted. Implementation of such policy is a responsibility of the Treasury Department so that the risks involved are maintained at a low level, being those achieved mainly through currency swaps. Exchange risk limits are established and monitored by the Market Risk Area.

At December 31, 2014 and 2013, financial instruments by currency were as follows:

	2014			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	822,546	4,277	3,651	830,474
Balances due from other banks	184,396	42,768	14,054	241,218
Financial assets held for trading	2,261,697	28,528	1,509	2,291,734
Available-for-sale financial assets	6,712,555	-	-	6,712,555
Loans and advances to credit institutions	833,871	353,009	34,037	1,220,917
Loans and advances to customers	25,262,509	238,869	21,873	25,523,251
Hedging derivatives	193,802	1,233	-	195,035
	36,271,376	668,684	75,124	37,015,184
Liabilities				
Resources of central banks	4,406,312	-	-	4,406,312
Financial liabilities held for trading	1,993,129	1,671	219	1,995,019
Resources of other credit institutions	3,651,700	372,316	6,708	4,030,724
Resources of customers and other debts	20,540,195	918,865	166,842	21,625,902
Debt securities	2,973,111	-	-	2,973,111
Hedging derivatives	131,337	2,353	-	133,690
Subordinated liabilities	4,306	-	-	4,306
	33,700,090	1,295,205	173,769	35,169,064

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

	2013 (pro forma)			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	329,257	5,391	3,193	337,841
Balances due from other banks	493,501	34,386	25,034	552,921
Financial assets held for trading	1,908,412	38,432	2,271	1,949,115
Available-for-sale financial assets	4,374,816	7,437	-	4,382,253
Loans and advances to credit institutions	2,924,538	326,942	19,490	3,270,970
Loans and advances to customers	26,043,429	38,177	25,915	26,107,521
Hedging derivatives	198,634	793	-	199,427
	36,272,587	451,558	75,903	36,800,048
Liabilities				
Resources of central banks	6,241,410	-	-	6,241,410
Financial liabilities held for trading	1,618,606	1,111	51	1,619,768
Resources of other credit institutions	3,779,243	393,149	2,666	4,175,058
Resources of customers and other debts	19,784,630	764,049	158,322	20,707,001
Debt securities	2,534,161	-	-	2,534,161
Hedging derivatives	368,086	2,598	-	370,684
Subordinated liabilities	4,307	-	-	4,307
	34,330,443	1,160,907	161,039	35,652,389

At December 31, 2014 and 2013, the VaR associated to foreign exchange risk corresponds to:

	2014	2013 (pro forma)
VaR Percentile 99%	(6)	(7)
VaR Weighted Percentile 99%	(5)	(5)

Equity risk of assets

<u>Financial instruments held for trading</u>

At December 31, 2014 and 2013, the Bank had no equity risk associated with financial instruments held for trading and therefore the VaR related to this risk is zero.

Compensation of financial assets and liabilities

At December 31, 2014, the amounts of derivative financial instruments, traded on over-the-counter markets, which are offset by other financial instruments, by counterparty type, are as follows:

Counterparty	Financial assets / liabilities in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Collateral in cash received as guarantee	Net value
Financial institutions	4,271	-	(4,200)	71
Group companies	(1,749,115)	-	200,000	(1,549,115)
	(1,744,844)	-	195,800	(1,549,044)

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

At December 31, 2014, the amount of sale operations with repurchase agreement by counterparty, is as follows:

Counterparty	Financial assets / liabilities in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Amounts related not offset in the financial statements: Collateral in cash received as guarantee	Net value
Financial institutions	(2,797,788)	2,796,181	43,734	42,127
	(2,797,788)	2,796,181	43,734	42,127

49. CAPITAL MANAGEMENT

BST endeavours to have significant financial stability through the maintenance of an adequate equity ratio – relationship between Eligible Equity Funds capital and assets weighted by risk (or positions in risk) - above 8%, which is the minimum legal ratio requirement established under Directive nº 2013/36/EU (CRD IV) and Regulation (EU) nº 575/2013, both of the European Parliament and of the Council of June 26, 2013, which have been established in the Basel Agreement (BIS III).

The dividend distribution policy is subject to the maintenance of a capital base that enables the Bank to sustain the development of its operations within its risk policies.

BST uses the mixed method for credit risk, namely the advanced method (IRB) for most of the loans segments and the standard method for leasing, factoring and manual operations.

As from December 2010, BST has used the mixed method for market risk, namely internal models for most of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

In June 2012, BST started to use the standard method for determining the requirements of operational risk, having used the basic indicator method till that date.

From January 1, 2014, BST started to report its capital ratios according to the new regulatory framework established by BIS III, which provides a transitional period, which however is more demanding for the core capital ratio (or Common Equity Tier I, CET1), namely through the establishment of additional deductions and higher ratios in the calculation of risk weighted assets (or positions in risk).

The following table summarizes the composition of regulatory capital and ratios of the Bank at consolidated level at December 2014 (BIS III – Phasing in) and 2013 (BIS II):

Amounts in millions of Euros

	2014 (*)	2013 (pro forma)
A - BASE OWN FUNDS (TIER I)	2,467	2,292
Share Capital	942	943
Reserves and Retained earnings (excluding Non-controlling interests)	1,166	1,103
Non-controlling interests	476	500
IAS adoption impacts (transitory regime)	-	14
Deductions to base own funds	(117)	(268)
B - COMPLEMENTARY OWN FUNDS (TIER II)	-	-
Perpetual subordinated liabilities	4	4
Term subordinated liabilities	-	-
Revaluation reserves	-	24
Other elements/deductions to complementary own funds	(4)	(28)
C - DEDUCTIONS TO OWN FUNDS	-	(8)
D - TOTAL OWN FUNDS (A+B+C)	2,467	2,284
E- ASSETS WEIGHTED BY RISK	16,102	16,090

CAPITAL RATIOS	2014 (*)	2013 (pro forma)
TIER I (A/E)	15.3%	14.2%
CORE CAPITAL	13.0%	12.4%
TIER II (B/E)	0.0%	0.0%
CAPITAL ADEQUACY RATIO (D/E)	15.3%	14.2%

(*)Excluding the income generated in 2014, the capital adequacy ratio is 15.0%, TIER I is 15.0% and the CORE TIER I is 12.6%

BST´s solvency ratios at consolidated level increased during 2014. The capital adequacy and the Tier I ratios increased from 14.2% in December 2013 (BIS II) to 15.3% in December 2014 (BIS III). Furthermore, the core capital ratio (or CET1 ratio) reached 13.0% in December 2014 (BIS III) compared to 12.4% in December 2013 (BIS II).

For the good performance of the capital ratios contributed a greater incorporation of the net income of the year and lower deductions related with intangibles and with insufficiency of provisions for losses in the IRB portfolios and significant holdings, which offset the negative impact of the revaluation of non-financial assets (pension fund) and a lower eligibility of preference shares as a result of the application of the transition coefficient to the instruments with safeguard of acquired rights.

50. LEGAL ACTIONS IN PROGRESS

From the end of the first quarter of 2013 a movement with public projection arise in Portugal in the sequence of which the validity of some interest rate swap agreements established between some financial institutions and several state owned enterprises, namely in the railway and road transportation sectors, have been challenged. These agreements were signed essentially until 2008, which is, before the beginning of the recent financial crisis and represent to those enterprises high charges.

Among those agreements, some established with the Bank were challenged, whose positive fair value at December 31, 2014 and 2013 arise to approximately tEuros 1,320,000 and tEuros 1,030,000, respectively, which is reflected in the accompanying balance sheet under the caption "Financial assets held for trading " (Note 7). These agreements were carried out without incidents until September 2013.

Following the above referred movement, in its conviction of the total regularity and binding force of the agreements established with the state owned enterprises, the Bank requested a legal statement regarding their validity, considering that it was its duty to contribute, by the appropriate way, to eliminate any doubts about their validity and binding force. This initiative took place during the second quarter of 2013, in English courts, as they were the ones chosen by the parties as expressly stated in the respective agreement terms.

At September 2013, after the submission of the above referred legal actions, the state owned enterprises communicated to the Bank that they would suspend from that date the payment of the net interest associated with those swap agreements until the on-going actions were decided.
At December 31, 2014 and 2013, the balance sheet caption "Other assets - Other" includes approximately tEuros 163,000 and tEuros 45,000, respectively, relating to the interests not paid (Note 17).

At November 2013, the state owned enterprises presented to the English courts their plea to the legal actions raised by the Bank requiring the nullity of the agreements and requesting the refund of the net flows of interest paid in the past, which amounted to approximately tEuros 134,000.

At February 14, 2014, the Bank presented to the English courts its reply to the plea submitted by the state owned enterprises and at April 4, 2014 the defence presented its counter arguments.
At May 16, 2014, the preliminary hearing was held, and the legal actions are currently in the document analysis stage.

It is the Board of Directors of the Bank belief, supported by the opinion of its English and Portuguese legal attorneys, that all the conditions are now met for the court to rule in its favour and consequently to declare the validity of the above referred agreements and notifying the state owned enterprises to liquidate the corresponding interest. For this reason, no provisions were recorded in the accompanying financial statements to address for any eventual adverse outcome of those legal actions.

Additionally, during the first semester of 2014, five legal actions regarding the validity and binding force of certain interest rate swap agreements were raised against the Bank in Portuguese Courts by some entities comprised in the Regional Government of Madeira Island (entities included in the Portuguese public sector), which have also suspended the payment of the net interest associated with those swap contracts. At December 31, 2014, the positive fair value of those swaps amounted to tEuros 100,000 and was recorded under the caption “Financial assets held for trading” (Note 7). On the other hand, at December 31, 2014, the balance sheet caption "Other assets - Other" includes approximately tEuros 15,000 related to the interest not paid (Note 17). Last, the above referred entities are also asking for the refund of the net interest paid by them in the past, which, as of December 31, 2014, amounted to tEuros 20,000. As of this date, the Bank has already presented its plea to those legal actions and for three of them the respective courts declared themselves incompetent to appreciate the actions, accepting the arguments of the Bank and considering that the matters raised in those actions are under the jurisdiction of the English courts. These decisions were subject to an appeal to a higher court (“Tribunal de Relação de Lisboa”). Nevertheless, since the arguments used by the above referred entities to challenge the validity of those swap contracts are similar to the ones used in the legal actions referred in the previous paragraphs, the Board of Directors of the Bank do not expect an adverse outcome of those legal actions.

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

Furthermore, at December 31, 2014, another set of claims / legal actions were raised against the Bank by its customers relating to swap agreements. In the majority of those claims / legal actions the customers request for the cancelation of the swap agreements established with the Bank, as well as for the reimbursement of the net amount of interest paid by them in the past. At December 31, 2014, the amounts involved in those claims / legal actions were as follows:

Interest received from customers	52,665
Interest paid to customers	(8,879)
	43,786
Interest overdue not paid by customers	10,551
Swaps Mark to Market	72
Impairment recorded	(9,624)
	999
Provisions for litigations in progress	(12,440)
Exposure	32,345

However, it is the Board of Directors of the Bank belief, that the provisions recorded in the accompanying financial statements are sufficient to address an eventual adverse outcome of the above referred claims / legal actions.

Finally, during 2014, two new legal actions were raised against the Bank and two state owned enterprises, Metropolitano de Lisboa, E.P.E. and Metro do Porto, S.A., involving a total amount of approximately tEuros 350,000 which are not included in the table above. These legal actions are focused in the cancellation of some swap agreements established between the Bank and those two state owned enterprises, which are already being judged by the English courts since the second quarter of 2013, as a result of the initiatives held by the Bank as described in the beginning of this Note.

51. RESOLUTION FUND

In accordance with a statement issued by the Bank of Portugal in August 3, 2014, it was decided to apply to Banco Espírito Santo, S.A. a resolution measure, which resulted in the transfer of the majority of its activity to a “transitory bank”, named Novo Banco, incorporated especially for that purpose. Following the EU legislation, the capitalization of Novo Banco was provided through the Resolution Fund, which was established by the Decree-Law nº 31-A / 2012 of February 10. As provided for in that Decree-Law, the Resolution Fund is financed through the payment of contributions due by the participating institutions in the Fund and through the special contribution to the banking sector. In addition, it is also established that if such resources are insufficient to fulfil its obligations other financing sources can be used, such as: (i) special contributions from credit institutions; and (ii) loans granted.

In the specific case of the resolution measure applied to Banco Espírito Santo, S.A., the Resolution Fund provided tEuros 4,900,000 to subscribe the share capital of Novo Banco. Of this amount, tEuros 377,000 corresponded to the Resolution Fund own resources, resulting from the contributions already paid by the participating institutions and from the special contribution to the banking sector. In addition, a syndicated loan of tEuros 700,000 was granted to the Resolution Fund, with the contribution of each credit institution depending on several factors, including their size. The participation of BST in that loan was tEuros 116,200. The remaining amount needed to finance the resolution measure adopted came from a loan granted by the Portuguese State, which will be subsequently repaid and remunerated by the Resolution Fund. When Novo Banco is sold the proceeds of the sale will be primarily assigned to the Resolution Fund.

Until the approval date of the accompanying financial statements by the Board of Directors, BST does not have information that allow it to estimate with reasonable accuracy the amounts potentially involved in the sale of Novo Banco.

Due to the same reason, it is not possible to estimate with reasonable accuracy if, as a result of that sale process, a shortfall of resources in Resolution Fund will occur, and if applicable, how it will be financed.

Therefore, at this date, it is not possible to evaluate the potential impact of this situation in the financial statements of BST, since the potential costs involved will depend on the sale price of Novo Banco and the measures to be taken by the Finance Ministry, under the competences that are legally attributed to it.

52. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors on April 23, 2015.

53. NOTE ADDED FOR TRANSLATION

These financial statements are a translation of the financial statements originally issued in Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AT DECEMBER 31, 2014 (NOTE 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 53)

Securities issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed by the Group	Amount of the issue: Consolidated Balance Sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Bonds issued											
Bonds											
ST Diversificação Invest 3º amortização Clientes	EUR	23.913	8.983	14.930	1.246	1.328	17.504	Floating	March 17, 2009	March 28, 2015	Basket of indexes
ST Diversificação Invest 4º amortização Clientes	EUR	23.913	8.983	14.930	-	-	14.930	Floating	March 17, 2009	March 28, 2015	Basket of indexes
Performance Mais II	EUR	13.731	13.731	-	-	-	-	Floating	December 22, 2009	January 15, 2015	Basket of indexes
Valorização Performance 5 anos	EUR	21.533	4.317	17.216	366	105	17.687	Floating	September 30, 2010	September 30, 2015	Basket of indexes
Valorização Performance 5 anos Outubro 2010	EUR	9.993	-	9.993	208	55	10.256	Floating	November 2, 2010	November 2, 2015	Basket of indexes
Top Alemanha	EUR	65.042	29.342	35.700	1.386	62	37.148	Floating	February 14, 2011	February 13, 2015	Basket of indexes
Top Alemanha Fevereiro 2011	EUR	57.892	26.513	31.379	1.497	79	32.955	Floating	March 9, 2011	March 9, 2015	Basket of indexes
Valorização China	EUR	56.379	13.152	43.227	1.621	132	44.980	Floating	April 11,2011	April 2, 2015	Index FTSE China 25
Valorização Europa GBP	GBP	1.212	-	1.212	-	-	1.212	Floating	June 27, 2014	June 27, 2017	Stock index EURO STOXX 50® Index
		273.608	105.021	168.587	6.324	1.761	176.672				
Covered bonds											
Mortgage Bonds VIII - 1st tranche	EUR	250.000	250.000	-				Floating	July 20, 2012	July 20, 2015	Euribor3m+2.5%
Mortgage Bonds IX - 1st tranche	EUR	500.000	500.000	-	-	-	-	Floating	April 2, 2013	April 2, 2016	Euribor6m+2.25%
Mortgage Bonds IX - 2nd tranche	EUR	1.000.000	1.000.000	-	-	-	-	Floating	April 15, 2013	April 15, 2016	Euribor3m+2.25%
Mortgage Bonds X	EUR	750.000	750.000	-	-	-	-	Floating	July 26, 2013	July 26, 2016	Euribor3m+2.25%
Mortgage Bonds XI - 1st tranche	EUR	500.000	500.000	-	-	-	-	Floating	December 19, 2013	December 19, 2016	Euribor3m+1.85%
Mortgage Bonds XI - 2nd tranche	EUR	500.000	500.000	-	-	-	-	Floating	December 19, 2013	December 19, 2016	Euribor6m+1.85%
Mortgage Bonds XI - 3rd tranche	EUR	750.000	750.000	-	-	-	-	2,58%	January 13, 2014	January 13, 2017	Fixed interest rate
Mortgage Bonds XII - 1st tranche	EUR	1.000.000	-	1.000.000	10.191	-	1.010.191	2,58%	April 1, 2014	April 3, 2017	Fixed interest rate
Mortgage Bonds XIII - 1st tranche	EUR	750.000	-	750.000	3.092	-	753.092	1,63%	June 11, 2014	June 11, 2019	Fixed interest rate
		6.000.000	4.250.000	1.750.000	13.283	-	1.763.283				
Bonds issued on securitization operations											
Hipototta 1 - Class A - Notes	EUR	145.770	118.518	27.252	(32)	-	27.220	Floating	July 25, 2003	November 25, 2034	Euribor 3m+0.27% (until early reimbursement in August 2012); Euribor 3m+0.54% (after early reimbursement date)
Hipototta 1 - Class B - Notes	EUR	9.714	9.714	-	-	-	-	Floating	May 12, 2004	November 12, 2034	Euribor 3m+0.65% (until early reimbursement in August 2012); Euribor 3m+0.95% (after early reimbursement date)
Hipototta 1 - Class C - Notes	EUR	4.281	4.281	-	-	-	-	Floating	May 12, 2004	November 12, 2034	Euribor 3m+1.45% (until early reimbursement in August 2012); Euribor 3m+1.65% (after early reimbursement date)
Hipototta 1 - Class D - Notes	EUR	11.000	11.000	-	-	-	-	Floating	May 12, 2004	November 12, 2034	Residual return generated by securitized portfolio
Hipototta 4 - Class A - Notes	EUR	905.861	489.814	416.047	(970)	-	415.077	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Class B - Notes	EUR	32.956	32.956	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Class C - Notes	EUR	104.081	55.661	48.420	2	-	48.422	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Class D - Notes	EUR	14.000	14.000	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipototta 5 - Class C - Notes	EUR	24.000	24.000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipototta 5 - Class A2 - Notes	EUR	796.849	285.134	511.715	(330)	-	511.385	Floating	March 16, 2007	February 28, 2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Class B - Notes	EUR	26.000	26.000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Class D - Notes	EUR	26.000	26.000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Class E - Notes	EUR	31.000	31.000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Class F - Notes	EUR	9.038	9.038	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
		2.140.550	1.137.116	1.003.434	(1.330)	-	1.002.104				
Other											
EMTN's	EUR	32.300	1.250	31.050	2	-	31.052				
		32.300	1.250	31.050	2	-	31.052				
		8.446.458	5.493.387	2.953.071	18.279	1.761	2.973.111				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AT DECEMBER 31, 2014 (NOTE 24)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex II originally issued in Portuguese - Note 53)

		Amount of the issue			Accrual			Total			
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet	Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from:
Subordinated Perpetual Bonds 2000	EUR	270.447	270.447	-	143	143	-	-	1,93%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	4.275	-	4.275	31	-	31	4.306	2,04%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds BSP 2001	EUR	13.818	13.818	-	101	101	-	-	2,04%	Perpetual	February 23, 2011
		288.540	**284.265**	**4.275**	**275**	**244**	**31**	**4.306**			

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Euros – tEuros)

(Translation of a report originally issued in Portuguese – Note 53)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Board of Directors' Report and in the accompanying consolidated financial statements of Banco Santander Totta, S.A. and subsidiaries ("Bank" or "BST") for the year ended December 31, 2014, which comprise the consolidated balance sheet at December 31, 2014 that presents a total of tEuros 38,860,362 and total shareholders' equity of tEuros 2,958,378, including a consolidated net income attributable to the shareholders of BST of tEuros 165,174, the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards as adopted by the European Union and that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code ("Código dos Valores Mobiliários"); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position or their comprehensive income.

3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the auditing standards (“Normas Técnicas e Directrizes de Revisão/Auditoria”) issued by the Portuguese Institute of Chartered Accountants (“Ordem dos Revisores Oficiais de Contas”), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used, the application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Board of Directors’ Report is consistent with the other consolidated documents of account, as well as the verifications established in items 4 and 5 of article 451 of the Commercial Companies Code (“Código das Sociedades Comerciais”). We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco Santander Totta, S.A. and subsidiaries at December 31, 2014, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders’ equity and their consolidated cash flows for the year then ended, in conformity with the International Financial Reporting Standards as adopted by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Emphasis

6. As explained in detail in Note 50 of the Notes to the consolidated financial statements, there are a set of legal actions placed in 2013 by the Bank in English courts pending decision, involving some Portuguese state owned enterprises of the transportation sector, regarding the validity and binding force of some interest rate swap agreements established between those parties in previous years. Additionally, during 2014, a new set of legal actions regarding the validity and binding force of certain interest rate swap agreements signed in previous years were brought in the Portuguese Courts against the Bank by entities comprised in the Regional Government of Madeira Island. At December 31, 2014, the positive fair value of those swaps and the interest which payment is suspended, as well as the net interest paid in the past by those enterprises that now are being subject to a refund request are presented in the above referred Note. As mentioned in Note 50, it is the Board of Directors of the Bank belief, supported by the opinion of its English and Portuguese legal attorneys, that the outcome of those legal actions will be favorable to it. Consequently, no provisions were recorded in the accompanying consolidated financial statements for these situations.

Report on other legal requirements

7. It is also our opinion that the financial information contained in the Board of Director's Report is consistent with the consolidated financial statements for 2014 and that the report on corporate governance practices includes the items required for the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Lisbon, April 23, 2015

Deloitte & Associados, SROC S.A.
Represented by Eduardo Manuel Fonseca Moura

EXPLANATION ADDED FOR TRANSLATION
(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC, S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)