

ANNUAL REPORT

BANCO SANTANDER TOTTA, SA



2013

3	Main Indicators
4	Governing Bodies
6	Relevant Facts and Prizes Awarded in 2013
8	Corporate Information
9	Social and Corporate Responsibility
16	Business Environment
25	Business Areas
32	Business Support Areas
37	Financial and Economic Information
46	Risk management
53	Proposal for Distribution of Results
54	Supplementary Information & Attachments
63	Corporate Governance
87	Consolidated Financial Statements
93	Notes to the Consolidated Financial Statements
238	Consolidated Reports and Opinions

## MAIN INDICATORS

<b>BALANCE SHEET AND RESULTS</b> (million euro)	<b>Dec-13</b>	<b>Dec-12</b>	<b>%</b>
Net Assets	<b>38,811</b>	38,527	+0.7%
Net Loans	<b>26,108</b>	26,980	-3.2%
Customers' Resources	<b>26,436</b>	28,105	-5.9%
Own Funds + Minority Interests + Subordinated Liabilities	<b>2,735</b>	2,329	+17.4%
Net Interest Income (excluding dividends)	<b>507.3</b>	541.5	-6.3%
Fees and Other Income	<b>281.1</b>	318.0	-11.6%
Operating Income	<b>821.0</b>	987.1	-16.8%
Net Operating Income	<b>354.5</b>	528.1	-32.9%
Income Before Taxes & Minority Interests	<b>124.6</b>	73.4	+69.9%
Net Income	<b>89.2</b>	88.1	+1.2%

<b>RATIOS</b>	<b>Dec-13</b>	<b>Dec-12</b>	<b>%</b>
ROE	<b>5.1%</b>	6.4%	-1.3 p.p.
ROA	<b>0.2%</b>	0.2%	+0.0 p.p.
Efficiency Ratio (including depreciation)	<b>56.8%</b>	46.5%	+10.3 p.p.
Tier I* ratio	<b>14.2%</b>	11.4%	+2.8 p.p.
Core Capital* ratio	<b>12.4%</b>	9.9%	+2.5 p.p.
NPL and Doubtful Loans Ratio	<b>3.8%</b>	3.5%	+0.3 p.p.
Credit at Risk Ratio	<b>5.9%</b>	4.3%	+1.5 p.p.
Restructured Loans/Total Loans	<b>8.7%</b>		
Restructured Loans not included in Credit at Risk/Total Loans	<b>5.4%</b>		
NPL and Doubtful Loans Coverage Ratio	<b>104.7%</b>	97.4%	+7.3 p.p.
Credit at Risk Coverage Ratio	<b>67.7%</b>	79.7%	-12.0 p.p.
Loan-to-Deposit Ratio**	<b>125.3%</b>	126.6%	-1.3 p.p.

<b>RATING</b>	<b>Dec-13</b>	<b>Dec-12</b>	<b>%</b>
FitchRatings			
short term	<b>F3</b>	F3	
long term	<b>BBB-</b>	BBB-	
Moody's			
short term	<b>NP</b>	NP	
long term	<b>Ba1</b>	Ba1	
Standard & Poor's			
short term	<b>B</b>	B	
long term	<b>BB</b>	BB	
DBRS			
short term	<b>R-1L</b>	R-1L	
long term	<b>BBBH</b>	BBBH	

<b>Other Data</b>	<b>Dec-13</b>	<b>Dec-12</b>	<b>%</b>
Employees	<b>5,572</b>	5,663	-91
Employees in Portugal	<b>5,523</b>	5,613	-90
Branches	<b>640</b>	667	-27
Total Branches and Corporate Centers in Portugal	<b>625</b>	652	-27

\* With results net of payout

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

## BANCO SANTANDER TOTTA, S.A.

**General Meeting Officers**

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

**Auditor**

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

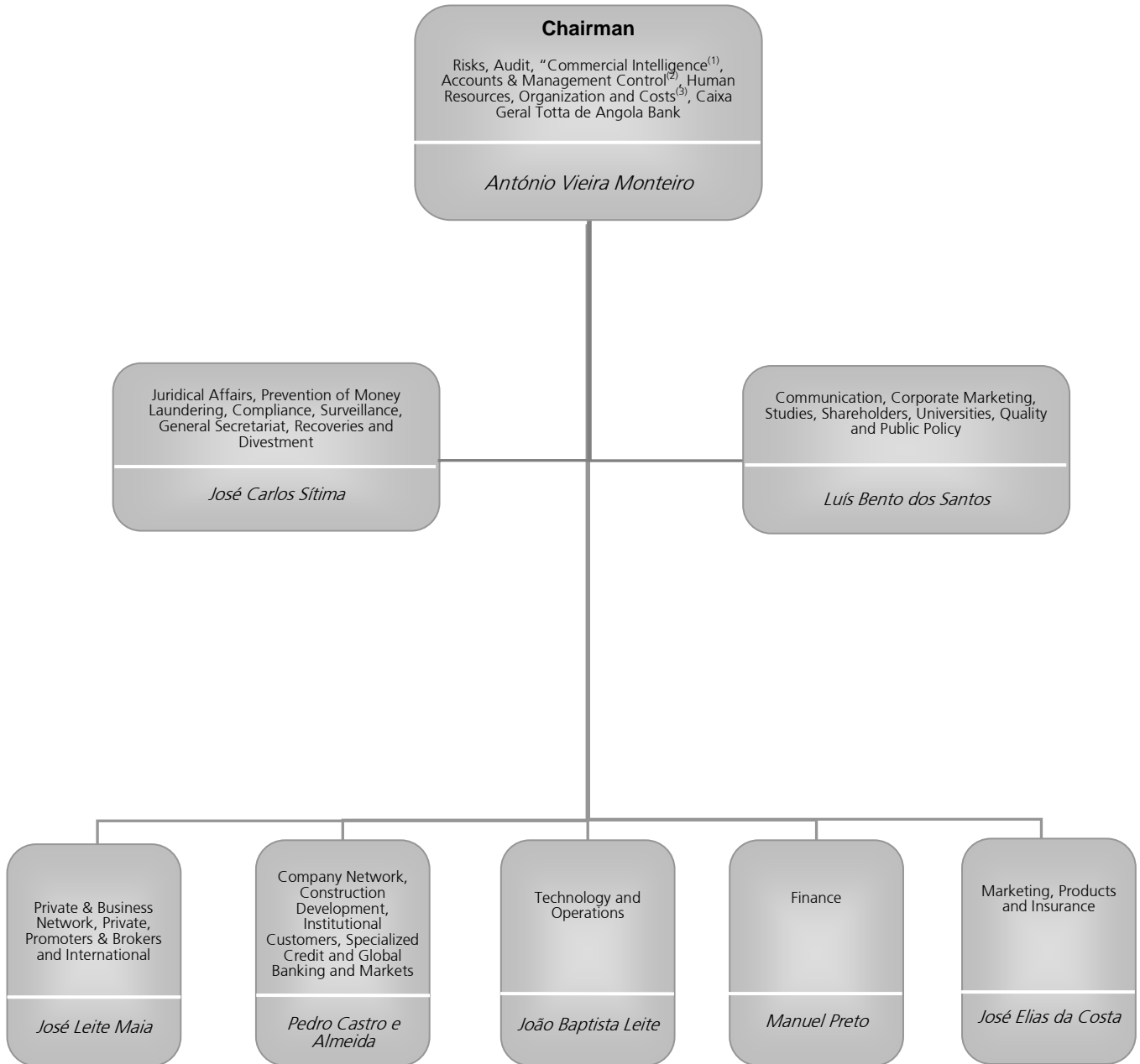
**Company Secretary**

In active service	Luís Manuel Baptista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

Note: Eduardo José Stock da Cunha resigned as a Director on 11/10/13



## Executive Committee 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 assured by Dr. Ignácio Centenera, a Manager Attached to the Executive Committee
- (3) The area of Human Resources, Organization and Costs is assured by Dr. Nuno Frias Costa, a Manager Attached to the Executive Committee

## Prizes awarded in 2013

## Main awards

Bank of the Year in Portugal – *The Banker*

Best Bank in Portugal - *Euromoney*

Best Bank in Portugal - *Global Finance*

The Large Bank that Showed Greater Growth – *Exame*



## Other recognitions

Best *Private Banking* - *Euromoney*

In six service categories: "Privacy & Safety", "Range of Products & Services", "Family Office Services", "Best Bank in the Super Affluent segment (\$ 500,000- \$1,000,000 Dollars)", "Best Bank in the High Net Worth segment I (\$1,000,000 - \$10,000,000 Dollars)" and "Best Bank in the High Net Worth II segment (\$10,000,000 - \$30,000,000 Dollars)"

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

Best Company to Work with in the Banking and Insurance Sector - *Accenture e Exame*

Equality Is Quality Prize - *CITE e CIG*

Best Contact Centre in the Banking Sector in 2013 - *APCC*

Best Contact Centre - *IFE*

In the category "Quality of Telephone attendance – Operations with more than 50 positions"

## Other relevant facts in 2013

## January

- João de Deus Ramos is the winner of the Coimbra University Prize

## February

- Launching of the 2013 Economic Journalism Prize
- Santander Totta among the Best Companies to be Employed by in Portugal
- Santander Totta is the best in Portugal
- Santander Totta undertakes commitment on equality in gender employment

## March

- Lisbon University Prize awarded to João Lobo Antunes
- Santander Totta launches deposits that allow access to Optimus Alive
- Santander Totta launches electronic banking terminal that issues and manages invoices
- Breast cancer research awarded ST/NOVA Scientific Merit Prize

## April

- Santander Totta implements 1st International Real Estate Auction

## May

- Santander Totta distinguishes mobility students in Porto University
- Santander Totta has the "Best Contact Centre in the Banking Sector"
- Proximity with employees and customers focused in "You Are Santander Week"

## June

- Santander Totta Sustainability Report intensifies support for Higher Education
- Technical University comprises RedEmprendia
- *Primus Inter Pares* Prize: Finalists are MBA graduate students in Finance
- Coimbra University became UNESCO world heritage sponsored by Santander Totta

## July

- Santander Totta is the “Best Bank in Portugal”, according to Euromoney magazine
- Santander Totta offers baskets with traditional products to foreign customers
- ISCTE student wins 10th Edition of *Primus Inter Pares* Prize

## September

- Portugal hosts 5th edition of Santander marathon running

## October

- Santander Totta awarded prize for Equality in Gender at Work
- EIB and Banco Santander Totta subscribe agreement to support SMEs and companies with medium sized share capital
- Global Finance elects Santander Totta as the “Best Bank in Portugal”
- Bank employees help reforestation in the county of Cascais

## November

- 1100 Universities will attend the III International Meeting of Universia Chancellors to be held in Rio de Janeiro
- Santander launches international business platform for companies
- Santander Totta invests in economic recovery with a strong promotional campaign addressed to SMEs

## December

- More than 350 volunteers from Santander Totta celebrated the 10th Edition of Bread for All, distributing bread in Lisbon and Porto
- Santander launches campaign *Help us to multiply this bread*, in Facebook, to aid the Cais Association
- Casa da América Latina/Santander Totta prize distinguishes Portuguese and Brazilians with doctorate degrees
- Renewal of cooperation agreement with Madeira University



---

**VIEW**

---

Santander is a large international financial group, whose main business is in commercial banking which totally fulfils the financial requirements of its customers and provides relevant returns to its shareholders. In order to achieve this, it relies upon a highly relevant presence in ten main markets, where it operates in branches with autonomous capital and liquidity, to which it provides global business policies and corporate capabilities in organization and technology.

---

**VALUES**

---

<b>Dynamism</b>	We take the initiative, we have the nimbleness to discover and exploit business opportunities ahead of our competitors, and we are sufficiently flexible to become adapted to market changes
<b>Soundness</b>	The soundness of our accounts and discreet risk management are the best guarantees of our growth capacity and of the generation of long term value for our shareholders
<b>Innovation</b>	We permanently search for products and services that cover the novel needs of our customers and allow us to obtain increases in profitability greater than those of our competitors
<b>Leadership</b>	Our calling is the leadership in all markets where we operate, with the aid of the best human teams, guided towards the customer and towards results
<b>Quality of service and customer satisfaction</b>	The customer is at the centre of Banco Santander's business model, we are a bank to further his ideas. We want to understand his requirements, respond with innovative solutions and build long term relations of trust
<b>Professional ethics and sustainability</b>	In addition to the strict compliance with legislation, codes of conduct and internal standards, all professionals in Santander work with the maximum of transparency and straightness, comprising in the performance of their duties the Bank's commitment with the economic, social and environmental progress of the communities within which it operates

---

**INTEGRATION IN A GLOBAL FINANCIAL GROUP**

---

Geographic diversification amongst mature and emergent markets guarantees the sustainability of Banco Santander.

Santander is the first Bank in the euro zone in terms of market capitalization. Founded in 1857, it manages funds amounting to €1.24 billion, 103 million customers, 13,927 branches – more than any other international bank – and 182,958 employees at end 2013. It is the primary financial Group in Spain and in Latin America, with relevant positions in the United Kingdom, Portugal, Germany, and Poland and in the North Eastern United States of America. Santander obtained a net result of 4,370 million euros in 2013, 90% greater than in the previous year.



## Corporate Social Responsibility Policy

Santander Totta develops a social responsibility policy, aligned with the policy of the Santander Group, focusing mainly on the provision of support to learning, 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 2013, the total investment in Portugal in activities directly related with corporate social responsibility amounted to approximately 5.5 million euros, a slight increase over the previous year.

## Universities

Santander Totta has currently 46 cooperation agreements with Higher Education institutions in Portugal. In 2013, the Bank continued to reinforce relationships with Portuguese Universities and Polytechnic institutions, consolidating existing partnerships and setting up new cooperation agreements.

Several initiatives were carried out throughout the years by awarding prizes for scientific and academic merit, scholarships and mobility, which allowed more than 200 students, lecturers and researchers to enjoy an experience in mobility.

- **Coimbra University recognized as an UNESCO World Heritage**

Santander Totta backed, since its inception, in 2004, the project for the candidacy of Coimbra University to achieve the status of World Heritage, through providing the project's financial needs. It equally sponsored the refurbishment of the University Tower, the Institutions prime symbol.

- **Distinction of mobility students in Porto University**



Santander Totta honoured the students that took part, this school year, in the Programme of International Mobility between Porto University (UP) and the Iberian-American Universities. A total of 90 Portuguese and foreign students participated in the Programme. Throughout the programme's 6 years, it was attended by more than 500 UP students.

- **Renewal of the Protocol with Porto University**



Santander Totta and Porto University (UP) renewed the partnership commenced in 2008. The most visible part of this partnership was the launching of the UP Card, which is used to identify the more than 30,000 members of the University, as well as providing the Bank's support for the improvement of its facilities, in the incentive to entrepreneurialism and young research activities and in the promotion of student mobility.

- **Renewal of the Protocol with Madeira University**

Madeira University (UMa) and Santander Totta subscribed the renewal of its cooperation agreement. This partnership, which began in 2002, has allowed and will continue to allow the carrying out of scientific, sports and academic projects organized by Madeira University, in the next four years, specifically the teaching and research activities, allowing UMa to channel funds to the Nanotechnology chair and for the setting up of a chair associated to Tourism.

- **Renewal of the Protocol with FCSH**



The Faculty of Social and Human Sciences and Santander Totta subscribed the renewal of their cooperation protocol, valid for five years. Through this renewal, the Bank will continue its support towards the Faculty's initiatives, such as the Santander Prize for the Internationalization of FSHS Scientific Production, the prizes for the best students or the prize for entrepreneurialism. Along with this, the functions associated to the university card will be expanded.

- **Renewal of the Protocol with the Naval College**



Banco Santander Totta renewed its partnership with the Naval College for the next three years. Through this partnership, the Bank strengthens its support for the Navy in general and, in particular, to the Naval College, especially in the technological support associated to the intelligent university card. This protocol also safeguards the Bank's support for the Sea Campaigns, a biannual Conference of Students for Students, whose objective is to energize the university community on sea related knowledge.

- **Agreement with ISMAI**



Santander Totta subscribed a partnership agreement with ISMAI (Maia Higher Institute). Following on this agreement the Bank will support ISMAI initiatives especially in aid of research and in organizing conferences, in international student mobility and initiatives in the field of sports events, as well as the issue of TUI for the whole body.

- **Santander Totta/ Nova University Scientific Merit Prize (6th Edition)**



The "Antibody engineering for the treatment of breast cancer" project, led by researcher Paula Videira, from the NOVA Faculty of Medical sciences, was the winner of the 6th Edition of the Santander Totta/NOVA University Scientific Merit Prize. With this research the team intends developing an innovative therapy, more effective and with less toxicity than the current therapeutic solutions for breast cancer.

- **Lisbon University/Santander Totta Prize (7th Edition)**

This prize has a pecuniary value of 25,000 euros and aims to distinguish and reward a Portuguese or foreign individuality, who has been working in Portugal for at least five years, whose work, with recognized scientific and/or cultural merit, has contributed notably towards the progress and greatness of science and/or culture and for the country's international projection. Neurological surgeon João Lobo Antunes was the party distinguished in this edition.

- **Coimbra University/Santander Totta Prize (10th Edition)**

The former ambassador João de Deus Ramos was the winner of the 2013 Coimbra University Prize, one of the more relevant prizes in the areas of science and culture, amounting to 25,000 euros.

- **Porto University Business Ideas Competition - iUP25k - (4th Edition)**

After its fourth edition, iUP25k is already one of the most important national awards amongst incentives to entrepreneurialism in the context of Higher Education; its aim is the innovation in scientific and technological projects and the promotion of entrepreneurialism and the setting up of new companies.

- **FCSH/NOVA - Santander Totta Entrepreneurialism Prize – Best Business Idea in 2013 (2nd Edition)**

The Entrepreneurialism Prize aims to encourage innovative entrepreneurialism and promote the concept of new business ideas in several fields with students and graduates of FCSH and of other organic units of NOVA University.

- **Santander Prizes for the Internationalization of FCSH Scientific Production**

- The Santander Prizes for the Internationalization of FCSH Scientific Production, distinguish lecturers, researchers and the FCSH/NOVA Research Unit that have most contributed to the international notoriety of the Faculty's scientific production, through the publication of articles indexed in the 2012 Web of Science. Fifteen researchers were distinguished in this edition.

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

These prizes were set up with the objective to stimulate the interest and the dedication of lecturers and researchers who, within the field of their educational activities, coordinate teaching and research and distinguish themselves in the latter activity by their scientific merit and by particularly relevant and innovative interventions.

- **Prizes for the best UBI students**

Santander Totta awarded 6 academic merit prizes to the best students of the different Faculties of Interior Beira University (UBI), who distinguished themselves most in the 2011/2012 school year.

This ceremony also included the inaugural act of UbiMedical, a new company incubating structure that intends supporting and aiding the development of companies set up within the scope of the university whose activities are connected to the health field.

- **Prize for Pedagogical Innovation in Long Range Teaching and Scholarships for the Porto Polytechnic Institute**

The objective of this prize, resulting from a partnership with the Porto Polytechnic Institute, is to contribute towards the development of long range teaching, at the same time as it brings to light projects that provide value for dynamic and innovative methods of teaching and learning, with recourse to new technologies, through differentiating online contents. Also defined within the scope of the prize was the award of 50 scholarships for integration in research.

- **Lisbon Nova University/Santander Totta Prize for Economic Journalism (7th edition)**



The Prize for Economic Journalism (PJE) is a Santander Totta initiative, in collaboration with Lisbon Nova University, and which aims to recognize the quality of journalistic creativity in 3 categories: Company and Business Management, Financial Markets and Entrepreneurial Sustainability.

- **10th Edition of the *PrimusInter Pares* Prize**



Throughout its 10 years of existence, the *Primus*, launched by Banco Santander Totta and by Expresso newspaper, is nowadays a prize for excellence, which has allowed distinguishing and rewarding the best economics, management and engineering students, providing them with access to a highly prestigious complementary

academic training, through attending MBA courses in a Business School nationally and internationally renowned.

- **Casa América Latina / Santander Totta Scientific Prize**



The objective of the Santander Totta/Casa da América Latina university prize is to reward merit and stimulate the training of Latin-American university students in Portugal, contributing towards a culture of strictness and excellence. The prize consists in the award of a pecuniary amount of 5,000 euros.

## Universia Portugal

The activity of the Universia Network, as framed in its 2011-2013 Master Plan, is guided by the following strategic features: collaboration between the university and the company, the dissemination of knowledge and the future of Higher Education.

- **2013/14 Santander Universities enrolment action**

Universia supported the Santander Totta Universities Division, in the enrolment campaign for the 2013/2014 school year, in the issue of university cards at national level, in the operational management of this action, which allowed the issue of 14,000 intelligent university cards (TUI).

- **2013 Seminars**

Three seminars were carried out in 2013, in Miami, organized by the Universia network, directed towards vice-chancellors, directors, managers and other officers in the Universities comprised in the network, and which were supported by several institutions of international prestige, with a total of 237 registrations from more than 13 countries.

- **Universia and Público Newspaper launch course in Mandarin**

Público Newspaper edited in May, in partnership with Universia, a course in Mandarin, composed by 10 modules with an approximate duration of 60 hours.

- **CRUP and Universia organize a seminar on *International Visibility of University Research***

Under the theme “International Visibility of University Research”, the seminar organized by the Council of Chancellors of Portuguese Universities (CRUP) and by Universia Portugal had as its main objective approaching the role of research in higher education institutions and its impact in institutional reputation.

- **Launching of sites in the “Trabalhando” (Working) Network**

2013 was the start-up year for the university sites of the “Trabalhando” Network in Portugal, with the launching of thirteen sites in nine institutions, the launching of the RFM (Broadcasting Station) employment site and the consolidation of the employment section of Público newspaper, both communication partners in this professional network.

- **4th Edition - U>RockUniversia**

The 4th edition of the U>Rock university bands competition took place from September to December and totalled 68 registered bands, representing several higher education institutions.

- **Universia aids the development of mobile applications for Universities**

Universia Portugal developed platform UNI>COM through a partnership with Mooestro – a North American company with proven experience in mobile technology and responsible for the mobile applications in Universities in the United States of America and in Chile.

With this partnership it was possible to develop mobile applications for Portuguese universities, as in the case of Nova School of Business and Economics (Nova SBE) and Portuguese Catholic University, who developed applications for their students.

## Social and Cultural Action

- 10th Edition of Bread for All



For the 10th consecutive year, Santander Totta associated with CAIS to carry out the Bread for All event, with the collaboration of approximately 350 Bank employees who volunteered for the cause. Throughout ten years, thousands of Bank employees volunteered in this initiative and helped Bread for All to become a great success.

Bread for All takes place once a year, in December, and aims to promote the feeling of sharing and of mutual help through the free distribution of bread and hot chocolate to all who visit the tent set up for the purpose in the city centres of Lisbon and Porto.

- Solidarity Boxes



During the "Week You Are Santander", that in 2013 was themed as "Most Nearer", and aimed to bring together the Bank and its employees, to strengthen the team spirit and relationship with customers and with all the neighbouring community, a solidarity initiative was carried out to aid needy families.

One of the days of the week was dedicated to solidarity. Food items were collected in all work sites, donated by employees, obtaining more than 1,600 boxes containing food, which were donated to several social solidarity institutions.

- V Race You Are Santander in Portugal



The 5th edition of the You Are Santander Corporate Race was held in Portugal, bringing together 57 participants from all the Group's geographic locations, who ran approximately 200 km between Lisbon and Porto. During the event, the participants dedicated one day to refurbish the games area of "Casa do Caminho", an institution that shelters children victims of abuse and rough usage.

Solidarity is one of the main features of this corporate event and reflects the global dimension and values defended by the Group.

- Support for "Casa do Caminho"



Santander Totta supported the Casa do Caminho Association, through a donation of funds collected from employees who took part in the solidarity initiative promoted during the You Are Santander Race and during the *Clean Desk* campaign, when more than 40 tonnes of paper were sent for recycling with the respective value reverting to the Association.

- BIPP 2013 Christmas Fair

Santander Totta was present with more than 50 employees who volunteered for the BIPP Christmas Fair – Data Bank from Fathers for Fathers, a two day event. BIPP is a Social Solidarity Private Institution, which aims towards the full inclusion of people with special needs.

- **Solidarity Corner**

The “Solidarity Corner” area was kept up in 2013, dedicated to the promotion and dissemination of social solidarity projects and initiatives of institutions such as “Acreditar” (To Believe), BIPP and UNICEF.

- **Santander Totta Mini Marathon**



Approximately 700 Santander Totta employees and their families took part in the 7th edition of the Porto Half and Mini Marathon, an event which the Bank has given support for the fourth consecutive year.

Santander Totta combined with the solidarity feature of the event, which annually supports a social type project, donating 1 euro for each registration in the Mini Marathon, totalling 6,105 euros. This year, the elected Association was GAS Porto, Group of Social Action in Porto, whose calling is the provision of help and human development in Portugal and in developing countries.

- **Campaign – “Help us multiply this Bread”**

In the 10th anniversary of Bread for All and the partnership with the CAIS Association, Santander Totta launched in its page in Facebook, a solidarity campaign in which for each new fan of its page it donated one loaf of bread to CAIS, at the unit value of 0.20€

- **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, youths, aged people and disadvantaged families, attending its Founder’s Meeting and appointing a representative on its Board of Directors.

- **Fundraising Seminar**

Santander Totta sponsored the participation of five third sector institutions in the 5th fundraising seminar organized by “Call to Action”. The main objective of the seminar was to enjoin the participating companies in sustainable management and adequately collect their resources.

- **Other supports**

Within the scope of its corporate social responsibility policy, the Bank closely aids the third sector by providing support, sponsorships and donations to different social solidarity institutions, associations and NGOs.

- **National Plan for Financial Literacy**

Participation in the National Plan for Financial Literacy, developed by CMVM (Securities Market Regulator), BdP (Bank of Portugal) and ISP (Insurance Market Regulator), whose aim is to contribute towards the people’s level of financial knowledge and to promote the adoption of adequate financial department.

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

Use of social networks to disseminate information with the objective to clarify economic and financial contents. Promotion of a heading, through videos produced with university students, in which are amusingly clarified several economic and financial concepts.

- **Current Meeting in the Future**

Santander Totta sponsored the 2nd Current Meeting in the Future, the topic of which was, *European Portugal. And Now What?* This two day event brought together more than 1,200 individuals with the presence of more than 100 speakers and discussion leaders. Its aim was to discuss the future of Portugal and of Europe.

- **Sintra Music Festival**

Santander Totta sponsored the 48th edition of the Sintra Festival which was held under the sign of youth. The future generations were celebrated by a number of young performers, amongst which several Portuguese and foreign highly talented pianists with successful international careers.

- **St. Jerónimo’s Order- Campaigns – 2013 Spain Exhibition**

Santander Totta sponsored the initiative named *St. Jerónimo’s Order: A history shared between Portugal and Spain*, which was held in the scope of the 2013 Spain Exhibition. The event included two concerts at the opening and closure of the campaigns, the first of which with ancient and baroque music by the “Segréis de Lisboa” and the second with renaissance music by the “Camerata Ibéria” group, performed in the presence of customers invited by the Bank.

- **Presence in the *Green Fest***

Santander Totta once again joined the Green Fest, the country's main event covering sustainability and which, in its 6th edition, was held with the topic "Shared Economy".

During this event the Bank organized the conference "Cooperative Networks", followed by a discussion panel, in which were present several individualities specialized in the areas covered. The Bank equally sponsored the "Networking Lounge", an area dedicated to enterprising companies, organizations and citizenship, in order that contacts amongst them may be established and to share knowledge simply and effectively.

- **Compensation of carbon emissions**

Acquisition of carbon credits for the benefit of a project in Honduras, Central America, which consists in the distribution of 200 efficient ovens over 200 rural communities, allowing a reduction in baking time and the lowering of the quantity of required biomass, thus reducing the pressure on the forests.

### Causing employees' awareness for sustainable practices and habits

- **Bank employees help reforest Sintra Hills**



Approximately 20 employees volunteered to take part in the planting of trees in the Sintra Hills, within the scope of the Pronatura project, in partnership with ANEFA – Associação Nacional de Empresas Florestais, Agrícolas e do Ambiente (National Association of Forestry, Agricultural and Environmental Companies) and with Cascais County Council.

This action is framed in the awareness campaign that Santander Totta launched at the end of 2011, named "Give the Plants a Pause". Via this campaign, the Bank intends to bring its employees' awareness towards the importance in the reduction of waste, disseminating amongst them the several "pauses" that we can all give to the planet, through the adoption of correct habits and practices.

- ***Clean Desk Campaign***

The Department of Technological and Operational Risk, jointly with the Department of Coordination of Human Resources, again developed, in 2013, a *Clean Desk Campaign*, with the objective to: (1) improve productivity and satisfaction by reducing *stress*; (2) protect confidential information on customers or the business; (3) reduce the risk of a safety accident; and (4) preserve the environment by reducing the quantity of paper used.

### Measures for energy efficiency and waste reduction

In 2013, Santander Totta continued developing efforts in the improvement of infrastructure efficiency and development of devices for waste reduction, which implied a total investment of 1.7 million euros.

#### Branches:

- Installation of presence detectors, in meeting rooms, offices, sanitary facilities, *back-offices*, records archives and store rooms, in order to disconnect lighting when locations are not in use (200 branches);
- Replacement of obsolete air conditioning systems with more efficient equipment (9 branches);
- Adjustment of the *set point* of HVAC equipment ( 50 branches);
- Adjustment of lighting in line with the index of natural light (10 branches);
- Change of illuminated indicators with *LED* systems (150 branches).

#### Central office buildings:

- Installation of a *free cooling* system to operate with external temperatures below 20°C disconnecting the air conditioning system;
- Automation of lighting controls, installation of luminaries with flow adjustment in order to take advantage of natural light;
- Adjustment of the HVAC *set point*.

## International Economy

Economic growth in 2013 kept to moderate terms, in line with 2012, but with important differences in dynamics, whether between regions or between periods: growth showed a more favourable trend in the developed economies, relative to the emerging markets, particularly in the second half year.

<b>World Economic Growth</b>			
	2011	2012	2013E
<b>World</b>	<b>3,9</b>	<b>3,1</b>	<b>3,0</b>
<b>Advanced Economies</b>	<b>1,7</b>	<b>1,4</b>	<b>1,3</b>
USA	1,8	2,8	1,9
Euro Area	1,5	-0,7	-0,4
United Kingdom	1,1	0,3	1,7
Japan	-0,6	1,4	1,7
<b>Developing Countries</b>	<b>6,2</b>	<b>4,9</b>	<b>4,7</b>
Africa	5,5	4,8	5,1
Asia	7,8	6,4	6,5
China	9,3	7,7	7,7
Central and Eastern Europe	5,4	1,4	2,5
Middle East	3,9	4,1	2,4
Latin America	4,6	3,0	2,6
Brazil	2,7	1,0	2,3

Source: IMF (January 2014)

In the first half of the year, business continued to be characterized by a relative weakness, in line with the trends started at end 2012, with the successive shock waves of the sovereign debt crisis in the euro zone.

As a result of this background, perspectives in mid-year, whether for 2013 or for 2014, were less favourable, and due to this the IMF reviewed growth estimates to a lower level for both periods. This review would become generalized, thus not limited to the euro zone, but spreading to the emerging markets.

Weakness in demand in the developed markets affected their main suppliers, such as China, where the authorities debated the new growth objective, below the "reference" figure of approximately 8%. At year end, emerging markets were affected by the debate and the later start in the moderation of quantitative stimuli by the US Federal Reserve, which resulted in a massive outflow of funds from these markets, causing exchange rate uneasiness and necessitating intervention by the authorities, including increases in the reference interest rates. South Africa, Turkey and even Brazil, already in 2014, adopted several measures, with heavy increases in

reference interest rates, in order to delay exchange rate depreciation that was being felt by their currencies.

The USA performed well, in terms of economic growth. In spite of some volatility, economy has grown, with the recovery in domestic demand compensating the negative effects of the automatic cuts in public expenditure. Private consumption clearly benefited from the lowering in the unemployment rate to the lowest levels since 2008 and the increase in value of the equity markets to historical maximums. At year end, the deadlock in Congress as to the budgetary strategy to be followed and the increase in the debt limit resulted in the temporary closedown of the Federal Government, which penalized year end growth, but which even then remained strong.

In the Summer, as a result of economic improvement, the Federal Reserve announced it was considering the possibility to put a stop to its non conventional expansionist monetary policy. Investors interpreted these declarations as meaning the almost immediate withdrawal of the excess liquidity injected into the economy, reacting in conformity (10 year yields evidenced a very strong increase), leading those responsible for the definition of monetary policy to issue several declarations aiming to assuage fears and indicating that liquidity would remain.

At year end, the Federal reserve started to lower the monthly volume of acquisitions of public debt securities and securitizations ("tapering"), to 75 billion dollars per month, as compared with the previous 85 billion, and again lowered those in January 2014 to 65 billion. In compensation, the monetary authority assumed the express commitment to maintain the reference interest rates at the lowest levels for a longer period of time, even should economic conditions show a quicker recovery, and particularly if unemployment were reduced below 6%.

In the United Kingdom, economic estimates were successively reviewed to higher levels, as a result of the recovery in services, but also from construction and real estate activities. In spite of this, the Bank of England kept to its expansionist policy, allowing an eventual change in reference interest rates to depend upon a more pronounced improvement in economic activity.

In Japan, the Central Bank launched an aggressive programme of "quantitative easing", in which it proposes to double the monetary base in the following two years, in order to increase inflation to 2%. In December 2013, inflation already stood at 1.6%, as a result of an increase in energy and transport prices. The underlying inflation, which excludes food and energy stood at 0.7%, thus



returning to the maximum rates recorded in a period of approximately 5 years.

The deterioration of economic confidence was further worsened by another two highly relevant factors. In Italy, the general elections held in February resulted in a deadlock, without a clear majority in Parliament, which rendered difficult in the process of setting up a new government (it took more than one month). In spite of the agreement then reached, parliamentary balance still remains very delicate.

In Cyprus, the banking sector required a recovery plan, after the negative impacts, in terms of results and equity, of its exposure to Greek assets and financial system. The country's largest banks not only had a strong physical presence in Greece, but also had high volumes of Greek public debt in their portfolios, thus suffering massive losses with the restructuring of the Greek debt occurred in the previous year. The amount of support required (approximately 17 billion euros) is equivalent to approximately 100% of the Cypriot GDP, which would lead to an unsustainable situation in the public accounts. In order to minimize the external aid plan, it was decided that Cypriot depositors should incur losses, thus shattering an inviolate taboo since the beginning of the crisis: the defence of the depositors.

In a first version, all depositors, in all the banks, would be taxed, and this amount (up to 7 billion euros) used for the recapitalization of the sector. As compensation, depositors would receive shares in the bank. The shock waves and the risk of infection led to a review of the plan. Bank Laiki, the second largest in the country, was closed down, with deposits up to 100,000 euros transferred to the Bank of Cyprus (the country's largest), while higher value deposits were transferred to a "bad bank", and will be recovered with the recovery of the more problematic assets, equally transferred to that institution.

The Bank of Cyprus was intervened: shareholders and debt holders viewed their equity virtually eliminated against losses, whilst depositors with balances in excess of 100,000 euros suffered a forced conversion of their deposits in the bank's shares, to an amount equivalent to 47.5% of the deposit. As such, the bank complies with the requirement of a Tier I capital core ratio at a minimum of 9%.

As a result of this economic evolution, the European Central Bank lowered its reference interest rates, to an historical minimum of 0.5% and, already in July, pronouncedly changed its communication strategy: it abandoned its traditional speech of non pre-commitment, but preferred to adopt a clear indication that interest rates will remain at historical minimums (the current ones or even lower levels) during a long period of time, until

economic recovery achieves sustainability. The assessment of this sustainability will be carried out with recourse to price, activity and financial conditions indicators in the monetary and credit markets.

A further decrease to 0.25% was adopted in November, due to existing estimates that inflation was decelerating, and would remain far below the ECB reference (from "close to, but below 2%"), in spite of the more favourable economic data, which the ECB considered would only validate its central scenario. At year end the unexpected deceleration of inflation, which fell below 1%, commenced feeding expectations that the ECB could react, with either a new decrease in the reference interest rate or with the adoption of non conventional measures.

	GDP	Inflation
<b>Euro Area</b>	<b>-0,4</b>	<b>1,3</b>
Germany	0,5	1,6
France	0,2	1,0
Spain	-1,2	1,5
Italy	-1,8	1,3

Source: IMF (January 2014)

During the whole of the second half year, European economic data signalled recovery, stronger than initially estimated, with the PMI indicator of industrial activity standing out by showing a progression to its strongest level of the last two years, and which allowed an improvement in economic perspectives for 2014, as reflected in a review to increased growth estimates..

In the so-called "peripheral" countries, economic conditions also improved in almost general terms during 2013, from the economic and financial points of view.

Spain and Ireland concluded their adjustment programmes, without requiring supplementary aid. In Spain, the restructuring of the banking sector was pursued with a lower use of public funds as compared to the amount initially made available.

In Ireland, the adjustment programme was concluded in December, with pre-financing for 2014 already made available which, jointly with the fact that the sovereign rating has been set, by all the risk notation agencies, at "investment grade"<sup>1</sup>, allowed it to dispense with a precautionary programme.

In Greece, however, there are continued risks, in spite of the economic perspectives showing a somewhat lower adversity. At the end of the Summer season, the tone of the discussions increased with respect to the need for a

<sup>1</sup> Moody's reviewed Ireland's rating to Baa3, on 17 January 2014.

third programme, since the current programme ends in 2014. Already in this latter year, market feelings indicate that a review could take place of the conditions applicable to international loans, with extended maturities.

The European Union continues to take measures in the advance, even if at a slower pace, in the setting up of a Banking Union<sup>1</sup>. As a first step, the ECB will take on, at the end of 2014, the responsibility for banking supervision, as directly responsible for the following up of more than one hundred of the largest European banks, the remainder becoming subject to the joint supervision of the ECB and the national central banks.

At year end, the Council of Europe arrived at a consensus concerning the Single Resolution Mechanism (SRM) and the common Deposit Guarantee Scheme (DGS). SRM will be fully in force within 10 years, and in the transitional period the banks should contribute towards the setting up of a resolution fund, which will progressively take on the costs of restructuring/resolution of the institutions. In an initial stage, national authorities will be responsible for such costs. The decision as to the future of the institutions will be taken by an inter-governmental committee, within a complex operational structure. The DGS will equally dispose of a national base, but there are clear rules for the recapitalization of the respective funds, which will depend from the risk profile of each institution.

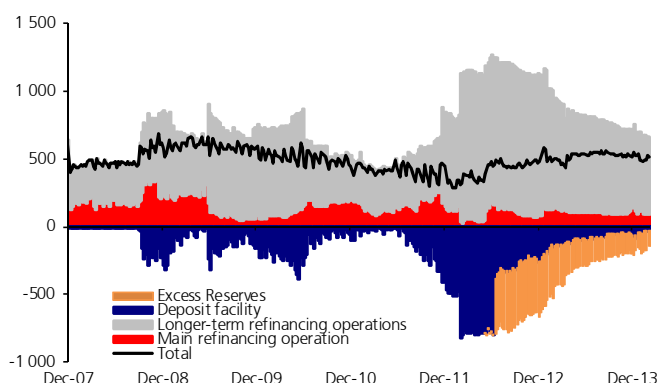
During the year, European banks commenced the process of anticipated repayment of the very long term loans (LTROs) they had obtained from the ECB in 2011 and 2012.

Total liquidity assigned to the economy is maintained at maximum levels, but excess liquidity which was kept in excess reserves or applied in deposit facilities was markedly reduced, which influenced the dynamics of short term interest rates.

The Eonia interest rate, that reflects the average rate of overnight operations carried out in the European interbank market, increased from historical minimums, of approximately 0.07%, to more than 0.3% at year end. After the lowering of the refinancing rate by the ECB, the Euribor 3 month rate, which had touched a minimum of 0.19%, increased sustainedly, nearing 0.3%. Expectations that the ECB had closed the monetary cycle contributed towards this development.

<sup>1</sup> The Banking Union presumes the breach of the relationship between banking risk and sovereign risk, through setting up of three simultaneous mechanisms: (i) single supervision mechanism, attributed to ECB; (ii) single mechanism of banking resolution; and (iii) common deposit guarantee fund.

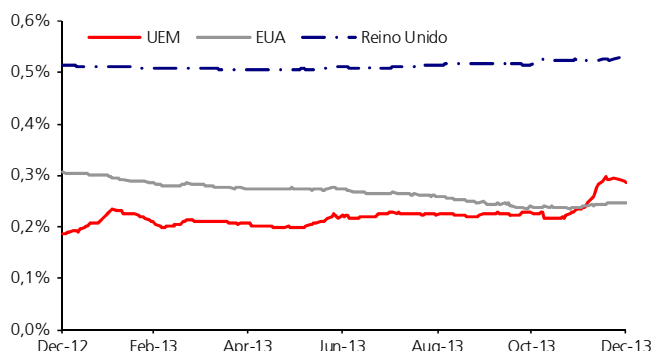
### ECB Liquidity Provision (€bn)



Source: ECB

Interest rates in the USA dropped gradually, to minimums, as a result of the explicit compromise of the Federal Reserve to maintain reference rates at minimum levels for a prolonged length of time. In the United Kingdom, however, the Bank of England did not change the reference interest rates neither the total amount of public debt holdings, and as such 3 month interest rates were kept stable throughout the year.

### 3-Months Interest Rates



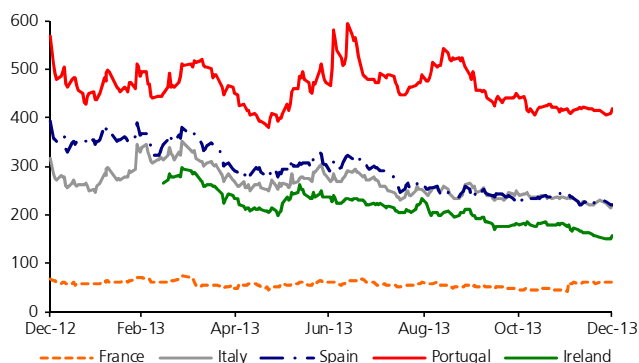
Source: Bloomberg

Long term interest rates in the euro zone, decreased sustainedly during 2013, thus fully comprising the commitment announced by the President of the ECB that the institution would carry out whatever was required within its mandate to defend the euro. ECB would announce the major features of its Outright Monetary Transactions (OMT), but without entering into details.

Budgetary execution, in line with the expected, in the main countries, and the signals that the European economy was coming out of recession, provided a relevant contribution for the decrease in yields. Ireland, in spite of its high budgetary targets (an estimated deficit of 7.5% of GDP in 2013), continued benefiting from much lower interest rates than Spain or Italy, and, at year end, it

carried out a 10 year debt issue that allowed it to announce that it would quit the adjustment programme without requiring a precautionary programme or any other type of support from European institutions.

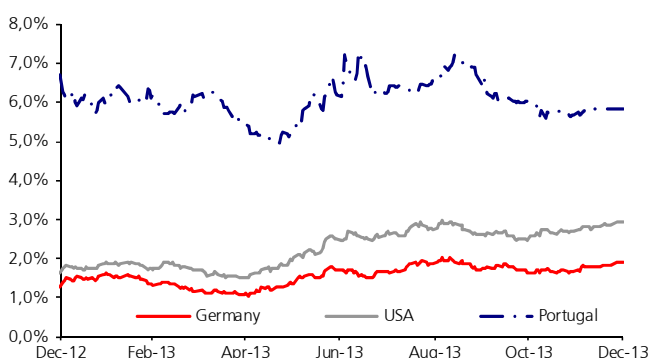
### 10 Year Bond Yield Spreads (bp)



Source: Bloomberg

Portugal accompanied the general trend until May, when the resignation of the Minister of Finance and subsequent political crisis resulted in an increase of long term interest rates: the 10 year yields, which had fallen to approximately 5%, would return to levels in excess of 7%, and only returned to the decreasing trend at year end, with the improved economic data, which aided budgetary execution, and with the submission of the State Budget for 2014. Already in 2014, the 10 year yield fell to 4%, thus returning to lower levels than those existing before the period prior to the request for economic and financial aid, in 2011.

### 10 Year Bond Yields



Source: Bloomberg

The yields in the main developed markets – USA and Germany – increased sustainably as from the second quarter of 2013. In the USA, the better economic data, particularly the decrease in the unemployment rate, led the Federal Reserve to publicly announce that it was assessing the need to maintain the quantitative stimuli. The too pronounced increase in 10 year yields, above 3%

(an increase in excess of 100bp as compared to the year's minimums) led to a spot step back in the announcement, which would however be retrieved at the end of the Summer season.

German yields increased, following the trend in the USA, and also due to the dispelling of the main extreme risks in the euro zone (in 2013, the perceived risk of a possible break up of the monetary union was significantly reduced).

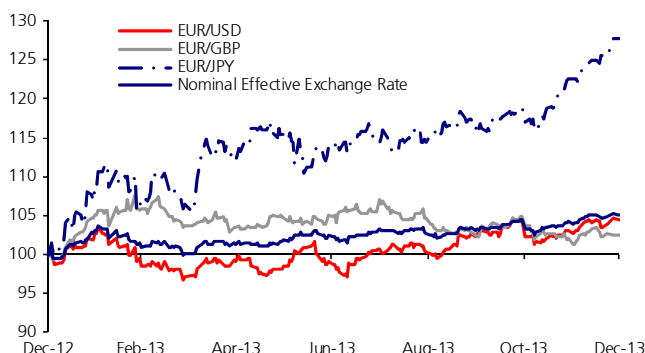
Volatility continued high in the exchange rate market, with the main currencies reflecting expectations as to the development of the monetary policy, in the case of the euro also associated to the perception of risk in the viability of the EMU. Even so, most currencies (excepting the yen) fluctuated in an interval of +/- 5% relative to the euro, as compared to their value at the beginning of the year.

The euro recovered from the 2012 minimum, when it was quoted at 1.20 dollars, and fluctuated between 1.28 and 1.38 dollars. The minimum values occurred at the beginning of Summer, when the Federal Reserve started the discussion on the reduction of stimuli, but at year end, on the eve of the lowering of rates by the ECB, it reached the maximum values.

The euro, in terms of effective exchange rate (considering the currencies of the twelve main trading partners of the euro zone), appreciated in line with the dynamics of the remaining currencies.

The yen depreciated approximately 28% comparatively with the euro and almost 25% to the dollar, as the result of the quantitative measures adopted by the Central Bank of Japan.

### Main Exchange Rates (Dec-2012 = 100)

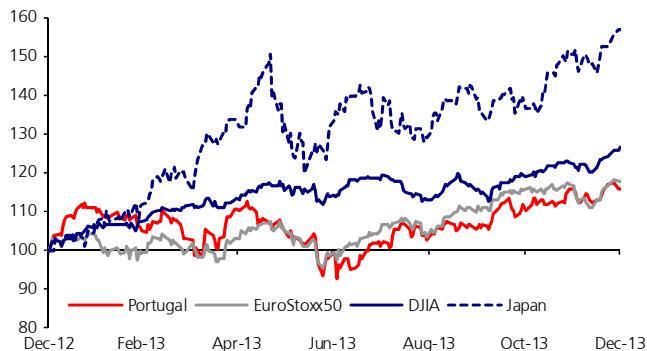


Source: Bloomberg

The global equity markets were characterized by a general trend of price increases, which would be more pronounced in the second half year. The perspectives that

the reference interest rates would keep to the minimums, in spite of the progressive signs of recovery in economic activity, together with the better earnings of the main quoted corporations, contributed towards this dynamism, which took the main indices to 5 year maximums (that is, to the maximums seen before the worsening of the financial crisis, with the bankruptcy of Lehman Bros, in September 2008).

### Equity Markets (Dec-2012 = 100)



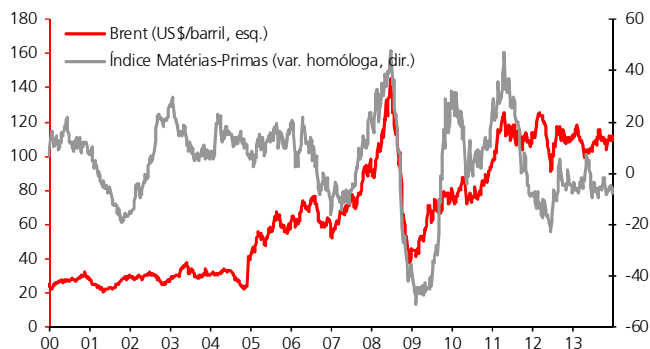
Source: Bloomberg

Portugal was no exception, with the PSI-20 index recording a 16% valuation, in a large measure supported by the banking sector. The completion of the recapitalization process of the main banks (with the recapitalization of Banif), as well as the agreements reached between the EU Competition DG and the banks that obtained public funds was a key factor for the recovery of the prices quoted, in spite of the earnings, in 2013, which were also affected by the decrease in net interest income and by the huge impairment provisions.

Commodities were in general characterized by relative price stability, in 2013, after the major volatility observed in previous years. Oil kept in the range of 100-115 dollars to which it had converged already in 2012, in spite of some spot highs nearing 120 dollars. Demand estimates remained relatively weak, since the activity improvement in the developed economies was not sufficient to compensate the deceleration of the emerging economies.

The remaining commodities showed a depreciating trend, which was more pronounced in the case of cereals, particularly in corn and wheat, result of a better harvest season. The prices of basic metals also fell, in a context of deceleration in the emerging markets.

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



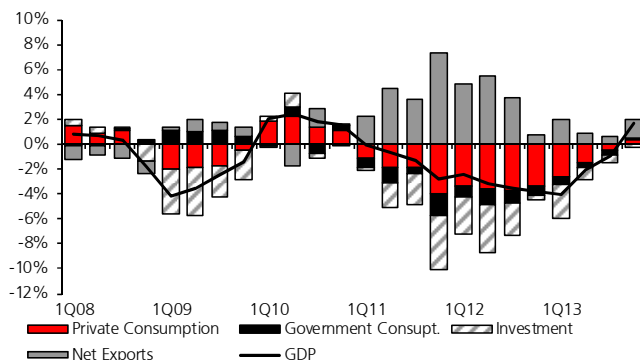
Source: Bloomberg

Gold prices continued a downward trend, falling to 2010 minimums, at approximately 1,200 dollars per oz. The progressive reduction of aversion to risk, which was more pronounced in the second half year, was largely responsible for these moves.

### Portuguese Economy

The dynamics of the Portuguese economy were no different from the global trend seen in the euro zone, with a moderation in the rate of contraction, in the first quarter of the year (when GDP fell successively by 0.4%, after a 1.9% contraction in the last quarter of 2012), which would give rise to immediate recovery in the second quarter and which would be kept up until year end. In the last quarter GDP already increased, in homologous terms, recording a 1.7% growth.

### Contributions to GDP Growth (YoY)



Source: INE

As a result, the contraction in economic activity in 2013 was less pronounced than estimated, -1.4% compared to -2.3%, thus being the third consecutive year of decline in economic activity, which led to the lowest level of annual wealth creation since 2000.

The improvement in activity resulted from the coordination of the progressive stability of domestic demand, particularly private consumption, but equally of investment, with the continuing dynamism shown by exports.

### Macroeconomic Data

	2011	2012	2013
<b>GDP</b>	<b>-1,3</b>	<b>-3,2</b>	<b>-1,4</b>
Private Consumption	-3,3	-5,3	-1,7
Public Consumption	-5,0	-4,7	-1,7
Investment	-11,1	-13,4	-7,3
Exports	6,9	3,2	6,1
Imports	-5,3	-6,6	2,8
Inflation (average)	3,7	2,8	0,3
Unemployment	12,7	15,7	16,3
Fiscal Balance (% GDP)	-4,3	-6,4	-4,9
Public Debt (% GDP)	108,2	124,1	129,0
Current Account Balance (% GDP)	-5,8	0,3	2,6

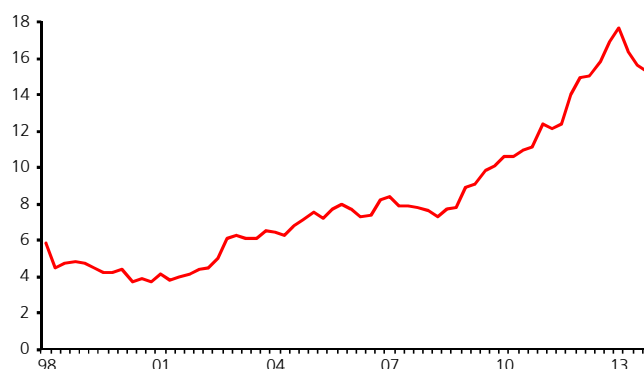
Source: INE, Banco de Portugal, Ministério das Finanças, Santander Totta, FMI

Regarding private consumption, the annual contraction resulted to a large extent from the dynamics shown in the last quarter of 2012 and the first quarter of 2013. The discussion, already in 2012, surrounding the increase of the Single Social Tax for workers, and the later increase in taxation, to compensate the refunding of subsidies to public servants and pensioners, resulted in a deep lowering of expenditure by households (a cumulative of 2.6% in that period).

From the second quarter of the year, when families became adjusted to the new income levels (because by then the real impact of changes in Income Tax became clear), expenditure started to gradually recover, with this effect becoming more visible in the third quarter of the year.

Particularly important for the improvement in household expenditure, however, was the dynamism shown by the labour market. After an historical maximum of 17.4% in the rate of unemployment, in the first quarter, this was followed by a gradual but sustained decrease, until year end. In the fourth quarter of 2013 the unemployment rate stood at 15.3%, which even showed a decrease in homologous terms. Considering the full year, unemployment rate stood at 16.3%, and thus lower than the most adverse projections at the beginning of the year.

### Unemployment Rate



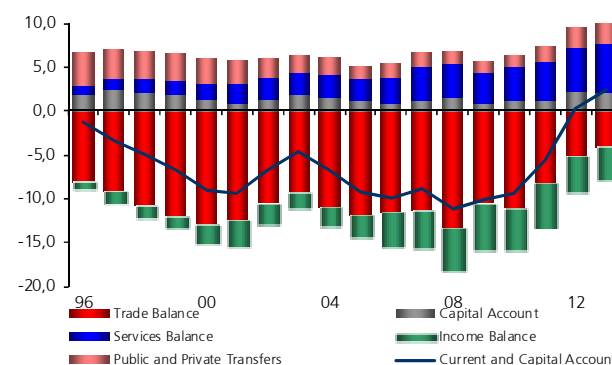
Source: INE

In spite of the reduction in working population in 2013, which, in part, can be explained by the increase in emigration, there was an effective creation of employment during the three last quarters of the year, which would become better distributed amongst sectors at services level. Compared to 4Q2012, 30,000 jobs were created, a number that increases to 128,000 when compared to 1Q2013. Unemployment was thus reduced by 100,000 individuals.

The improvement in the conditions of the labour market was also reflected in the assessment of the unemployment/employment perspectives in the surveys covering consumer and employer confidence.

Investment, in spite of the cumulative decline in the year, commenced recovering in the second quarter of 2013, even if in fact aided by the acquisition of aeronautical material. At year end, investment will have continued to expand, supported by the renewal of the heavy transport fleets and by the inception of projects connected with the fiscal incentives to investment.

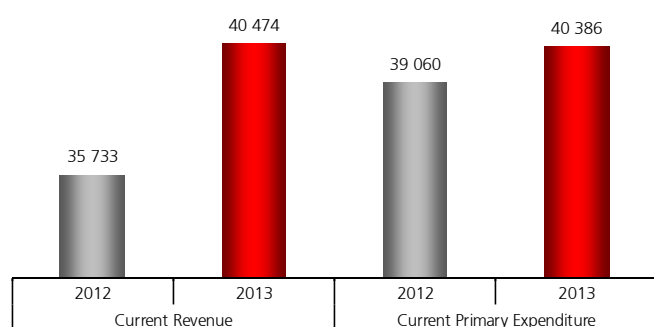
### Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

Net external demand continued to provide a relevant contribution to the increase in GDP. In 2013, exports of goods and services increased by 5.7%, in nominal terms, whilst imports grew 1.1%. As a result, the surplus expanded to 2.5 billion euros (which compares with a total surplus of 300 million in 2012). Recovery of exports was generalized, including sales to the euro zone (exports to Spain, the main trading partner, grew by 7.4% in 2013). Excluding fuel, exports of goods grew by 2.1% in nominal terms, in 2013.

### Current Revenue and Primary Expenditure (€mn)



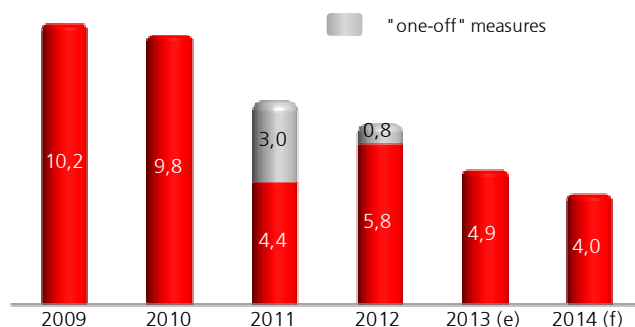
Source: Ministério das Finanças

Budgetary execution, on a cash flow basis, evolved positively, with a recovery of fiscal revenue, particularly with respect to Personal Income Tax (reflecting the significant increase in tax charges implemented in 2013, with a reduction in the number of tax brackets and reintroduction of the 3.5% extraordinary surtax). At year end, the homologous growth in VAT revenues commenced being visible, in line with the improvement in domestic demand. Fiscal revenue benefited, equally, from the regime of extraordinary regularization of debts to the Tax Authority and to Social Security which allowed and additional revenue of 1.2 billion euros.

In the full year, the Public Administration deficit, within the scope of the Programme of Economic and Financial Adjustment (PEFA), amounted to 7.2 billion euros, lower than the established limit (8.9 billion).

In national accounting, according to the Government, the deficit stood at 4.9% of GDP, lower than the initial estimates. However, when corrected by spot factors (debt regularization, in the case of revenue, and the recapitalization of Banif, in the case of expenditure), the deficit will have been set at 5.2% of GDP.

### Fiscal Deficit (% GDP)



Source: Ministério das Finanças

In July, the replacement of Vitor Gaspar by Maria Luis Albuquerque as Minister of Finance generated a political crisis, with divergence of opinions in the PSD\_CDS/PP coalition, which would be set to rights at the end of the month, with changes in the Government, which brought greater responsibilities for the coalition partner CDS in the coordination of economic policies and relations with the Troika. As a result of the three week deadlock, the eighth assessment of the PEFA was postponed to the end of August, and carried out jointly with the 9th assessment.

As a result, the perception of political risk deteriorated, leading the risk notation agencies to review their rating perspectives for the Republic. At year end, upon the completion of the 10th assessment, and after the submission of the State Budget for 2014, the risk perception started to improve, with a pronounced decrease in the credit spreads, which allowed the Republic to resume financing in the global financial markets, which had been in suspense since the beginning of the year.

In January, the Treasury carried out a 5 year debt syndicated issue, amounting to 2.5 billion euros, the October 2017 Treasury Bonds, with the demand, however, still focused on investors with shorter term investment profiles.

In May, a new issue was carried out, this time in 10 year bonds, with a new benchmark (February 2024 Treasury Bonds), with a 5.65% coupon. The Treasury took advantage of yields decreasing to less than 6%, in a context of strong demand from non resident structural investors (including pension funds and insurance companies).

In December, a debt exchange operation was carried out, amounting to 6.6 billion euros, in which part of the Treasury Bonds maturing in 2014 and 2015 were replaced by Treasury Bonds maturing in 2017 and 2018, thus

easing a part of the pressure on financing needs after the end of the adjustment programme.

Already in 2014, the Treasury carried out two issues, at 5 and 10 years, amounting to a total of 6.25 billion euros, thus covering the financing needs for the current year (the remainder is covered by funds from the international institutions). Demand for both issues was very significant (11.2 and 9.8 billion euros respectively), with a geographic dispersal of investors, but above all with the entry of "real money", particularly from long term investors (banks, insurance companies).

Throughout the whole year, the Republic kept its presence in the short term debt market, with the issue of Treasury Bills. Demand has continued heavy and interest rates decreasing systematically. In the July auction, carried out still in a period of great political uncertainty, interest rates increased, but only marginally, to become corrected by year end.

The banking sector, still in the first half of 2013, largely concluded the adjustment process that was imposed on it within the scope of the programme of economic and financial adjustment. The reduction of the credit/deposits ratio occurred at the end of 2012 (when it already stood at 127.5%) led to its being no longer mandatory, although banks should keep in the neighbourhood of such levels. In September, the credit/deposits ratio of the system stood at 120.8%.

This allowed flexibility in the policy of capturing resources which, in context of pressure on net interest income, was reflected in a marginal decrease in the interest rates practiced. Even so, the capturing of deposits continued, with an approximate 2% growth in private deposits.

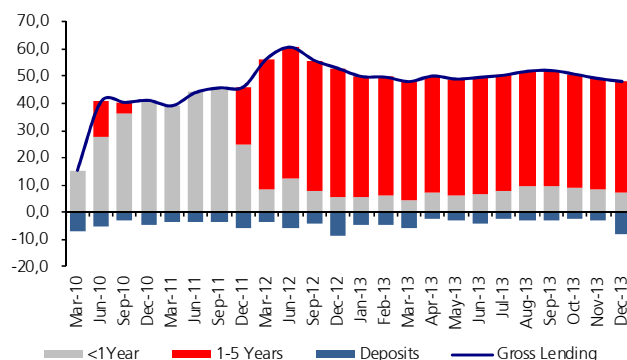
The most recent survey on the conditions of the credit markets shows a moderation in the conditions for credit granting by the banking sector, whilst companies commence showing cautious signs in the demand for credit.

However, the credit stock continues decreasing, with an approximate 4% fall in credit to private customers in 2013, particularly in credit granted to companies (a decrease of almost 6%). The non financial sector continues deleveraging and the several processes of analysis of credit portfolios carried out by the Bank of Portugal are also contributing for the reduction in credit stock.

The recapitalization of Banif, with recourse to public funds, also completed the process started in 2012. At the end of the first half year, all the banks had Core Tier I capital ratios above the demanded 10%, whilst BCP, BPI and CGD (the larger national banks) concluded the negotiations with the EU DG Competition to establish the

necessary corrective measures as a counterpart of the access to the public recapitalization fund.

### Funding at the ECB (€bn)



Source: ECB

Finance obtained by the Portuguese financial system with the ECB amounted to 48 billion euros, at year end, in gross terms. During the year, and similarly to their European counterparts, the national banks started the repayment of the longer term financial arrangements (LTROs). Adjusted with the deposits with the ECB the net finance amounted to 39.8 billion, a reduction as compared to the 44.4 billion at the end of 2012.

### Main risks and uncertainties for 2014

The risks and uncertainties that could affect the activity in 2014 are, largely, the same that conditioned the banking and economic activity in the latter years.

Internationally, the risk factors are related with the sustainability of the economic recovery in Europe and, particularly, in the euro zone. In spite of the stronger economic data in the last quarters, the economic recovery is still in its initial stages, supported by external demand, and with differing cycles between "core" and "peripheral" countries. Globally there are risks associated to the recent increased instability in the emerging markets, with deceleration visible in the growth of several economies. Should the uncertainty remain for a prolonged period of time, it could affect the rising recovery in the European economy. The authorities also have a more limited number of instruments to respond to the materialization of possible risks, due to the still high budgetary deficits and public debt ratios, and to the low levels in reference interest rates.

The Asset Quality Review (AQR) to be developed by the ECB in 2014 may reveal itself as an additional risk factor, due to the uncertainty it will have on the sector's dynamics, at European level.

Domestically, a factor of uncertainty is linked to the completion of the Programme of Economic and Financial Adjustment, in May, since a decision does not yet exist as to the way out without explicit aids, such as happened in Ireland, or if with some sort of precautionary programme. The best economic dynamics, and the fact that the Republic has already covered its financing needs for 2014, reduces some of the risks which were still latent a few months ago.

From the point of view of budgetary execution, in 2014, one of the important measures for the reduction of expenditure, which is the deeper reduction in the salaries of public servants, is currently being assessed by the Constitutional Court, which may, should it be considered unconstitutional, demand additional measures of consolidation, which may affect the confidence of the economic agents and/or the risk perception over the Portuguese economy, with effects on the ongoing economic recovery. After the Summer, the proposal for the 2015 State Budget is a relevant factor, with the materialization of the measures necessary to reduce the budget deficit to 2.5% of GDP.

As regards the financial sector, risks are now less linked to the economic cycle and to the quality of the credit portfolio, after the several asset assessment programmes developed by the regulator. However, here as well, the AQR will be a factor of uncertainty, since some of the assessment criteria are not yet known. The great challenges are the sustained return to the global financial markets and the regaining of profitability.



## Commercial Banking

### Private and Business

2013 was earmarked by great uncertainty caused by the economic and financial crisis. However, in the second half of the year there were signs of national and international recovery.

The soundness of the Santander Totta accounts allowed continuing the sustained credit granting policies both to private customers and to the Business/SMEs segment.

With reference to resources, the pursued policy comprised the placing of products with controlled margins, with an adequate management between prices and volumes for the capturing of new resources, with preference towards the diversification of customers' assets. Twelve structured deposits with guaranteed capital and minimum yields were launched, amounting to a total of 1,019 million euros, and, in foreign currency (USD) 98 million euros were placed in 8 issues, 327 million euros in capitalization insurance, in a total of 9 issues and 2 Special Investment Funds with 109 million euros.

In 2013, the placing of customer protection insurance, specifically in health, life and salary protection insurance exceeded 107,000 policies.

Throughout the year an important focus was kept on the capture of new domiciled salary accounts and on the control of all risk headings, aiming towards the growth in transactionality.

Regarding personal credit, the internal "Crédito Outono" campaign was launched, this being pursued throughout 2013, and resulting in a production of 518.5 million euros. The "Crédito Pessoal Ativação", a credit line with a promotional rate during the 1st year, was equally an essential campaign to capture credit.

To retain current customers with personal credit, the bank continued making available the "Crédito Mais", a line of credit that allows renewal of ongoing loans and enables a reduction of the instalment and/or increase in the current loan without increasing the monthly payments. Two new products were launched at the end of the year: the "Crédito Certo", a line of credit that allows adjusting the value of the credit instalment to the monthly amount that the customer indicates as available for its payment; and the "Crédito Flexível", a line of credit that allows the customer to benefit from lower instalments during the first months of the loan, a period during which only the interest is payable.

The policy of the implementation of new solutions for debt regularization or renegotiation was consolidated, adapting them to each customer's compliance capacity, supporting families in line with their availability. In spite of the difficult environment, it was possible to comply with the targets, as regards the control of non performing loans.

The bank also launched, throughout the year, campaigns and solutions directed specifically towards other customer segments, such as: i) Juniors/Youths – "Conta a Crescer" and "Já KáKonta" campaigns; ii) University members – specific packs for the Erasmus programme iii) Residents Abroad – energizing the areas of transfers and capturing of resources, through the provision of attractive conditions in different currencies.

Credit cards were also largely focused on through the internal campaign, launched in the second quarter, named "Crédito Verão", with the objective of placing credit cards with new customers. A specific offer was set up with attractive conditions for customers. The number of new credit card customers, in the year, reached 58,610 new customers that from then on preferred the Bank in their main transactions.

With respect to acceptance, Santander Totta's position as preferred Bank was strengthened with the larger sized businesses, namely the main distribution channels, in food, clothing, transports and fuel distributors, which resulted in a 17.8% market share.

Commercial policy in the Business segment comprised the placing of an important focus on the granting of credit to new customers, in the binding of current customers and in the increase in transactionality.

The internal campaign named "Crédito Primavera", intended towards the Business/SMEs segment, commenced in the 1st quarter, resulted in an 19% annual growth in credit production. Outstanding is the 33% growth in the amount contracted, in the Business/SMEs segment, in the SME Growth line, when compared with the same period in 2012.

### Private Banking and Premium

In the *Premium* segment, 2013 was shown to be an important year for the increase in market share in this customer segment, and the main business objectives were achieved. The campaigns launched to capture customers in high income brackets as well as the work developed in profiting from the agreements reached with corporate

customers with a high income potential, provided a very relevant contribution.

In parallel, the investment carried out in following up the "Customer Experience" in this segment, has allowed the Bank to submit the most adequate solutions for increasing satisfaction with the requirements detected.

In the Private Banking area, and notwithstanding the continuous demand for assets with controlled risk and high liquidity, we witnessed, mainly in the last quarter of the year, an increase in the customers' propensity for riskier financial assets, which, in turn, provide a greater profitability potential.

As such, the Santander Totta *Private* made available a new consultancy tool, used globally in Santander, which allows financial counselling for products and services in line with the profile and individual objectives of each customer, guaranteeing under consultancy that the chosen products are in accordance with the customer's level of experience and financial knowledge. This new methodology, jointly with the continuous training of the Private managers, allowed an increase in the profitability of the portfolios, growth in terms of customer numbers and expanding the portfolio of products and services that Santander Totta makes available.

For the third consecutive year, Santander Totta was attributed the Euromoney prize in the "Best Private Banking in Portugal" category.

## Companies

Resulting from its soundness, liquidity and financial capacity, Santander Totta has been performing a crucial role in the support to the Portuguese entrepreneurial fabric, contributing towards the recovery of the economy, specifically through dynamizing the development of credit granting and in increasing international trade by strongly supporting the exporting companies, the internationalized companies and those that are in the process of becoming internationalized.

Strong pressure was felt on the price, in 2013, which was intensified in the last quarter of the year, due to the sector's contest for the company market, with the Company Network keeping up a strategy based on the balanced management between the volumes of the credit portfolio and resources, guaranteeing the sustained growth of the profitability of the commercial network.

In the lines SME Invest/Growth, Santander Totta maintains a relevant intervention with a 17% market share, having placed until the end of 2013, more than 17,900 operations, amounting to a total of approximately 1.9 billion euros. In the 2013 SME Growth line, which

began being marketed in February, the Bank holds a 16% market share in the amount of financing operations framed within the SME - Investments. Additionally, Banco Santander Totta is the leader in the SME Expansion line, with a 41% rate of adhesion.

It is equally outstanding that Santander Totta maintains the leadership in *factoring* and *confirming*, with a 22.5% market share, thus proving the Bank's commitment and availability in supporting Company treasuries.

Within the commitment that the Bank assumed in supporting the Portuguese economy, particularly the exporting companies and those undergoing internationalization, the following initiatives were developed:

- Organization of a number of conferences on the topic "Export success, Import the future";
- Launching, for the second consecutive year, the "Top Exporta Santander 2013" seal, a distinction that recognizes the good performance of exporting companies who are customers of Banco Santander Totta, in line with a methodology developed by Informa D&B, which may be consulted in detail in the [santandertotta.pt](http://santandertotta.pt) site. It thus contributed towards the distinction and dissemination of the best exporting companies, through offering good opportunities in the markets where it operates and sharing the experiences in company internationalization;
- Launching, in November 2013, of the site "SantanderTrade.com", which is a further tool for the Santander Totta customers accessing information on the markets in which they operate and above all, where they wish to commence operations. This site, organized simply and effectively offers, for the first time, a large volume of information on all trading sectors, in more than 186 countries, bringing together in the same site more than 41 data bases, including governmental data.. SantanderTrade.com aims to approach the Portuguese entrepreneurial world to the business opportunities that arise in other markets.

Exporting customers have the support of a multinational specialized team, with experience in internationalization, with emphasis for the superior value of the network of contacts in the countries where the Group operates.

To support the internationalization of Portuguese companies, Santander Totta provides the *International Desk*, whose objective is to establish an effective trading link with the Santander Totta Companies Network, jointly with its counterparts in the several banks comprised in the Santander Group, located in different markets, with special reference to the business flow with Brazil and remaining Latin American countries (specifically Mexico, Chile, Peru, Uruguay and Colombia), and with Angola and Spain, enabling taking advantage from its

international dimension to improve the potential of the international business of Portuguese companies.

## Promoters and Brokers

DCPMI – Department of Coordination of Real Estate Promoters and Brokers, the Bank's area for dynamizing these external channels for capturing business, continued, in 2013, a strategy of great proximity and permanent follow up of its main partners.

With a management team already highly specialized in the identification, energizing and following up of External Promoters and a policy of very clear communication and dissemination priorities, based on several tools, it has been possible to achieve one of the main objectives of this area that increases still further the binding and the commitment that external partners already enjoy with the Bank.

As such, quarterly meetings' importance has been stressed held with the main External Promoters where the guiding lines of the strategy established for each quarter are presented.

With the objective to maintain a relationship of great proximity with the real estate brokers with whom we have already established protocols, and a relation of trust and partnership lasting several years, the Bank attended, once more, the SIL – Salão Imobiliário de Portugal (Portuguese Real Estate Exhibition), with its own stand.

An important axis of growth in the actions of DCPMI in these channels has been the permanent increase in the number of Promoter shops which more than ever allow the national coverage of a network that acts as a complement to the Bank's branch network, as shown by the more than 270 offices for the promotion of products and services.

## Transaction Bank

During 2013, the implementation of plans continued for the energizing of products for companies and businesses, which were jointly designed with the commercial area. These plans involved the specialists that, jointly with the customer and product managers, developed specific programmes offering products and services that aim to satisfy the companies' requirements.

Specific and multidisciplinary working teams were also established to accompany companies for migration to SEPA (Single European Payment Area).

Recognizing the relevance of a correct management of liquidity, Santander Totta continued offering exclusive

products, and consolidated the launching of the "Home Deposit", a product that distinguishes the Bank in the market and that allows companies to carry out a more efficient management of their resources as well as the whole operational process of cash collection and treatment.

The launching of products, such as those described above, allowed Santander Totta to be recognized as one of the main providers of cash management services in Portugal, more than ever consolidating its presence with companies.

## Complementary Channels

### Self Banking

This activity, in 2013, was based on a strategy of transactional optimization of the currently existing ATM's in the *Multibanco* network, thus providing a continuing change of location of this equipment to sites with a greater transactional potential and the retirement of equipment with negative profitability. Consequently, the market share stood at 12.1% in ATM numbers and at 12.8% in number of transactions.

Always keeping in sight proximity with the customer, continuity was equally provided to the adjustment and increment of automation deposit solutions, already attaining 565 installed equipments and a 70% cover of the branch network.

### NetBank

The contracting of new types of savings products has already commenced in the Internet and Netbank Private channels with the Programmed Plans. Also outstanding is the launching of a new functionality that allows receiving instructions for investing in the primary market which, in the case in question, supported the CTT (Post Office) IPO and also the availability of new credit card functionalities.

Improvements were obtained in the availability and performance of *websites* and in a growth in traffic, with the number of individual visitors in NetBank Private increasing by 6%, whilst the number of frequent users recorded a 4.5% growth in 2013. Also recorded was an increase in the number of customers that carried out transactions.

Outstanding in NetBank Companies are the developments regarding the adequacy of Regulation (EC) 2560/2001 SEPA Transfers and Direct Debits. Also launched were functionalities that allow customers, with full autonomy, to issue (in this case exclusively in Netbank Companies) and download meal tickets, enabling a relevant fiscal saving, both for employers and employees with respect to

the payment of the meal subsidy. Simultaneously, in the field of payment for services, emphasis is placed on the automatic issue of simplified invoices through this channel.

“Mobile Particulares” was launched as an application for Android and Apple mobile devices and the Mobile Device was launched, with exclusive operation in this channel, and which was well received by customers. The advantages of access through this new Channel were heavily promoted with customers.

### Contact Centre

During 2013, the Santander Totta *Contact Centre* was considered for the fifth consecutive year the “Best *Contact Centre* in Portugal in the Financial Sector”, a prize awarded by the Portuguese *Contact Centres* Association.

It was equally the winner of the Trophy *CallCentre* in Quality of Service in Telephone Contact in *ContactCentres* with more than 50 attendants, a prize awarded by IFE – International Faculty for Executives.

The total number of contacts in 2013 with *ContactCentre* operators was slightly in excess of those in the previous year. Customer attendance through *chat* was expanded, and there are currently further requests for contact points in the Bank’s site for Private customers.

Investment was intensified in the increase of the autonomy of the *ContactCentre* to resolve several requests and measures implemented to guarantee a swifter response to customers’ requests, this having been aided by the attributing of a request number, thus allowing a better follow up by customers.

### Social Networks

Witnessed, throughout 2013, was the launching of new initiatives in Facebook pages, with a significant increase in the number of entertainments. The number of fans of the Bank’s official page grew substantially and exceeded 50,000.

## International Business

The economic environment in 2013 was characterized by the continuing climate of austerity and the search for a budgetary balance, particularly in the countries within the European Community, and uncertainty persisted, until mid-year, regarding the capabilities of the peripheral economies.

The strategy pursued in the international area continued with the strengthening of the proximity with customers

residing abroad, aiming to equally find out, through the external units, those who commenced their working life away from Portugal, energizing the offer of services and of solutions in close connection with the commercial network in Portugal.

As such, the offer of the “Super Conta Residentes no Estrangeiro” was updated and several solutions were made available for savings management.

To strengthen the links between customers and Luso-descendant entrepreneurs, representation offices and branches in Portugal, visits took place and events were promoted in Paris, London, Zurich and Caracas. The Bank also attended the 9th Annual Conference of the Anglo-Portuguese Chamber of Commerce which, for the first time, organized an event, in London, for the promotion of real estate offers in Portugal.

The Summer campaign was an important strategic axis in the relationship with and support to Portuguese customers resident abroad. Visible in national airports and the media was a welcoming campaign, providing the offer of savings solutions in order that, apart from interesting profitability, they could share their security and trust with Santander Totta.

The London branch, within the scope of its business activity, was focused in the relationship with the Portuguese residing in the United Kingdom, particularly with respect to some customer groups, specifically supporting cooperation protocols with professional and technical groups that opted to work in that country.

Special regard was also kept on the follow up and recovery of the credit portfolio, control mechanisms of which were strengthened, in addition to holding meetings and in the search for solutions with customers.

With respect to commercial strategy, the volume of business in the area of residents abroad showed a slight decrease with a growth in the average profitability of the portfolio and greater binding. Significant growth was recorded in new customers in the segment.

With reference to the credit portfolio held by residents abroad, a slight reduction occurred essentially due to normal repayments.

Finally, and with reference to transfers from residents abroad, channelled through Santander Totta, promotional and dynamizing actions were pursued in the more important countries for the sector, the outstanding feature being the easy and flexible means through which customers transferred funds to Portugal, which resulted in 16% market share.



Also carried out were two competitions that aimed to reward customers that opted for the Bank's transfer services, this resulting in a favourable evolution in the volumes transferred.

## Global Banking and Markets

The *Corporate Finance* area consolidated its position as one of the main players in the national market for financial consultancy. The following operations stood out: (1) financial consultancy to Beijing Enterprises Water Group in the acquisition of the water concession business to Veolia in Portugal; (2) consultancy to British Columbia Investment Management Corporation in the acquisition from Galp Energia of their 5% holding in the share capital of Compañía Logística de Hidrocarburos (CLH); (3) consultancy to Riverside in the issue of a Fairness Opinion for the purpose of the disposal of ONI to Altice; (4) consultancy to Optimus over the merger with ZON; (5) consultancy to Sodim on the economic and financial assessment of Cimigest and issue of a Fairness Opinion; and (6) co-leadership of the syndicate for the placing of the CTT – Correios de Portugal, S.A., (Post Office) IPO, carried out within the scope of the 1st stage of the company's privatization.

During 2013, the portfolio of *Corporate Finance* operations was also strengthened and there are several other ongoing consultancy processes for transactions to be concluded in the next few months.

In the *Credit Markets* area, 2013 reinforced the climate of optimism commenced at the end of 2012, with international investors once again viewing Portugal with great interest searching for good investment opportunities. Companies took advantage of the trend towards lower credit spreads to take decisions over the lengthening of their indebtedness and in anticipating their refinancing requirements, both in the market for syndicated loans and in the bond market, in this latter also with an increase in the number of issues for private investors and issues for private placing.

However, the continuing restrictive economic environment kept up a negative pressure over new decisions on private and public investment. Even so, in spite of this context, Santander Totta continued as one of the institutions with a constant presence in the analysis of the existing opportunities and in the support to promoters in the materialization of their projects.

In the area of acquisition financing, Santander Totta continued a strengthened activity in the support and structuring of financing for the acquisition of Portuguese companies and assets for Portuguese and international corporate customers and in supporting the privatization plans.

In *Asset & Capital Structuring*, Santander Totta continued analysing and exploring market opportunities that kept arising as a result of the economic environment.

Through the *Fixed Income & FX* area, the Bank continued as a natural partner of Portuguese companies, helping to manage the risks associated to interest rate markets and to international trade and investments in countries with different currencies. Standing out within this activity is the support provided to Portuguese companies involved in exports and imports, exploiting the capability to offer products that allow the efficient management of exchange rate risks. This activity is developed jointly with other areas of the Bank providing relevant services to international activity. Emphasis must be given to the fact that Banco Santander Totta was considered by Global Finance magazine as being, once again, the best finance institution in the FX (foreign exchange) area in Portugal, having been appointed as the *Best Foreign Exchange Provider*.

The year was featured by a recovery in the equity markets not only as regards the valuation of securities but also in the increase of the transacted volumes. The growing optimism, particularly since the second half of the year, over the economic recovery in the euro zone and in the United States, led the EuroStoxx50 to consolidate above the 3,000 points during the year's last quarter, while the renewal of the successive maximums in the American markets were being closely watched. In the *Cash Equities* activities, a significant recovery was viewed in the customers' propensity for the equity market, reflected in the 150% increase in the commissions generated by the customers with direct access to the broker. The bond market suffered a reduction in the transacted volumes as compared to 2012, particularly in the last quarter of the year.

The activity in Santander Totta's area of Institutional Custody continued with stable volumes and obtained the 2nd place in the national ranking of Custodians, with a market share of approximately 21% in the volume of assets under custody, in line with the last data made available by CMVM (Securities Market Regulator).

Resident and non resident institutional customers had the opportunity to assess the quality of the custody services rendered by the Bank through the specialty magazine *Global Custodian*, the outstanding fact being the award of the *Commended* prize in the 3 categories – *Leading Clients, Cross-Border & Domestic*.

## Asset Management

Keeping to the conservative view that has ruled the actions of the management company in the latter years,

Santander Asset Management (SAM), endeavoured, once again to manage its products with a level of controlled risk, focusing on the maintenance of high and adequate levels of liquidity, not failing to benefit from the opportunities that the market has provided. The year was also featured by the dynamization of the range of funds (amongst which the Multitesouraria fund stood out with a total of net subscriptions amounting to 84.6 million euros) and by the strong commercial activity.

Also outstanding due to its merit was the launching of two new FEI's: FEI Ibérico Maio 2013, in the first half year (amounting to a total of 38.9 million euros) and FEI Ibérico Premium Julho 2013, in the 2nd half year, (amounting to a total of 70.3 million euros). Three FEI's became due: FEI Estratégias Europeias (a total amount of 18 million euros), FEI Valor Invest I (a total amount of 98.8 million euros) and FEI Valor Invest II (a total amount of 36.4 million euros).

At end year, all the mutual investment funds actively managed by Santander Asset Management exhibited positive return, namely, Santander Multitesouraria (1.5% net return), Santander Multicrédito (3.5% net return), Santander Global (2.4% net return) and the share funds: Acções Portugal (31.9% net return), Acções Europa (21.3% net return) and Acções América (18.3% net return). It should also be noted that the Santander Acções Portugal fund has been, consecutively throughout the year, the best national fund considering 12 month return.

At the end of 2013, the mutual investment funds managed by SAM held an 11.5% market share.

Regarding real estate investment funds managed by Santander Asset Management, these amounted, at end 2013, to a total of 526.2 million euros, a market share of approximately 4.4%.

## Outlook for 2014

In 2013, the gradual development of the Portuguese economy continued very conditioned by the adjustment process commenced in 2011, in an unfavourable external environment, and a slowing down of activity.

In 2014, estimates indicate an improvement in the economic cycle, which will be favourable for the Portuguese financial system but, on the other hand, a relevant factor of uncertainty still exists, which is related to how the Programme of Economic and Financial Adjustment for Portugal will be concluded.

In 2014, one of the greatest challenges for Santander Totta is the increase in profitability levels. The evolving of the net interest income will be a critical factor for the increase in the Bank's revenues, through a balanced management between the normalization of the liability cost and the growth in business volumes.

Focus on the customer will be kept going as a strategic priority through the implementation of plans for capturing new customers, strengthening the position in primary Bank customers, increasing their binding and transactionality.

The comfortable position of the Bank in terms of capital and liquidity, allows pursuing a policy of support to the Portuguese entrepreneurial sector, with particular emphasis on international business by supporting exporting companies, the internationalized companies and those that are in the process of becoming internationalized, taking into consideration a better balancing in the structure of the credit portfolio in terms of the increase of the relative weight of the Companies segment and respective market share, as well as the increment in the levels of transactionality.

On another hand, the optimization of expenses, associated to a new competitive environment will also be kept up as a strategic priority in 2014.

Maintaining relevant caution in risk management, a fundamental axis in the Group's operation, 2014 will witness the implementation of better adjusted models to each customer segment, providing agility to all the decision process concerning risks.

## Human Resources

One of the major objectives of Human Resources area in 2013 was to be closer to employees and business, and established as bases of development: Talent, Innovation, Knowledge and Culture, guided by three vectors: the Future, the Business and Energy.



The support and direct follow up provided for the optimization of the branch network required a close proximity to the business areas, reflected by the more than 450 visits carried out by the Human Resources managers.

With the objective to improve the quality of attendance in the branches identified in the "waiting times" indicator, continuity was given to the "BeUp" programme, commenced in the previous year, with 224 visits carried out and 108 branches followed up, through behavioural type interventions based on coaching techniques, aiming towards excellence in customer relationship.

The award of 361 new salary levels, the fact that 96% of employees received variable remuneration and the 0.5% salary increase show the importance given to merit recognition and employee individual contribution towards the achievement of the Bank's objectives.

Singled out in the Knowledge and Development area are the programmes in the "Customer Engagement" feature, with the carrying out of the "Experience 100%", "To be excellent" and "Commercial Energy" programmes, always with the objective to develop skills that increase the trust relationship of customer with Bank.

In the Development area, programmes were carried out on "Executive Coaching" and "Mentoring" which were included in the following programmes "Mentoring for University Graduates" and "Santander Future for Young Executives".

Of a total in excess of three hundred thousand hours of training, 46% were carried out with *E-Learning*. The Bank has a platform that comprises 125 *E-Learning* courses, thus allowing a larger offer to respond to individual needs and geographic dispersion.

Training carried out in the Juridical and Standardization categories was outstanding, particularly with respect to actions in the prevention of and cash laundering and in the *Pari* and *Persi* regimes.

In the field of collaboration with Universities, Santander Totta took part in Employment Fairs and *Jobpartys*, and carried out 4 actions of *Junior Consulting* in the Bank's internal projects. Within the scope of probationary periods, the Bank received 196 students from several schools and universities.

No of training hours – 300.194
No of training hours per employee – 57
%age training with <i>e-learning</i> – 46%
Investment in training – 1,800,000 €
Investment in training /total remunerations – 1.07%

Whilst a "Family Responsible Company", several training initiatives were carried out for employee offspring: "Learn to Set Up Your Business, YA?" under the topic of entrepreneurialism, in partnership with an university, and the course "Searching for Magic (TEEN)" that approached means on how to design the path of success, using basic concepts of Neurological Linguistic Programming (NLP).

In 2013, the certification of Santander Totta as a "Family Responsible Company" (FRC) was confirmed by the Más Familia Foundation. Within the scope of the renewal audit, the Bank improved its notation in the schedule of FRC companies, from "C" to "B+", a reflex of continuous improvement and regard given to this **issue**. There are more than 40 measures of conciliation and balance at the disposal of employees that deserved the attention and recognition of the external auditors and that sustained this distinction.

The unfavourable economic and social environment existing in 2013 continued requiring special attention and the strengthening and development of extraordinary measures that aimed to lessen the effects of the crisis, and which resulted in the following initiatives: (1) implementation of the "Children Ticket" and "Meal Card" with direct fiscal benefits for employees; (2) renewal of the 310€ contribution to all employees with offspring attending higher education and with monthly salaries equal to or lower than 2.090€, (3) contribution of 50% of the value of the social season tickets for



employees framed up to level 7 of the Collective Workers Agreement for the banking sector; and (4) the 60€ award to employees who have their offspring attending school classes between the 5th and the 12th years, with a monthly salary equal to or less than 1,500€, to aid in the purchase of school books.

Internal recognition was once again expressed in the results obtained in the assessment of internal satisfaction, "How's the Climate", which was carried out in 2013 and according to which 92% of employees consider that the programme "You Are Santander" should be kept going forward. Also evidencing the value of the measures that the Bank has been introducing for its employees is the external recognition shown by the prizes awarded in 2013 – "Best Company to Work In The Banking and Insurance Sector" attributed by Accenture and Exame magazine; Equality is Quality" attributed by CITE and CIG"; and the nomination for the "Top Ten of the Best Companies For Leadership" by the Hay Group.

The 6th edition of the "Semana Santander és tu" was subject to the topic "Proximity+": comprising Employees, Teams, Customers, and "Solidarity+". Customers were included for the first time in the week's events, one of the days being dedicated to them, an innovation which pleased the commercial area and was welcomed by the customers who were invited to visit their branch on that occasion. In addition to the traditional "Employee Day" and the "Direct Contact Day", what deserves notice is the solidarity initiative during which food items were collected and later donated to institutions indicated by the local teams (more than 1,600 "solidarity boxes") and which developed the proximity with the communities where Santander Totta operates. The closure of the week's events was signalled by a "foot paper" for health promotion, which included attendance by more than 100 employees from several of the Bank's professional areas and from the country's regional operators.

The "Challenge +" was an initiative which took place between April and June. To keep healthy habits, healthy nourishment, stimulate physical exercise and combat sedentary habits were the key topics of this initiative which was developed with weekly launched consecutive challenges.

Also within the scope of "You Are Santander", the V Edition of the "You Are Santander Run", was held in Portugal, having previously been held in Spain, Chile, United Kingdom and Mexico. The event brought together 57 runners representative of the 17 countries where Santander operates. Solidarity was one of the values present in this initiative with the runners taking part in the recovery and improvement of several outdoor areas (cleaning of gardens, organization of a pedagogic vegetable garden and wall painting) of the "Home Route", an institution in the Porto region that shelters

children from birth to six years old that were abandoned or victims of abuse.

Employee offspring that were awarded prizes in the initiative "Bank Rewards Employee Offspring" numbered 34. This initiative is intended to value the merit and effort of these youths who become distinguished by their academic achievement at the completion of their secondary schooling. Children rewarded in the seven editions of this event already number 137.

As previously referred, solidarity activities continued being part of the agenda of the initiatives promoted and supported by the Human Resources area. The dynamizing of the "Solidarity Singing" in the Totta Centre, set up in 2012, as an area for social institutions to promote their activities, included the presence of "ACREDITAR" (To Believe), UNICEF and BIPP representatives. Volunteers also had an active role in the energizing and participation in several events such as the BIPP Christmas Fair, the actions developed by the "Casa de St. António" (St. Anthony's Home), the tree planting initiative in Malveira da Serra and in the already traditional Bread for All. Launched internally, still in the "You Are Santander" week, at Christmas time, were two actions of food collection, such as the "Solidarity Box", intended to support social institutions and/or families indicated by local teams, and resulting in the Bank having donated 4,057 euros to the "Home Route", an institution that shelters abandoned children.

With reference to internal levels of satisfaction and in line with the commitment to carry out such a measurement every two years, the 5th edition of the "How's the Climate" questionnaire was implemented.

Globally, the results demonstrate that Santander Totta consistently maintains a sound internal climate and that there is great pride in working for Santander Totta (96% of employees), a revealing indicator of a high degree of commitment.

DIMENSIONS	2006	2007	2009	2011	2013
CONCILIATION	n.a.	n.a.	n.a.	66%	73%
CREDIBILITY	74%	78%	83%	85%	85%
DYNAMICS	52%	56%	59%	64%	63%
TEAM SPIRIT	59%	69%	76%	81%	81%
IMPARTIALITY	49%	57%	63%	65%	66%
INNOVATION	70%	75%	80%	81%	81%
LEADERSHIP	71%	73%	77%	80%	81%
PROUDE	64%	71%	77%	92%	90%
QUALITY	68%	75%	82%	85%	85%
RESPECT	64%	64%	73%	76%	81%
SANTANDER ÉS TU	n.a.	n.a.	87%	89%	89%

## Technology and Business Systems

The Technology & Processes area is responsible for the availability and management of the technological infrastructure, for the development of procedures and for the management of the network means of Santander Totta, permanently guaranteeing the adequacy of the applications and technology platforms (*hardware, software, communications, amongst others*), of the business processes and operational control to efficiently support the Bank's activity, with controlled levels of operational and technological risks.

During 2013, the quality of the technology services continued under focus, standing out, due to their relevance, the reduction of technological risk, the development of actions to improve the application support for the business, as well as the compliance with the control activities, as established in the Bank's Model of Internal Control, in the technology feature. On another hand, several regulatory projects were developed, concerning the reduction of incidences, stabilization and optimization of the exploit of technological resources, as well as the increase in availability of services offered by the Bank, with particular incidence in the channels available in the Internet and in Mobile Banking.

Developed within this activity, to come into production in 2014, was the new site of the public component of "Netbanco Particulares", aiming to provide the Bank with an updated platform with better dynamics and inhibit the technological risk inherent to obsolete components. Equally completed was the project to update the management system of the customers' data base, including the management components of addresses and functionalities of the citizen's card, enabling the branches, at the same time, with the new commercial agenda intended for the respective managers, this being a tool of modern management integrated with the remaining components of the information system.

The migration process to the Windows 7 operating system was completed and is in the launching stages; this comprised several technical projects with the aim to reduce incidences and to keep the technological risk of the involved applications at adequate levels..

Also deserving special reference is the investment carried out in projects to comply with the new legislation and regulation, amongst which stands out the adaptation of the systems for SEPA<sup>1</sup> and FACTA<sup>2</sup> payments.

<sup>1</sup> SEPA – Guarantee the timely, progressive and efficient migration of the transfers of direct credits and debits to the SEPA standards and its transition to the Portuguese standards.

<sup>2</sup> FATCA – Implementation of the requisites of the FATCA standards, whose objective consists in identifying and reporting to the US Treasury all the US Persons and their assets as a component to dissuade tax evasion.

In the Business Processes area, a number of projects were carried out that aimed to improve processes and the continuous increase in efficiency, as well as the compliance with the standards issued both by the regulators and by the Group. Standing out:(1) the operational and functional optimization of the Companies Network;(2) the adaptation of all the hardware and software of the equipment of the commercial network to comply with the implementation of the new 5 Euro bill, maintaining the equipment approved by the ECB;(3) the implementation of the regulator's (Bank of Portugal) standards as to the treatment of the *Unfit* bills;(4) the implementation of a new process that guarantees the strict compliance with the MiFID standard by the commercial network; and (5) the implementation of a new process that guarantees the compliance with the Group standard as to the concentration of assets and the operational and functional optimization of the *Private* Network. The implementation continued at a fair rate, of the North American FATCA regulation.

The Network Means Department has been operating systematically, through periodical visits and actions with the business units, guaranteeing compliance with the set proceedings and with the standards in force, identifying weaknesses in control and internal functions and promoting several mitigating, training, supporting and improving actions.

Within the scope of the follow up of the centralized operation, a review is being carried out on the monthly recurrence in the main features of operational control that must be ensured by the network's business units, aiming to mitigate / minimize impacts in terms of operational risk.

## Quality

Service quality is one of the bases of the Santander Totta management model.

In a world in constant change and in such a competitive market as the banking market where all the players search for improvement and quality of service, the Bank has assumed as an objective in the latter years the improvement of the "Customer experience with Santander Totta".

### Customer experience

In a market where products and services are easily resembled, the differentiation and the quality of service perceived by the customers in each contact with the Bank depends fundamentally on the details that stand out with attendance. In 2013, Santander Totta continued developing the priorities defining the improvement in

customer attendance, both in terms of attitude and in terms of waiting time in the branches and in telephone attendance.

The bid placed on the “value of attendance” led to the involvement of the whole Bank in the objective to become the preferred Bank of our customers.

An individual and personalized compilation at the level of all the commercial figures was developed to become part of the daily routine of each employee, to be used as a reminder of the four essential attitudes to provide good attendance, viz.: how to attend, know how to listen and smile, pay full attention to the customer and how to make a farewell.

After the introduction of the innovative classification of the Bank’s branches with stars, through quality indicators of branches and Bank, work was pursued in 2013 to reduce the asymmetries in this ranking. For this purpose, the programme for behavioural improvement known as “BeUp”, which attends to a cluster of 100 branches classified with 2 and 3 stars, with an “in loco” follow up plan and clear improvement objectives, was continued, given the good results of the previous actions with approximately 50% of the intervened branches rising by at least one level in the scale.

A visiting plan known as “how to become a 5 star” was also developed in approximately 158 branches, excluded from the “BeUp” cluster, which consisted of a joint working plan heedful of the weaknesses found in the perceived quality indicators obtained from customer surveys or operational quality, in response to problems and telephone attendance, in which were selected the best practices and actions applied to the reality of each of the branches included in this plan with improvement commitments, which were later assessed on their evolution in the ranking of the stars.

## Quality certification

The implementation of the Quality Management System has already achieved its cruising speed and it is thus current practice in the most diverse areas of the Bank.

The Bank’s objective is to pursue a policy of continuous strengthening of the tools included in the ISO 9001-2008 standard and in the improvement of management practices always guided towards customer satisfaction.

Thus the Bank has approached even further the requisites of excellence, specifically with the implementation in 2013 of a model of Quality Governance, which gave greater focus to guidance towards the customer through the whole of the Bank’s structure and strengthened the

commitment of this same structure with this prop of the Santander Group.

## Complaints

A reduction of 22% was recorded in total customers’ complaints in 2013 as compared with the previous year, a very positive development taking into consideration the adjustment programme implemented in Portugal with direct effects in the banking activity and in the economy of the Country, since greater difficulties represent increased customer discontent.

Several important steps were taken in 2013 to promote a drive in the commercial network in order to anticipate and resolve customer complaints with greater swiftness, such as, for instance, the “BeUp” project, with direct impact in reduction of complaints.

With the strengthening of the investment in the support for the commercial network, in a perspective of a decentralized treatment of customer incidences, an area was developed, in the Quality Site, in which are recorded the main types of answers to customers’ complaints should they require a formal response, and a more relevant dynamic action in the central services following clarifications requested by the commercial network.

The bringing of uniformity to the records and metrics of incidences and complaints was completed in the main support areas and channels, enabling adequate monitoring of the more critical themes with a negative impact on customers.

## Metrics and management indicators

As referred above the Bank set up, in 2013, the Star indicator. In line with hotel logic, the number of stars of each branch is established through quality indicators. The 5 Star objective became transversal to all levels of the Private and Business Networks. The stars are established through the cross referencing of the two implemented models. On the one hand the “Target 100” that measures the service rendered by the branches and on the other the CEM indicator that measures indicators related to the Bank as an institution.

At the end of 2013, 36% of the Bank’s branches had achieved the 5 Star rating. The objective that had been set at the beginning of the year was to end the year with a 5 Star rating in 35% of the branches.

In the Premium/Select segment, indicators had a very significant increase due to the contribution of a quality model implemented up to manager level and that enables an analysis of multiple satisfaction indicators.

At the level of the Companies Network, the TARGET 100 is kept in full operation; this indicator comprises differing assessments (operational metrics and indicators of customer satisfaction), continuing to show a very positive development in the majority of satisfaction indicators, which is reflected in the final result of the TARGET 100 model, in which 52% of the Commercial Managements of the Companies Network comply with or override the objectives.

The control of internal services levels is also carried out within the central services. The TARGET SSCC 100, which combines a set of indicators common to all the areas and specific indicators for each one, has already determined, in 2013, a notation for each of the areas. The intent of this indicator is to create a unique dynamism of continuous improvement in the services rendered to customers and through "end-to-end" measures the involvement of the whole Bank in customer service.

A very positive trend was evident in a large majority of quality indicators. In the several channels and segments the indicators showed a development in terms of very satisfied customers (average values in excess of 50%), satisfied (average values in excess of 90%) and even dissatisfied customers registered a decrease, with recorded values varying between 4% and 6% according to the channels/segments.

### Positioning vis-à-vis the competition

During 2013, Santander Totta recorded a positive development in the several market surveys and some times even reached the first position in comparison with the main competitors, both in the Corporate Assessment and in the BASEF Study. The several indicators included in these assessments showed improvements and even in the indicators where the Bank does not show up so strongly, already have a specific action plan with material measures to achieve improvement thereon.

## Consolidated Activity

### Introduction

The activity of Banco Santander Totta, mainly based on domestic banking business, was impacted by the economic environment that has penalized the volume of business, the quality of assets and the results of the financial sector.

However, the Bank showed a strong capacity of internal fund generation, without any need to increase its capital nor to recur to any public aid, always maintaining the soundness of the structure of its accounts, as shown by a robust situation of solvency, with the Tier I ratio reaching 14.2% (+2.8 p.p. relative to 2012) and the Core Capital ratio standing at 12.4% (an homologous variation of +2.5 p.p.).

The transformation ratio, measured by the weight of net credit on deposits reached 125.3% at end 2013, below the 126.6% reached in 2012.

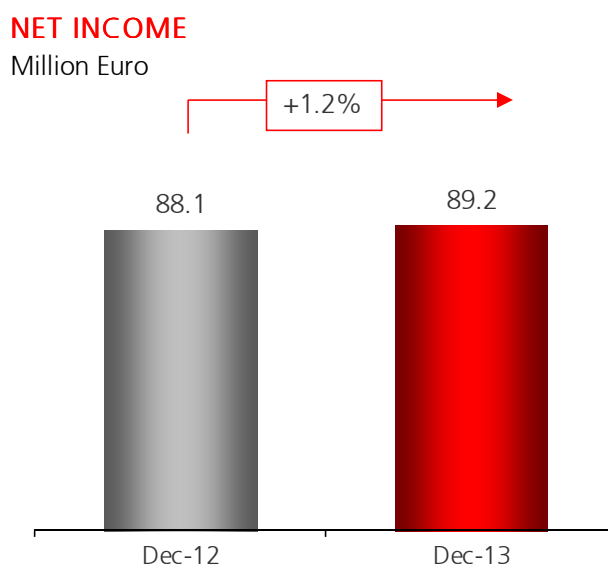
Credit granted to companies amounted to 9.8 billion euros, a homologous growth of +0.3%, relevant in a

context of economic abatement, and an outstanding position in financing granted within the scope of the Credit Activation campaign and in the SME Invest/Growth lines.

The ratio of credit at risk stood at 5.9% (+1.5 p.p. than that shown in the homologous period).

The portfolio of credits eligible as guarantees in the financing operations with the Eurosystem amounted to 12.9 billion euros at end 2013, with a 10.0% increase in the last year. Net financing obtained with the European Central Bank reached 4.5 billion euros, 8.5% less than the value recorded in 2012.

At the end of 2013, Banco Santander Totta recorded net income amounting to 89.2 million euros, which compares with 88.1 million euros in the homologous period (+1.2%).



## Profit & Loss Account

### PROFIT AND LOSS ACCOUNT (million euro)

	Dec-13	Dec-12	%
Net Interest Income (without Dividends)	507.3	541.5	-6.3%
Dividends	1.3	1.7	-22.7%
<b>Net Interest Income</b>	<b>508.6</b>	<b>543.2</b>	<b>-6.4%</b>
Fees and Other Income	281.1	318.0	-11.6%
<b>Commercial Revenue</b>	<b>789.7</b>	<b>861.3</b>	<b>-8.3%</b>
Gain/Losses on Financial Transactions	31.4	125.8	-75.1%
<b>Operating Income</b>	<b>821.0</b>	<b>987.1</b>	<b>-16.8%</b>
Operating Costs	(466.5)	(459.0)	+1.6%
<b>Net Operating Income</b>	<b>354.5</b>	<b>528.1</b>	<b>-32.9%</b>
Impairment and Other Provisions	(244.0)	(466.6)	-47.7%
Results from Associated Companies	14.1	11.9	+18.6%
<b>Income Before Taxes and MI</b>	<b>124.6</b>	<b>73.4</b>	<b>+69.9%</b>
Taxes	(44.4)	14.7	<-200%
Minority Interests	8.9	0.0	>200%
<b>Net Income</b>	<b>89.2</b>	<b>88.1</b>	<b>+1.2%</b>

Strict net interest income amounted to 507.3 million euros, equivalent to a 6.3% homologous decrease, stabilizing in the last quarters, evidencing that the lower volumes of credit granted were compensated by the lower Bank's financing costs, particularly in the case of customer's deposits.

Net commissions and other banking income reached 281.1 million euros, reflecting a -11.6% homologous variation, as compared to the amount shown at end 2012, as a result of lower commissions in accounts, means of payment and depreciation in real estate values, by consolidation of the Novimovest investment fund in 2013, partially compensated by higher commissions obtained in commercial paper.

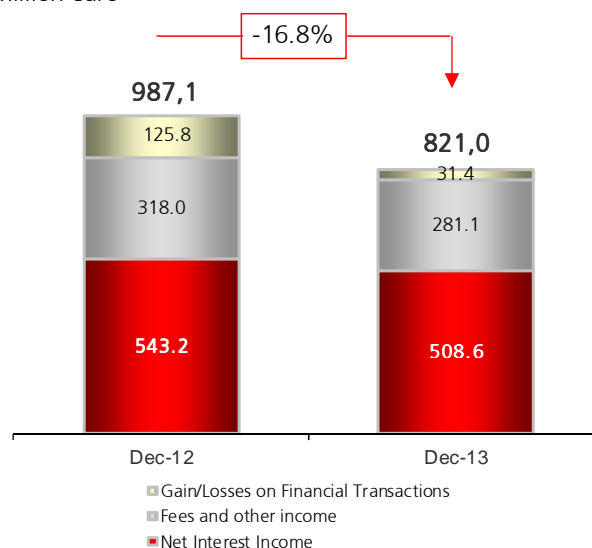
Commercial revenue amounted to 789.7 million euros, an 8.3% decrease in homologous terms.

Gains on financial transactions reached 31.4 million euros (-75.1% than in the same period in the previous year), mainly as a consequence of the recording, in 2012, of the non recurring gain with the repurchasing of securities issued within the scope of credit securitization transactions.

The evolution in revenues resulted in an operating income amounting to 821.0 million euros, a 16.8% decrease relative to 2012.

## OPERATING INCOME

Million euro



Operating expenses in 2013 amounted to 466.5 million euros, + 1.6% above the amount recorded in the previous year. By aggregate, personnel expenses increased by 4.6%, amounting to 269.6 million euros, affected by the legislative change, occurred in 2012, in the setting of the values for death subsidies. Excluding this effect, personnel expenses would have had a -0.5%

variation and operating costs would have diminished by 1.2%. General expenses amounted to 137.2 million euros, with an almost nil variation, and depreciation amounted to 59.8 million euros, -6.4% relative to the amount recorded one year ago.

## OPERATING COSTS AND EFFICIENCY

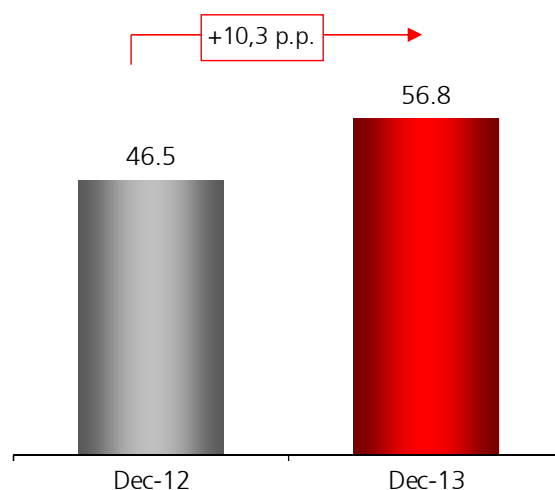
	Dec-13	Dec-12	%
Personnel Expenses	(269.6)	(257.6)	+4.6%
Other Administrative Expenses	(137.2)	(137.5)	-0.2%
<b>Operating Costs</b>	<b>(406.7)</b>	<b>(395.1)</b>	<b>+2.9%</b>
Depreciation	(59.8)	(63.9)	-6.4%
<b>Total Operating Costs</b>	<b>(466.5)</b>	<b>(459.0)</b>	<b>+1.6%</b>
<b>Efficiency Ratio</b> (excludes depreciation)	<b>49.5%</b>	<b>40.0%</b>	<b>+9.5 p.p.</b>
<b>Efficiency Ratio</b> (includes depreciation)	<b>56.8%</b>	<b>46.5%</b>	<b>+10.3 p.p.</b>

At the end of 2013, the efficiency ratio, that shows operating expenses as a percentage of operating income, stood at 56.8%, +10,3 p.p. than that recorded in 2012, as a consequence of the 16.8% decrease in revenue and the 1.6% increase in operating expenses. Should the effect of the death subsidy in the operating expenses be excluded, the efficiency ratio would have increased by +9.0 p.p..

Net operating income amounted to a total of 354.5 million euros, that compares with 528.1 million euros recorded in 2012 (-32.9%).

## EFFICIENCY RATIO

%



Standing out in the case of productivity indicators is the favourable evolution of credit per attendance point, a relevant factor in a macroeconomic context of homologous recession.

## PRODUCTIVITY

	Dec-13	Dec-12	%
Loans <sup>(1)</sup> per Employee	5.1	5.2	-1.1%
Resources per Employee	4.7	5.0	-4.4%
Loans <sup>(1)</sup> per Branch <sup>(2)</sup>	44.3	43.7	+1.4%
Resources per Branch <sup>(2)</sup>	41.3	42.1	-2.0%

(1) Includes guarantees

(2) Includes branches, corporate centers and representative offices

Allocations for imparity and net provisions amounted to 244.0 million euros as compared with 466.6 million euros recorded in the homologous period, a -47.7% variation. This evolution resulted from a lower need for provisions required by the impairment model in 2013, deriving from the implementation of a conservative policy in credit granting and in the following up of non performing loans.

The results of associated companies recognized by the equity method, amounting to 14.1 million euros, 18.6% above the value reached in 2012, encompassed the inclusion of the results in Banco Caixa Geral Totta de Angola, in Unicre-Instituição Financeira de Crédito, in Partang and in Benim-Sociedade Imobiliária (a company held indirectly by the Bank via TottaUrbe-Empresa de Administração e Construções).

At the end of 2013, income after taxes and minority interests amounted to 124.6 million, an increase of 69.9% relative to December 2012.

The net income of Banco Santander Totta amounted to 89.2 million in 2013, compared to 88.1 million euros recorded in 2012, showing an homologous variation of +1.2%.

## Accounts and Activity

At end 2013, the volume of business amounted to 54.8 billion euros, a variation of -4.3% as compared with 2012.

Credit (including guarantees and sureties) decreased by 2.7%, reaching 28.4 billion euros, although comprising a 0.3% increase relative to the previous year, in credit granted to companies. Customers' resources stood at 26.4 billion euros, a 5.9% decrease with balance sheet recourses decreasing by 3.9% and off the balance sheet recourses by 13.1%.



---

**Business Volume** (million euros)

---

	Dec-13	Dec-12	%
<b>Business Volume</b>	<b>54,806</b>	<b>57,269</b>	<b>-4.3%</b>
Total Gross Loans (includes guarantees)	28,371	29,165	-2.7%
Customers' Resources	26,436	28,105	-5.9%

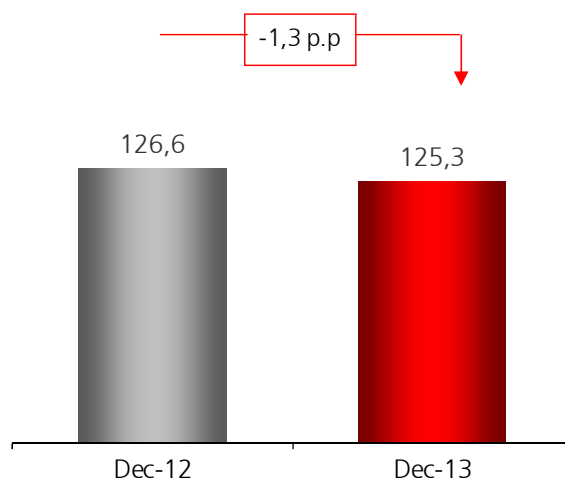
---

The credit/deposits ratio stood at 125.3% in 2013 (a ratio established in line with the Memorandum of

Understanding), lower than the 126.6% recorded in the previous year.

**LOAN-TO-DEPOSIT RATIO**

%



## LOANS (million euro)

	Dec-13	Dec-12	%
<b>Total Gross Loans</b> (includes guarantees)	<b>28,371</b>	<b>29,165</b>	<b>-2.7%</b>
<b>Gross Loans</b>	<b>27,185</b>	<b>27,945</b>	<b>-2.7%</b>
<i>of which</i>			
<b>Commercial Banking</b>	<b>24,051</b>	<b>25,415</b>	<b>-5.4%</b>
Loans to Corporates	6,887	7,633	-9.8%
SME/Small Business	2,677	3,046	-12.1%
Corporates	4,210	4,587	-8.2%
Loans to Individuals	17,164	17,782	-3.5%
<i>of which</i>			
Mortgage	15,276	15,783	-3.2%
Consumer	1,382	1,414	-2.3%
<b>Large Corporates and Institutionals</b>	<b>2,873</b>	<b>2,097</b>	<b>+37.0%</b>

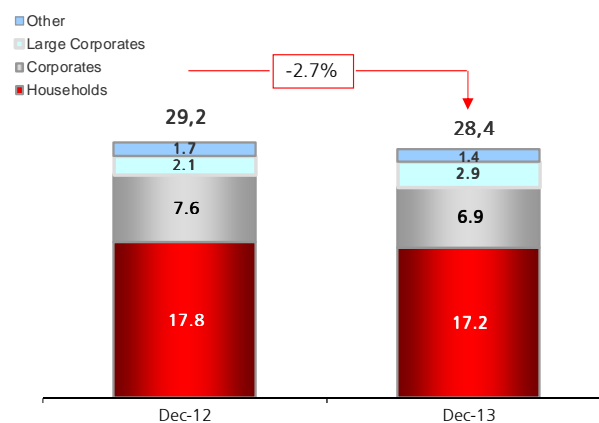
The decrease in credit granted derived from a lower demand for loans from customers. The soundness of the accounts and the Bank's liquidity allowed an increase in credit granted to the economically viable industrial sector. At end 2013, credit granted to companies amounted to 9.8 billion euros, halting the decreasing trend which had been the scenario in the latter years, through a 0.3% increase relative to the end of 2012, and achieving a prominent position in the SME Invest/Growth Lines and within the Credit Activation campaign.

Credit granted to private customers amounted to 17.2 billion euros, reflecting a 3.5% homologous decrease, with a -3.2% variation in home loans and a 2.3% decrease in consumer credit.

At the end of 2013, the credit at risk ratio stood at 5.9%, greater than the 4.3% shown in the previous year, with a 67.7% coverage ratio. Restructured credit represented

## LOANS

Billion euro



8.7% of total credit. The quality indicators of the credit portfolio deteriorated in the last year, however at a lower rate.

## CREDIT RISK RATIOS

	Dec-13	Dec-12	%
Non Performing Loans Ratio	4.0%	3.7%	+0.3 p.p.
Non Performing Loans Ratio (+90 days)	3.7%	3.5%	+0.2 p.p.
Non Performing Loans and Doubtful Loans Ratio	3.8%	3.5%	+0.3 p.p.
Credit at Risk Ratio	5.9%	4.3%	+1.5 p.p.
Restructured Loans / Total Loans	8.7%		
Restructured Loans not included in Credit at Risk / Total Loans	5.4%		
Non Performing Loans Coverage Ratio	100.4%	93.9%	+6.5 p.p.
Non Performing Loans Coverage Ratio (+90 days)	106.4%	98.4%	+8.1 p.p.
NPL and Doubtful Loans Coverage Ratio	104.7%	97.4%	+7.3 p.p.
Credit at Risk Coverage Ratio	67.7%	79.7%	-12.0 p.p.

Total customers' resources, at end 2013, amounted to 26.4 billion euros, a -5.9% decrease relative to the value recorded in 2012.

## RESOURCES (million euro)

	Dec-13	Dec-12	%
<b>Customers' Resources</b>	<b>26,436</b>	<b>28,105</b>	<b>-5.9%</b>
On-Balance Sheet Resources	21,001	21,853	-3.9%
Deposits	20,707	21,497	-3.7%
Securities issued	294	356	-17.5%
Off-Balance Sheet Resources	5,435	6,252	-13.1%
Investment Funds	1,570	1,930	-18.6%
Insurance and Other Resources	3,865	4,322	-10.6%

Balance sheet resources amounted to 21.0 billion euros, or 79.4% of the total resources captured from customers and decreasing by 3.9% in homologous terms, with deposits decreasing by 3.7%. Off balance sheet resources amounted to 5.4 billion euros, a 13.1% decrease relative to the amount shown in 2012. Investment funds amounting to 1.6 billion euros decreased by 18.6%, as a consequence of the inclusion in the perimeter of consolidation the Novimovest investment fund, occurred in 2013. On a comparable basis, investment funds would have increased by 2.9%. Capitalization insurance and other resources decreased by -10.6%, relative to the amount shown one year previously.

## Capital Ratios

At the end of 2013, Banco Santander Totta continued presenting a sound balance sheet, with capitalization ratios solely reached with recourse to the generation of internal results, in parallel with the decrease in risk weighted assets. The Tier I ratio reached 14.2% and the Core Capital ratio stood at 12.4% (11.4% and 9.9%, respectively, in 2012).

## CAPITAL

	Dec-13	Dec-12	%
<b>Total capital</b>	<b>2,284</b>	2,062	+10.8%
<b>Tier I Capital</b>	<b>2,292</b>	2,069	+10.8%
Tier II capital	-8	-7	+8.3%
<b>Risk weighted assets</b>	<b>16,090</b>	18,127	-11.2%
<b>Core Capital Ratio</b>	<b>12.4%</b>	9.9%	+2.5 p.p.
<b>Tier I Ratio</b>	<b>14.2%</b>	11.4%	+2.8 p.p.

## Individual Activity

### Profit & Loss Account

Banco Santander Totta recorded, in terms of individual accounts, net income amounting to 2.4 million euros in 2013, recovering from a 9.2 million euro loss recorded in 2012.

The Bank achieved operating income amounting to 790.5 million euros in 2013, -10.1% compared to the 879.5 million euros recorded in the previous year, particularly due to the lower value in net interest income and to results in financial transactions.

Operating expenses amounted to 461.4 million euros, increasing by 1.3% in relation to the homologous period. Excluding the effect of the legislative change in the calculation of the death subsidy, operating expenses would have decreased by 1.6%. The efficiency ratio grew by 6.6 p.p. increasing from 51.8% in 2012 to 58.4% in 2013.

The joint evolution of revenues and expenses led to a net operating income amounting to 329.1 million euros, 22.4% lower than the amount achieved in the previous year.

Imparity and net provisions showed a 29.9% decrease, with a net appropriation of 311.0 million euros in 2013.

Taxes on profits amounted to 15.6 million euros.

### Accounts and Activity

At the end of 2013, business volume amounted to 54.9 billion euros, a +2.2% variation relative to the homologous period, with credit (including guarantees and sureties) increasing by 9.4%, and reaching 28.3 billion euros, and customers' resources showing a 4.6% decrease, standing at 26.6 billion euros, with balance sheet resources decreasing by 3.5% and off balance sheet resources decreasing by 8.2%.

### Business Volume (million euro)

	Dec-13	Dec-12	%
<b>Business Volume</b>	<b>54,908</b>	<b>53,751</b>	<b>+2.2%</b>
Total Gross Loans (includes guarantees)	<b>28,294</b>	<b>25,865</b>	<b>+9.4%</b>
Total Gross Loans	<b>27,105</b>	<b>24,645</b>	<b>+10.0%</b>
Customers' Resources	<b>26,614</b>	<b>27,886</b>	<b>-4.6%</b>
Balance Sheet Resources	20,985	21,751	-3.5%
Deposits	20,691	21,395	-3.3%
Securities issued	294	356	-17.5%
Off-Balance Sheet Resources	5,630	6,135	-8.2%
Investment Funds	1,907	1,903	+0.2%
Insurance and Other Resources	3,723	4,231	-12.0%

## Capital Ratios

At the end of 2013, the Tier I and Core Capital ratios stood at 12.4% and 9.3%, respectively.

<b>CAPITAL</b>			
	<b>Dec-13</b>	<b>Dec-12</b>	<b>%</b>
<b>Total capital</b>	<b>2,365</b>	2,305	+2.6%
<b>Tier I Capital</b>	<b>1,933</b>	1,865	+3.6%
Tier II capital	432	440	-1.8%
<b>Risk weighted assets</b>	<b>15,653</b>	18,240	-14.2%
<b>Core Capital Ratio</b>	<b>9.3%</b>	8.6%	+0.7 p.p.
<b>Tier I Ratio</b>	<b>12.4%</b>	10.2%	+2.2 p.p.

## Introduction

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

## Credit Risk

### Main vectors of activity

In 2013, the activity of the area of Credit Risks had the following main vectors:

- Maintenance of the segmentation principle in the treatment of credit risks, varying the approach to risks in line with customers' and products' features;
- Reinforcement of the strictness in the admission criteria and consequently in the quality of the risks accepted in each of the segments aiming at preservation of the quality of the credit portfolios;
- Concerning the risks included in the portfolio proximity with the customers was intensified in order to anticipate their credit requirements, revise their credit lines and the eventual issues arising considering 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 risk significantly below the average for the sector. On the other 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 checking of lower rated segments and in sectors that are being more affected by the macroeconomic environment with the objective of mitigating the ratios of non performing loans. 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 imparity is equally adequate.
- Several measures were implemented in 2013 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, and considering the current difficult macroeconomic context, the main focus was kept on the maintenance of the portfolio's quality level, with action taken on non performing loans, by making available a set of products and solutions for debt restructuring that allow adapting customers' expenditure to their reimbursement capacity and current and future available income. As such, adequate admission strategies are being established in the Bank's decision systems and behavioural systems used to identify preventive and rollover measures to be offered to customers;
- Still on the issue of Standardized Risks, the Bank, aiming to improve the efficiency of the admission procedures, carried out the optimization of automatic decision models, specifically scorings and behavioural systems used in Privates and Business segments;
- With the objective to strengthen the commercial involvement and the *cross selling* of current customers and simultaneously energize the capturing of new customers, several campaigns were launched directed towards the Business segment (Credit Activation and Credit Rollover), aiming towards the production of new credit and the retaining of customers 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, a strong focus was placed on the recoveries activity level, strengthening the intervention agility. To be emphasized is the activity carried out in the massive management recoveries whilst keeping, at the same time, a permanent follow up of special cases and judicial or extra judicial procedures;
- The strengthening policy of negotiation procedures was maintained, aiming to obtain donations in lieu of payment as an alternative to judicial court actions;
- Modernization of the Recoveries area, based, on the one hand, in computer developments surgically indicated by the users as necessary and that aim to control the process from 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;
- At solvency and credit control level, permanent attention was kept on knowledge of the portfolio, aiming towards a strict control of the inherent risk, endeavouring to provide adequate and timely

management information, in order to allow that measures are taken to avoid operations to become non performing and to resolve non performing loans;

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

## Risk model

### Introduction

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

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

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

### Risk management metrics and tools

#### *Rating/scoring tools*

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

Global classification tools are applied to country risk segments, financial institutions and Wholesale Banking Groups, both in determining their rating as in following up the risks assumed. These tools attribute a rating to each customer as a result of a quantitative, or automatic,

module, based upon balance sheet data and/or ratios, or macroeconomic variables complemented by the analysis carried out by the risk analyst that follows up the customer.

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

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

For the portfolios of standardized risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented to automatically assign 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 the exposure at default (EAD) as well as the percentage EAD that may not be recovered (loss given default or LGD).

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or that of the unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), and this cost duly included in the price of the operations.

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

In small and medium sized enterprises, the information obtained from their accounts is used not just to record a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into delay, and correlating these with the scoring attributed to the transactions. Excepted are the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or assessments made by agencies with recognized experience and skill, with a portfolio containing a sufficient number of bodies (these portfolios are known as low default portfolio).

LGD estimates are based on the observation of the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the 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 consumption of the lines at the time of default.

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

### **Credit risk cycle**

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

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

#### *Planning and establishing limits*

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

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

With respect to portfolio risks, the more basic level is that of the customer and when certain features concur - generally at a level of relative importance - the portfolio is the object on an individual limitation, usually named as pre-classification, through a simpler system and 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 programmes for credit management (PGC) where the results of the business in terms of risk and profitability are considered, as well as the limits to which the activity and associated risk management must be subject.

#### *Risk assessment, decision on transactions, follow up and control*

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

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

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

#### *Recoveries*

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

- Ensure the collection or regularize the amounts in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated position not be



possible, the Recoveries area will then endeavour to process recovery through the law courts;

- Maintain and strengthen the relations with the customer, safeguarding his department within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: 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 delays 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 (REC), is the sum total of the Present Value of each contract (or Current Replacement Cost) and the respective Risk Potential, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

In 2013, the present value of transactions on the indexing factors of interest rates (Euribor) 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

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

### Interest rate risk

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

Considering the uncertainty in the variation of interest rate levels in 2013, 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, the Group's strategy being its total coverage

### Liquidity risk

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

By keeping to a conservative profile, the Bank is better protected with respect to potential crises that affect its environment.

The policy of a financing mix is always based on an adequate level of liquidity risk, in line with the established limits and will be assessed monthly by ALCO. The limits of liquidity risks are established by an independent

management body which, apart from other indicators, demands a reasonable amount of available liquid assets to be employed as a liquidity cushion.

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

The structural liquidity situation is fully balanced. In December 2013 the Bank presented an asset situation in the short term monetary market of approximately 700 million euros.

The capital market operated very irregularly throughout the year. In this context the ECB, by leading monetary policy assumed itself as the counterparty of the system through lending operations and absorbing liquidity. To take part in these operations it is necessary to hold assets considered eligible by the ECB to be given as collateral. In December 2013, the Bank held 12.9 billion euros in eligible assets that constitute a very comfortable liquidity reserve.

## Market Risks

### Activities subject to market risk

The perimeter of measurement, control and follow up of financial risks comprises operations where asset 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 (banking activity).

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

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

### • Structural Risks:

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

## Methodologies

### Negotiating activity

The methodology applied, within the scope of Banco 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 different 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 factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

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

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

## Calibration and contrast measure (*Backtesting*)

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

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

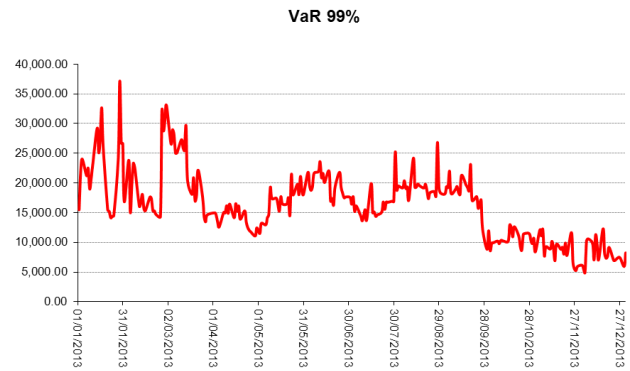
### Limits

Quantitative limits for negotiation portfolios, which are classified in two groups, 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 during 2013, quantified through VaR was that described in the following chart:



VaR was kept at reduced levels, varying between 5,000 and 37,000 euros.

## Operational Risk

Santander Totta defines Operational Risk as “the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances”. This is generally a risk differing from other types of risks, that is not associated to products or business, and that arises in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as natural catastrophes.

The management and control of operational risk is directed towards the identification, measurement, assessment, control and mitigation and information concerning this risk.

The priority is thus to identify and eliminate risk focuses, independently from losses having occurred or not. Measurement has also contributed towards the establishment of priorities in the management of operational risk.

To estimate the equity value required to cover operational risk the Group opted on a first stage for the method foreseen in the BIS II standards

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

The different stages of the management model allow:

- To identify the operational risk inherent to all the Bank's activities, products, processes and systems;
- To measure and assess the operational risk objectively, continually and coherently with the Basle II standards, define objectives, analyse the risk profile and define 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 operational risk as well as the respective implications;
- Establish the mitigating measures to eliminate or minimize the 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.

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

## Reputation Risk

Reputation risk is understood to be the probability of occurrence of negative financial impacts for the institution affecting the results or even its share capital, resulting from an unfavourable perception of its public image, whether proven or not, from customers, suppliers, analysts, employees, investors, media and any other bodies with which the institution may be related, or even by public opinion in general.

The reputation risk policy targets its management, such as defined in the above paragraph, determining the devices and procedures that allow: i) to minimize the probability that it 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, if necessary, that the Bank has reputation risk amongst its main concerns and has available the organization and means required for its prevention and, should it be the case, to overcome it.

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

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

Net Income for the Year, in individual terms and referring to 2013, amounted to €2,448,854.26 (two million, four hundred and forty eight thousand, eight hundred and fifty four euros and twenty six cents) and the Consolidated Net Income for 2013 was €89,163,757 (eighty nine million, one hundred and sixty three thousand, seven hundred and fifty seven euros)

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

- Legal Reserve: €244.885,43 (two hundred and forty four thousand, eight hundred and eighty five euros and forty three cents);
- Dividends: €1.230.000,00 (one million two hundred and thirty thousand);
- Income Carried Forward: €973,968.83 (nine hundred and seventy three thousand, nine hundred and sixty eight euros and eighty three cents).

Lisbon, 24 April 2014

THS BOARD OF DIRECTORS

## Prevention of Money Laundering

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

The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively directed towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Institutional Issues.

Staff is trained and regularly updated in 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 and to bring into prominence high risk customers, with a view for eventual communication to the Authorities. The system is audited annually.

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

Complying with the determinations of the Bank of Portugal's Memorandum No. 9/2012, Santander Totta prepared the corresponding Report on Prevention of Money Laundering and of Financing Terrorism relative to the period from 1 June 2012 to 31 May 2013 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 2012 and 30 November 2013, 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 March 2013, Banco Santander Totta, 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 the Bank held 125,169 own shares corresponding to 0.019% of its share capital. During 2013, the Bank carried out a purchase of 124,258 own shares, corresponding to 0.019% of its share capital, thus holding a total of 249,427 own shares at year end. This acquisition is comprised in the Bank'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 - 2013

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
<b>31/12/2012</b>	<b>125,169</b>	<b>5.41</b>	<b>676,705</b>	<b>0.019%</b>
Purchases	124,258	6.05	752,112	0.019%
Disposals	-	-	-	-
<b>31/12/2013</b>	<b>249,427</b>	<b>5.73</b>	<b>1,428,817</b>	<b>0.038%</b>

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

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

I. Business Model		
1.	Description of the business model (i.e., reasons for the development of the activities/business and respective contribution towards the process of creation of value and, if applicable, the alterations carried out (e.g. as a result of the period of turbulence);	See Report and Accounts – Chapter:  - Business Areas.
2.	Description of the strategies and objectives (including the strategies and objectives specifically related to carrying out securitization operations and with structured products);	See Report and Accounts – Chapters:  - Business Areas - Risk Management.  See Attachment to Consolidated FS -Notes 11, 22 & 45.
3.	Description of the importance of the activities carried out and respective contribution towards the Business (including approach in quantitative terms);	See Report and Accounts – Chapters:  - Business Areas - Business Support Areas; - Economic and Financial Information.  See Attachment to Consolidated FS -Notes 3 & 27.
4.	Description of the type of activities developed, including the description of the instruments used, and the operation and qualification criteria that products/investments must comply with;	See Report and Accounts – Chapter:  - Business Areas. See Attachment to Consolidated FS -Notes 1.3 e) and f).
5.	Description of the objective and range of the institution's involvement (i.e. commitments and liabilities assumed), relative to each activity developed.	See Report and Accounts – Chapters:  - Business Areas
II. Risks and Risk management		
6.	Description of the nature and range of the risks incurred relating to activities developed and instruments used	See Report and Accounts – Chapter: - Risk Management: See Attachment to Consolidated FS –Note 48 – dissemination of financial risk management policies inherent to the Group's activity and their monitoring.
7.	Description of the practices in risk management (particularly including the liquidity risk in the current environment) relevant to the activities and the corrective measures adopted, description of any weaknesses identified and the corrective measures adopted;	See item 6 above.
III. Impact on the Results of the Period of Financial Turbulence		
8.	Qualitative and quantitative description of the results with emphasis on losses (where applicable) and impact of the write-downs on results;	N.A

9.	Breakdown of write-downs/losses per type of products and instruments affected by the turbulence period such as the following: commercial mortgage backed securities (CMBS), residential mortgage backed securities (RMBS), collateralised debt obligations (CDO), asset-backed securities (ABS);	N.A.
10.	Description of the motives and factors responsible for the impacts suffered;	N.A.
11.	Comparison of: i) impacts between (relevant) periods and ii) financial statements before and after the impact of the turbulence period;	N.A.
12.	Breakdown of write-downs between amounts realised and not realised;	N.A.
13.	Description of the influence of the financial turbulence in the prices quoted for the unit's shares;	N.A.
14.	Disclosure of the risk of maximum loss and disclosure of how the institution's situation may be affected by the extension or the worsening of the turbulence period or by the market's recovery;	See Report and Accounts – Chapters: :  - Economic and Financial Information; - Risk Management.  See Attachment to Consolidated FS -Note 48.
15.	Disclosure of the impact that the variations to the spreads, related to the institutions main liabilities, had on the results, as well as the methods used to determine this impact;	See Report and Accounts – Chapter:  - Economic and Financial Information.  Liabilities issued by the Santander Totta Group are recorded at the depreciated cost.



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

16.	Nominal value (or amortized cost) and fair value of the "live" exposures";	See Report and Accounts – Chapter:  - Risk Management.  See Attachment to Consolidated FS -Notes 1.3 e) and f) and 48.
17.	Information on credit risk mitigating factors (e.g. via credit default swaps) and the respective effect on existing exposures	See Attachment to Consolidated FS -Notes 1.3 f), 7, 12 and 48.
18.	Detailed disclosure, broken down by: - Seniority level of exposures/tranches held; - Level of credit quality (e.g. ratings, vintages) - Original geographic area; - Sector of activity; - Origin of exposures (issued, held or acquired); - Product features: e.g. ratings, weight/part of sub-prime associated assets, discount rates, spreads, financing; - Features of underlying assets: e.g. vintages, "loan-to-value" ratio, credit privileges, weighted average life of underlying assets, variation assumptions of pre-payment situations, expected losses.	See Attachment to Consolidated FS -Notes 3, 11 and 48.
19.	Movements occurred in exposures between relevant reporting periods and underlying reasons for such variations (sales, write-downs, acquisitions, etc.)	N.A.
20.	Explanations concerning exposures (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognized during the crisis) and the related reasons;	N.A.
21.	Exposure to "monoline" insurers and quality of the insured assets: - Nominal value (or amortized cost) of the insured exposures as well as the amount of protection of the acquired credit; - Fair value of the "live" exposures, as well as the respective protection of the acquired credit; - Value of "write-downs" and losses, broken down between realised and non realised amounts; - Breakdown of exposures per rating or counterparty;	The Santander Totta Group has no exposure to "monoline" type insurers.

<b>V. Accounting Policies and Valuation methods</b>		
22.	Classification of transactions and of structured products for accounting purposes and respective accounting treatment	See Attachment to Consolidated FS –Note 1
23.	Consolidation of Special Purpose Entities (SPE) and other vehicles and reconciling these with the structured products affected by the turbulence period;	N.A.
24.	Detailed disclosure of the fair value of the financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (breakdown of all exposures measured at fair value in the fair value hierarchy and breakdown between availabilities and derivative instruments as well as disclosure of migration between hierarchical levels); - Treatment of "day 1 profits" (including quantitative information); - Use of fair value option (including conditions for its use) and respective amounts (with the adequate breakdown);	See Attachment to Consolidated FS -Notes 1.3 e) and f), 7, 8, 12 and 48.
25.	Description of modelling techniques used for the valuation of financial instruments, including information on: - Modelling techniques and instruments to which these are applied; - Evaluation processes (particularly including the assumptions and the inputs on which the models are based); - Types of adjustment applied to reflect the modelling risk and other evaluation uncertainties; - Fair value sensitivity (namely the variations in key assumptions and inputs); - Stress scenarios.	See Attachment to Consolidated FS -Notes 1.3 e), f) and 48.
<b>VI. Other Relevant Disclosure Features</b>		
26.	Description of the disclosure policies and of the principles followed in disclosure and financial reporting.	See Attachment to Consolidated FS -Note 1.

## Organic Structure by Position

### António Vieira Monteiro

#### Chairman and Risk management Function

Chairman's Office – Sebastião Beltrão  
Risk Control/Management – Manuel Aragão

#### Risks and Internal Audit

Wholesale Banking and Companies – Amílcar Lourenço  
Solvency, Markets and Credit Control – Jesus Garcia  
Standardized Risks – Inês Furtado  
Planning and Risk Projects - José Leão  
Superior Credit Board  
Internal Audit – Miguel Ruiz

#### Accounting & Management Control – Ignacio Centenera<sup>(1)</sup>

Accounting – Graça Vale  
Management Control – Cristina Marques  
Internal Control – Américo Domingues

#### Human Resources, Organization & Expenses– Nuno Costa<sup>(1)</sup>

Human Resources – Isabel Viegas  
Buildings, General Services & Security – Luís Morais  
Organization & Expenses – Mário Paulino

### José Carlos Sftima

#### Juridical & Compliance

Business Juridical Consultancy – Pedro Carvalho  
Institutional Issues & Compliance – João Labareda  
Supervision – João Mendes

#### Recoveries & Divestment – José Carlos Ribeiro<sup>(2)</sup>

Recoveries – José Sousa  
Divestment – Jacinto Galante

### Luis Bento dos Santos

#### Quality, Communication, Studies, Universities and Public Policy

Quality – Abel Bernardes  
Image & Internal Communication – Rui Santos  
External Communication – Cristina Neves  
Public Relations & Events – Cristina Carvalho  
Shareholders – 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 North – Miguel Coimbra  
Private Banking South – Luís Santos  
Support to Private Business – Miguel Cordovil  
Management of Private Assets – Catarina Roseira  
Real Estate Promoters & Brokers – José Alberto Moura  
Control of Irregularities – Jorge Mogo  
International – Foreign Residents – António Carneiro

<sup>(1)</sup> Manager Attached to the Executive Committee

<sup>(2)</sup> Assistant to the Board

---

**Pedro Castro e Almeida**

---

**Companies – Paulo Natal<sup>(1)</sup>**

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<sup>(1)</sup>**

Corporate and Investment Banking – João Veiga Anjos  
Credit Markets – Cristina Melo Antunes  
Global Transaction Banking – Hélder Gomes  
Treasury – Alexandra Gomes  
Middle Office and Control – António Rebocho  
Business Control – José Viegas  
Financial Institutions Group – Carlos Ramalho

---

**João Baptista Leite**

---

**Technology & Operations**

Technology & Business Systems – Elsa Graça  
Operations – Luís Alves  
Technological & Operational Risk – Esther Casillas  
Data Integration & Information – Otilia Casquilho

---

**Manuel Preto (\*)**

---

**Finance – Miguel Carvalho<sup>(1)</sup>**

Finance – Miguel Carvalho

**Commercial Intelligence – Joaquim Filipe<sup>(1)</sup>**

Strategy and Multichannel Management – Isabel Guerreiro  
Mid & Mass Market Segment – Luis Coito  
Premium/Select Segment – Jorge Alcobia  
Companies Segment – Inês Oom de Sousa  
Supplementary Channels – Rute Medo  
Studies & CRM – Sara Fonseca

---

**José Manuel Elias da Costa (\*\*)**

---

**Products & Marketing – Armindo Escalda<sup>(1)</sup>**

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

(\*) Assists the Chairman of the Executive Committee in the area of Commercial Intelligence

(\*\*) Also assumes relations with the Insurance and Asset Management areas

<sup>(1)</sup> Assistant to the Board

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

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

Name	Company	Office
António Basagoiti Garcia-Tuñón	Banco Santander, S.A (Spain).	Member of the Delegate Risk Committee of the Board of Directors, of the International Committee and of the Technology, Productivity and Quality Committee
	Santander Totta, SGPS, S.A.	Chairman of the Board of Directors
	Fundación Santander	Member of the Patronage Committee
	Fundación Banesto Sociedad y Tecnologia	Chairman
	Fundación Cultural Banesto	Chairman
	Fundación Eugenio Rodríguez Pascual	Chairman
	Fundación Príncipe de Asturias	Patron and Member of the Jury of the Concordia Prize
	A.T. Kearney	Member of the External Advisory Board
	Círculo de Empresários	Member of the Board of Directors
	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, S.A.	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 of Directors
	Vieira Monteiro, Lda.	Manager
José Carlos Brito Sítima	Santander Totta, SGPS, S.A.	Member of the Board of Directors and Member 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	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee
	Portal Universia Portugal, S.A.	Member of the Board of Directors and of the Executive Committee
Carlos Manuel Amaral de Pinho	Banco Caixa Geral Totta de Angola, S.A.	Member of the Board of Directors and of the Executive Committee
José Manuel Alves Elias da Costa	Santander Totta, SGPS, S.A.	Member of the Board of Directors and of the Executive Committee

Manuel António Amaral Franco Preto	Banco Santander Consumer Portugal, S.A.	Member of the Audit Board
	SerfinInternationalBank& Trust	Director
	Taxagest – Sociedade Gestora de Participações Sociais, S.A.	Member of the Board of Directors
	Santotta – International, SGPS, Sociedade Unipessoal, Lda	Manager
	Totta& Açores Financing, Ltd.	Director
	Tottalreland, Plc	Director r
	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
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
	Trem – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Trem II – Aluguer de Material Circulante, ACE	Member of the Board of Directors
	Nortrem – Aluguer de Material Ferroviário, ACE	Chairman of the Board of Directors
	SIBS – <i>Forward Payment Solutions</i> , S.A.	Member of the Board of Directors
	SIBS – SGPS, S.A.	Member of the Board of Directors
	UNICRE – Instituição Financeira de Crédito, S.A.	Member of the Board of Directors (1)
Luís Manuel Moreira de Campos e Cunha	Santander Totta, SGPS, S.A.	Chairman of the Audit Board
	Fundação de Serralves	Deputy Chairman
	SEDES – Associação para o Desenvolvimento Económico e Social	President
	Galp Energia, SGPS, S.A.	Member of the Board of Directors
	Fundação Centro Cultural de Belém	Deputy Chairman of the Board of Directors
	Universidade Nova de Lisboa	Professor
Ricardo Manuel Duarte Vidal de Castro	Santander Totta, SGPS, S.A.	Member of the Audit Board
	Clube do Autor, S.A.	Director
Pedro Manuel Alves Ferreira Guerra	Santander Totta, SGPS, S.A.	Alternate Member of the Audit Board

(1) Office terminates on 11-01-13

## Movements in Securities of Members of the Corporate Bodies

In the terms and for the purposes of the provisions of Article No 447 of Company Law and of CMVM Regulation 5/2008, the movements in shares and bonds carried out by members of the Corporate Bodies with reference to 2013, were the following:

Name	Securities	Opening Position 31/12/12	Movements in 2013				Closing Position 31/12/13
			Date	Acquisitions	Disposals	Unit Price (€)	
João Baptista Leite	Bonds BST – Caixa EUA - Cx	820					820
	Bonds. BST – Caixa Rendimento América Latina TOP 3	400					400

## I - Introduction

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

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

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

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

The remaining 0.131% of the total share capital is dispersed among several shareholders, with 0.038% 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. Equally there are no restrictions whatsoever to the possibility of share transfers, which are entirely free.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **8. The Bank's main business areas are:**

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

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

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

The main Committees follow, together with a résumé their functions.

##### **Management Committee**

Presided by the Chairman of the Executive Committee and comprising some of its members

and officers responsible for the business areas, it meets on a fortnightly basis. It exercises the powers delegated by the Executive Committee.

The main objectives 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 delays, and of the adequacy of the established commercial strategies, 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;
- Policies, strategy, objectives and follow up of actions in terms of Customer Quality and Experience.

##### **Superior Credit Board**

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

##### **Market & Financial Risks**

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

##### **ALCO – Assets and Liabilities Committee**

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

##### **Human Resources Committee**

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

##### **ARC – Analysis and Resolution Committee**

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

##### **Marketing and Product Follow Up**

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



### **Pensions**

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

### **Internal Control & Compliance**

Follow up and supervise compliance policies and promote an environment of internal control, specifically through the effective application of the risk management system.

### **Technological & Operational Risk**

Establish and follow up the implementation of measures for the control and mitigation of technological and operational risk.

### **Disposal of Real Estate**

Analysis and decision concerning the disposal of items of real estate 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 the provisions set up and decide upon credit provisions that should be binding.

### **Public Policy**

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

### **Sustainability**

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

### **Taxation**

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

### **Innovation in Means of Payment**

Establish the plan for implementation of innovative solutions in Means of Payment for customers, to be based on the corporate strategy established in the Santander Group.

### **Business Continuity Executive**

Promote an organizational culture that ensures business continuity, provide the availability of the necessary resources for implementation of the Banco Standard Totta PCN and of other bodies and

ensure that the approved and implemented plans and procedures are in line with the corporate PCN.

### **Functional Profiles**

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

### **Follow Up of the Physical Branch Network**

Analysis and decision concerning proposals for new branches, refurbishment, displacement, merger or shut down and the assess the respective impacts.

### **Social Networks**

Decide upon action proposals to be implemented in the social networks.

Two new areas were set up in 2013:

- Commercial Intelligence – comprises the strategic definition and the management of the Mass-Market, Select, Business and Companies segments, and equally Supplementary Channels, Studies and CRM, its interconnection with the areas of Retail Banking and Companies Banking being ensured through the respective areas of control and network dynamics.
- Divestment and Recoveries – encompasses all the activity developed with respect to credit recovery and the management and sale of assets acquired in the exercise of the credit recoveries activity.

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

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

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

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

The Bank, similarly to the Group in which it belongs, complies, since 2006, with the demands of the Sarbanes Oxley (SOX) American Law, a standard that the Securities Exchange Commission (SEC) made obligatory for all corporations quoted on the New York Stock Exchange and which is one of the

more demanding in terms of requisites for an adequate and warrantable Model of Internal Control.

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

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

#### a) Risk Management Function

The Risk Management Function (RMF) is transversal to the Santander Totta Group. This function is comprised in the Control Office / Risk Management Function (CORMF), established in BST's organic structure.

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

This function's general mission is to ensure an efficient and adequate operation of the risk management system as defined in Article No. 16 of the already mentioned BdP Instruction 5/2008, aiming to assess the relevance of the incurred risks and the degree of effectiveness of the measures adopted for its control, mitigation and overcoming.

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

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

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

considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputation and Strategic Risks, without prejudice to any others that, in the view of the institution, may become material;

- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements with respect to the development of new tools and the estimate of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Board the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board considers as opportune.

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

The CORMF is applying a specific methodology developed to assess the reach and effectiveness of the controls and mitigation processes of the Risk profiles, which has materialized in a number of tests or checks of the requisites specifically recommended for each type of risk. Such tests and requisites were based on the recommendations issued by the Basle Committee and by the European Banking Authority (EBA, ex-CEBS), by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), by the Federal Reserve System (FED), Sarbanes-Oxley Law (SOX), Financial Services Authority (FSA) and other standard and regulatory bodies. Also considered was the Portuguese case, especially the regulations covering Internal Control contained in the General Regime of Credit Institutions and Finance Companies (GRCIFC) and connected documentation such as BdP Instruction 5/2008, CMVM Regulatory Instruction 3/2008 and particularly in the Risk Assessment Model (RAM).

The activity developed by the Risk Management Function is usually documented in a specific annual report, the "CMF Report", the last of which is dated May 2013. This document is intended to be used as a support to the Santander Totta Internal Control System, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred Report.

As a complement, this activity, since the end of 2012, is also directed towards the accompaniment of the Special On-Site Inspection Programme (SIP) promoted by the Bank of Portugal, with the support of international auditors and consultants, under the joint supervision of the International Monetary Fund, European Central Bank and European Commission (IMF/ECB/EU), the of

which have confirmed, in all regards, the certainty of the correct adequacy of the policies, procedures and controls instituted by Santander Totta.

## b) Compliance Function

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

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

- DCICI is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;
- DCICI has its own staff, who are employees of the institution, exclusively affected to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;
- DCICI, in exercising its mission, has free access to all information and data relative to the Bank's activity that it may request or require, as well as to the Institution's facilities and equipment;
- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputation and compliance risks and, should it be the case, the correction of the incidences occurred;
- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with

the Code of Conduct for the Securities Market is especially controlled by DCICI that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;

- Policies and procedures are approved and established for marketing products, as well as the process and offices for the respective approval and follow up that aim, on the one hand, to guarantee the prior checking of all the necessary requisites in order that marketing operates without legal, reputation and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, enter the justifiable overcoming measures, which may include the interruption or the termination of the marketing exercise when circumstances so determine or advise. In this context, special relevance is assumed by the assessment and follow up of the reputation risk inherent to the products or that may arise during the exercise of the marketing operation by the occurrence of on the spot adverse circumstances that, in some way, may affect those, or that are relevantly incident on customer relationship;
- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its scope, to external branches and subsidiaries. Several of these already have officers responsible for compliance that locally exercise the corresponding duties. In remaining cases, where the type of operation of the activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in Portugal. DCICI, within the framework of its mission, controls the performance of such duties by the respective responsible officers.

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

the involved areas taking part in the respective meetings.

On another hand, within the scope of these Committees, or not, DCICI maintains a regular relationship with the remaining control areas (Audit and General Risk Function), in order to enhance the placing into perspective, the follow up and the global control of the risks.

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

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

Without prejudice to the permanent and systematic contacts with the Bank’s Executive Committee, and mainly with the Director responsible, the activity developed within the scope of the compliance mission is the object of an annual report.

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2012) and the end of May 2013.

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

### c) Audit Function

The basic duties of Internal Audit are:

- Supervise the compliance, effectiveness and efficiency of the Group’s systems of internal control, as well as the reliability and quality of the accounting information. For this purpose it checks that the risks inherent to the Group’s activity are adequately covered, particularly the accounting risks, market risks (that include interest and exchange rates), of the balance sheet structure (that includes liquidity risks), credit, operational, (including the adequate launching of products), money laundering, regulatory and reputation;

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

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

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

The Risk Matrix gives precedence to 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 and other factors (size of Unit, last rating obtained, and degree of implementation of the recommendations).

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

## II. Remuneration

### 1. Remuneration Policy of Corporate Officers applicable in 2013

Following a proposal of the Remuneration Committee, the General Meeting held on 15 March 2013 approved the following statement on remunerations policy.

#### Remuneration Policy of Corporate Officers

##### A. Framework

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

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

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

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

##### B. Santander Group Policy

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

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

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

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

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

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

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

### C. Guiding Principles of the Banco Santander Totta Remuneration Policy

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

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

### D. Components of the Remuneration Policy

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

- The Remuneration Policy of Corporate Officers is framed within the Group's directives that were laid down in line with the best practices existing in the sector
- The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
  - (i) Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors;
  - (ii) Annually, by the Group's Managing Director, with respect to the Chairman of the Bank's Executive Committee.
- Concerning the non executive directors, the Chairman of the Board of Directors does not receive any remuneration in Portugal, and is remunerated exclusively for his activity in Spain; one other non executive Director receives Fixed and Variable remuneration, the amount of which is directly related to the results of Bank Caixa Geral Totta de Angola, where he has executive duties, and a further non executive Director receives no remuneration in Portugal and is exclusively remunerated for his activity in the United States of America.
- The members of the Audit Board receive only a fixed remuneration the amount of which is determined in line with the criteria and practices in use in the remaining Group companies, considering the size of the business and of the Portuguese market.
- Considering that the conditions under which the variable remuneration is established and paid result in an indeterminate value and eventual payment, it is not possible to determine a maximum absolute limit for the relation between the fixed and variable remuneration of the executive directors. For this reason, with respect to 2013, the only indication given will be the estimated proportion that results for each of the components in the total remuneration, considering the practice followed in previous years.

## D.1. Fixed Remuneration

- Fixed Remuneration is paid 14 times per year;
- The Fixed Remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank's results, the assessment of performance and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Remuneration of the executive directors has the limits annually set by the Remunerations Committee, and should not be, in 2013, lower than 40% of the Total Remuneration.

## D.2. Variable Remuneration

- The remuneration of the members of the Executive Committee equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2013, it will amount to more than 60% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators included in the Strategic Plan that are annually established by the Group;
- The determination of the value of the Variable Remuneration is based upon the following criteria: i) the results of the Bank and of the Group it comprises, although, as to the latter, with a lower relative weight, and considering the indicators of efficient capital consumption and the average growth of the operating results; ii) individual performance, considering the individual quantitative results achieved, as well as the contribution to the Bank's image and reputation;
- The attribution of Variable Remuneration equally depends upon the degree of achievement of the annual objectives established;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary in each year as a function of the degree of achievement of the objectives, between 0% and a value that in 2013 is estimated not to be in excess of 150% of the reference value established annually by the Remunerations Committee;
- The weighting of the achievement of the strategic objectives set by and for the Bank, either in absolute terms, or by comparison with other institutions in the sector, for the purpose of establishing the Variable Remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
- In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be placed in suspense until such claims have been established and, should these be conclusive, the respective remuneration will not be attributed until such damages have been settled.

### D.2.1. Deferment of Variable Remuneration

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

- Shares attributed to the members of the Executive Committee do not benefit from any risk coverage contract and will remain, until the termination of their respective mandates, subject to the condition that the shares continue held, until their value reaches twice the value of the amount of the Total Remuneration (without prejudice to the possibility of shares being disposed of should this be required in order to settle taxes resulting from the benefits of those same shares).

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

On this date, with respect to two directors, two thirds of the Variable Deferred Remuneration relative to 2010 has been deferred, and one third of this Remuneration will be paid during this month.

With respect to 2011 the total Deferred Variable Remuneration remains to be paid, and one third will be paid during this month.

With respect to 2012, 30% of the Variable Remuneration has already been paid and a further 30% will be settled in shares in the current month. The remaining portion is deferred

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

It is not estimated that, in 2013, any amounts will be paid to the executive directors, by other companies owned by or related to the Group.

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

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

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

#### **E. Complementary Features**

The attribution of option plans for 2013 is not envisaged.

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

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



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

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

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

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

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

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

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2013 were, respectively, 2,749,000 euros in fixed remunerations and 3,561,000 euros in variable remuneration.

Paid and deferred individual remuneration relative to 2013 is shown in the table below.

On 31 December 2013 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 1,009,000 euros.

## Annual Remuneration

### Board of Directors

Name	Position	Remuneration fixed
António Basagoiti Garcia -Tuñón **	Chairman	460
António José Sacadura Vieira Monteiro	Deputy-Chairman	500
Carlos Manuel Amaral de Pinho	Non-Executive Member	178
Eduardo José Stock da Cunha ***	Non-Executive Member	-
João Baptista Leite	Member	200
José Carlos Brito Sítima	Member	273
José Urgel Moura Leite Maia	Member	200
José Manuel Alves Elias da Costa	Member	257
Luís Filipe Ferreira Bento dos Santos	Member	231
Pedro Aires Coruche Castro e Almeida	Member	210
Manuel António Amaral Franco Preto *	Member	141
		<u>2,650</u>

\* Appointed on 01/04/2013

\*\* Appointed on 01/05/2013

\*\*\* Rennounced office on 16/10/2013

### Audit Board

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

## Variable Annual Remuneration

Payment in cash:

### Board of Directors

Name	Position	Bonuses in 2013 (cash)
António José Sacadura Vieira Monteiro	Deputy-Chairman	150
Carlos Manuel Amaral de Pinho	Non-Executive Member	75
João Baptista Leite	Member	72
José Carlos Brito Sítima	Member	150
José Urgel Moura Leite Maia	Member	105
José Manuel Alves Elias da Costa	Member	130
Luís Filipe Ferreira Bento dos Santos	Member	129
Pedro Aires Coruche Castro e Almeida	Member	161
Manuel António Amaral Franco Preto	Member	90
		<u>1,062</u>

Payment in shares:

Board of Directors

Name	Position	Bonuses in 2013 retained by one year
António José Sacadura Vieira Monteiro	Deputy-Chairman	144
Carlos Manuel Amaral de Pinho	Non-Executive Member	72
João Baptista Leite	Member	68
José Carlos Brito Sítima	Member	144
José Urgel Moura Leite Maia	Member	101
José Manuel Alves Elias da Costa	Member	125
Luís Filipe Ferreira Bento dos Santos	Member	123
Pedro Aires Coruche Castro e Almeida	Member	154
Manuel António Amaral Franco Preto	Member	86
		1,017

This amount corresponds to 158,901 shares of Banco Santander, S.A., at the value of 6.40 Euros per share, this being the market value (stock exchange quotation) on the date of the respective attribution.

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

In July 2013, the fifth cycle of the share plan bound to objectives was finalized, with no shares attributed since the objectives were not met.

### Deferred Remuneration

The deferred portion of the remuneration paid in cash with respect to 2013 consists of:

Board of Directors

Name	Position	Bonuses in 2013		
		2015 Cash	2016 Cash	2017 Cash
António José Sacadura Vieira Monteiro	Deputy-Chairman	50	50	50
Carlos Manuel Amaral de Pinho	Non-Executive Member	17	17	17
João Baptista Leite	Member	16	16	16
José Carlos Brito Sítima	Member	33	33	33
José Urgel Moura Leite Maia	Member	23	23	23
José Manuel Alves Elias da Costa	Member	29	29	29
Luís Filipe Ferreira Bento dos Santos	Member	29	29	29
Pedro Aires Coruche Castro e Almeida	Member	36	36	36
Manuel António Amaral Franco Preto	Member	20	20	20
		252	252	252

The deferred portion of the remuneration paid in shares with respect to 2013 consists of:

Name	Position	Bonuses in 2013		
		2014	2015	2016
		shares	shares	shares
António José Sacadura Vieira Monteiro	Deputy-Chairman	7,485	7,485	7,485
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,495	2,495	2,495
João Baptista Leite	Member	2,380	2,380	2,381
José Carlos Brito Sítima	Member	4,990	4,990	4,990
José Urgel Moura Leite Maia	Member	3,502	3,502	3,502
José Manuel Alves Elias da Costa	Member	4,339	4,339	4,340
Luís Filipe Ferreira Bento dos Santos	Member	4,281	4,281	4,282
Pedro Aires Coruche Castro e Almeida	Member	5,339	5,339	5,340
Manuel António Amaral Franco Preto	Member	2,994	2,994	2,994
		<b>37,805</b>	<b>37,805</b>	<b>37,809</b>

At the current date, two thirds of the deferred variable remuneration with respect to 2012 have been deferred, and one third has already been paid.

Name	Position	Bonuses of 2012 paid in February 2014			
		Interest	Dividend	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy-Chairman	0.3	5	53	54
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.2	2	19	19
João Baptista Leite	Member	0.1	2	18	18
José Carlos Brito Sítima	Member	0.1	3	27	28
José Urgel Moura Leite Maia	Member	0.1	3	27	28
José Manuel Alves Elias da Costa	Member	0.2	3	32	33
Luís Filipe Ferreira Bento dos Santos	Member	0.2	3	29	30
Pedro Aires Coruche Castro e Almeida	Member	0.2	4	38	39
Manuel António Amaral Franco Preto	Member	0.1	2	21	22
		<b>1.5</b>	<b>24</b>	<b>262</b>	<b>270</b>

The value of the shares corresponds to 40,704 shares of Banco Santander, S.A., at a price per share of 6.64 Euros, since this is the market value (stock exchange quotation) on the date of the respective attribution.

Name	Position	Bonuses in 2012			
		2015		2016	
		Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy-Chairman	8,169	53	8,168	53
Carlos Manuel Amaral de Pinho	Non-Executive Member	2,885	19	2,884	19
João Baptista Leite	Member	2,723	18	2,723	18
José Carlos Brito Sítima	Member	4,220	27	4,221	27
José Urgel Moura Leite Maia	Member	4,149	27	4,149	27
José Manuel Alves Elias da Costa	Member	4,963	32	4,964	32
Luís Filipe Ferreira Bento dos Santos	Member	4,452	29	4,452	29
Pedro Aires Coruche Castro e Almeida	Member	5,876	38	5,876	38
Manuel António Amaral Franco Preto	Member	3,267	21	3,268	21
		<b>40,704</b>	<b>261</b>	<b>40,705</b>	<b>261</b>

At the current date, one third of the deferred variable remuneration with respect to 2011 is deferred, and one third of this remuneration has been paid.

Name	Position	Bonuses of 2011 paid in February 2014			
		Interest	Dividend	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy-Chairman	0.2	2	10	11
Carlos Manuel Amaral de Pinho	Non-Executive Member	-	2	-	12
João Baptista Leite	Member	0.1	1	6	7
José Carlos Brito Sítima	Member	0.2	2	10	11
José Urgel Moura Leite Maia	Member	0.2	2	10	11
José Manuel Alves Elias da Costa	Member	0.3	3	14	16
Luís Filipe Ferreira Bento dos Santos	Member	0.3	3	12	14
Pedro Aires Coruche Castro e Almeida	Member	0.6	6	26	29
		1.9	21	87	111

The value of the shares corresponds to 17,011 shares of Banco Santander, S.A., at a price per share of 6.56 Euros, since this is the market value (stock exchange quotation) on the date of the respective attribution

Name	Position	Bonuses of 2011	
		2015	
		Shares	Cash
António José Sacadura Vieira Monteiro	Deputy-Chairman	1,704	10
Carlos Manuel Amaral de Pinho	Non-Executive Member	1,772	-
João Baptista Leite	Member	1,086	6
José Carlos Brito Sítima	Member	1,704	10
José Urgel Moura Leite Maia	Member	1,704	10
José Manuel Alves Elias da Costa	Member	2,409	14
Luís Filipe Ferreira Bento dos Santos	Member	2,138	12
Pedro Aires Coruche Castro e Almeida	Member	4,496	26
		17,013	87

The variable remuneration paid with respect to 2010 was as follows:

Name	Position	Bonuses of 2010 paid in February 2014	
		Dividend	Shares
José Manuel Alves Elias da Costa	Member	1	4
Pedro Aires Coruche Castro e Almeida	Member	6	21
		7	24

The value of the shares corresponds to 3,725 shares of Banco Santander, S.A., at a price per share of 6.56 Euros, since this is the market value (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, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service

On 31 December 2013, liabilities with this plan amounted to 15,598,000 euros and are duly covered by a provision recorded in the Bank's accounts.

### **Contractual Terminations**

There were no payments, in 2013, of any compensation for early termination of employment of corporate officers.

### **3. Remuneration Policy applicable in 2013 to the Managerial Staff of Banco Santander Totta, S.A.**

At its meeting held on 27 June 2013 the Board of Directors approved the following remunerations policy.

#### **Remuneration Policy applicable to the Managerial Staff of Banco Santander Totta, S.A.**

In the terms and for the purposes of the provisions of article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy is disclosed of the employees who, not being Corporate Officers of Bank Santander Totta, S.A. (the "Bank"), (i) exercise their professional activity with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Banks 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

#### **A. Framework**

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

The Remuneration Policy of Managerial Staff is annually reviewed and approved by the Board of Directors, in the exercise of the competence that may be delegated on the respective Executive Committee, The officer responsible for 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, all features that have an impact on remunerations.

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

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

### **D. Components of the Remuneration Policy**

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

- This Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the practices existing in the sector;
- The means for the assessment of the 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;

- Since the conditions for the establishment and payment of the variable remuneration render its final value indeterminate and its payment eventual, it is not possible to set an absolute maximum limit for the relationship between the fixed and variable components of the Managerial remunerations. For this reason, with respect to 2013, the only possible indication will be the estimated proportion that each of the components will represent in the total remuneration, having as a reference the practice followed in prior years.

#### D.1. Fixed Remuneration

- Fixed remuneration is paid 14 times a year;
- Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
- Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
- The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 2013, 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;
- The Variable Remuneration is adequately balanced in relation to the Fixed Remuneration, and it is not expected that, in 2013, it will amount to more than 50% of Total Remuneration;
- In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established 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;
- The attribution of Variable Remuneration depends upon short term performance and on the degree of achievement of the established annual objectives individually weighted in line with the respective degree of strategic importance and in the terms of the schedule defined in the Performance Assessment Policy;
- Variable Remuneration is intended to compensate the achievement of annual results and individual performance, and may vary each year in terms of the degree in the achievement of objectives, between 0% and a value that in 2013 is estimated as not in excess of 150% of the reference value, such as determined by the majority shareholder.



### D.2.1. Deferment of the Variable Remuneration

- Variable remuneration attributed to Officers covered by Instruction 5/2008 of the Bank of Portugal is subject to payment in deferred portions and paid partly in cash (50%) and in shares of Santander Bank (50%), in line with the provisions contained in the items below:
- In following the regulation approved by the Board of Directors of Banco Santander, S.A., the deferment of Variable Remuneration is determined as a function of the results obtained in a three year period and subject to the joint consideration of the following three conditions: (i) permanence in the company during a pre-established period; (ii) continuing level of financial performance of the Santander Group during the three year reference period; (iii) non occurrence of significant variations in the economic capital or risk profile of the Santander Group; (iv) compliance with internal standards, including those relative to risks, annually approved by the Group;
- The deferred portion will represent 40% of the value of the Variable Remuneration;
- Half of the deferred amount is paid in shares and the other half in cash, the payment of the latter portion to be effected in three instalments, during the three following years and will be dependent upon the above referred conditions, under *b*);
- The shares immediately given to the employees covered by this regulation are subject to their being held during one year and will not benefit from any risk covering contract; shares attributed on a deferred basis are not subject to a holding condition.

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

The 30% in cash and the 30% in shares of the 2012 Variable Remuneration of the Officers covered by the provisions of Instruction 5/2008 of the Bank of Portugal has already been settled. The settlement of the remainder, should the assumptions contained in 2.1 b) have materialized, will be deferred throughout 2014 and 2016.

With reference to the remaining Officers, the 2012 Variable Remuneration has been fully settled.

### D.3. Benefits

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

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

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

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

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

There are no pension benefits attributed on a discrete basis.

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

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

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

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

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

This information is provided in compliance with the provisions of article No. 17 of Instruction No.10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), in that part that refers the disclosure, in aggregate terms, of the 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:	€1,078,000
Amount of variable remuneration:	€495,000
Number of beneficiaries:	7

2013 performance premium retained for one year amounting to □ 242,000 corresponds to 37,743 shares in Banco Santander, S.A., at a value of 6.40 Euros per share, since this is the market price (stock exchange quotation) on the date of the respective attribution.

Deferred Remuneration	<u>Assigned</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
2012				
Cash payment (Euros '000)	45	44	44	-
Shares	38	6,821	6,821	-

Shares assigned correspond to 5,720 shares in Banco Santander, S.A., at a value of 6.64 Euros per share, since this is the market price (stock exchange quotation) on the date of the respective attribution.

2013				
Cash payment (Euros '000)	-	58	58	58
Shares	-	8,752	8,752	8,751

These Officers are also comprised in the worldwide long term incentive plan, which is divided in cycles. The fifth cycle of the share plan bound to objectives was finalized in July 2013, with no shares being attributed since the objectives had not been met.

#### **Other Benefits**

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

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

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

#### **New Contracts**

No new personnel contracts occurred. However, in July 2013, the Officer responsible for the Area of Human Resources, Organization and Expenses was included in this circle.

#### **Contractual Terminations**

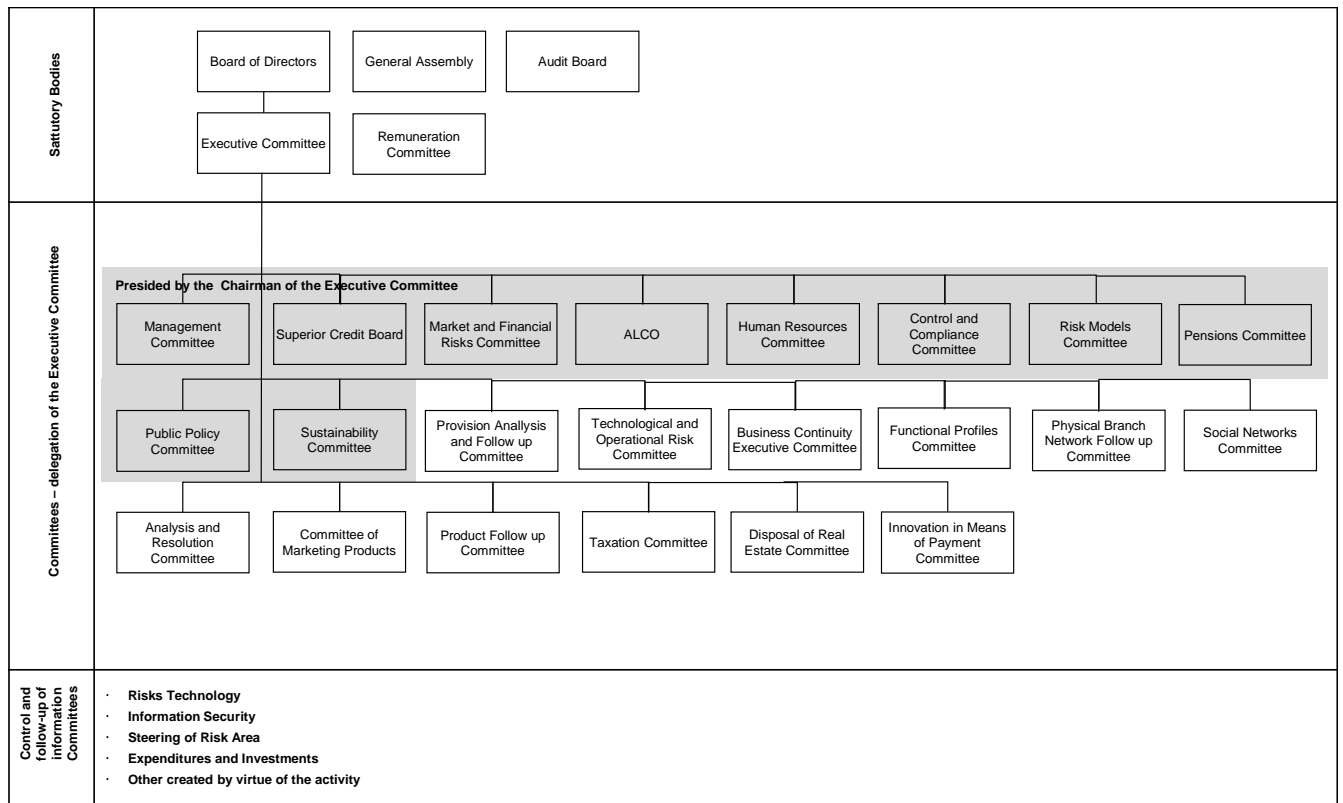
In 2013, the Officer Reswponsible for the Financial Area was appointed as a Director, and another Officer appointed for these duties.

### **III. Remuneration Policies for 2014**

The Remunerations policy for the Corporate Officers of Bank Santander Totta for 2014, will be considered at the Annual General Meeting, in compliance with article No. 2, §1 of Law No. 28/2009, dated 19 June and of article No. 16 of Instruction No. 10/2011, of the Bank of Portugal, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012).

The Remunerations policy for the Managerial Staff of Bank Santander Totta was approved at the meeting of the Board of Directors held on 27 June 2013, applicable in 2013 and 2014. Until a new decision is taken, that policy is the above described. This issue will be reconsidered in June 2014.

## IV. Model of Internal Governance



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

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

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

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2013, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

### Board of Directors

---

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 identified by name individually subscribed the following declaration:

“I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Legislation that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor’s report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2013, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced”.

### Audit Board

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

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

Ricardo Manuel Duarte Vidal Castro

# Consolidated Financial Statements



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheets originally issued in Portuguese - Note 52)

ASSETS	Notes	2013			2012	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2013	2012
		Amounts before impairment and depreciation	Depreciation and impairment	Net assets	Net assets				
Cash and deposits at central banks	5	337.841	-	337.841	352.365	<b>Liabilities</b>			
Balances due from other banks	6	552.921	-	552.921	385.323	Resources of central banks	19	6.241.410	5.837.242
Financial assets held for trading	7	1.949.115	-	1.949.115	2.265.495	Financial liabilities held for trading	7	1.619.768	2.048.743
Financial assets at fair value through profit or loss	8	-	-	-	93.735	Resources of other credit institutions	20	4.175.058	1.949.574
Available-for-sale financial assets	9	4.443.991	61.738	4.382.253	3.489.864	Resources of customers and other debts	21	20.707.001	21.497.174
Loans and advances to credit institutions	10	3.270.970	-	3.270.970	3.097.422	Debt securities	22	2.534.161	3.953.519
Loans and advances to customers	11	27.185.397	1.077.876	26.107.521	26.979.649	Hedging derivatives	12	370.684	455.911
Hedging derivatives	12	199.427	-	199.427	284.850	Provisions	23	62.039	72.271
Non-current assets held for sale	13	319.525	112.582	206.943	206.840	Current tax liabilities	17	14.313	4.687
Investment properties	14	467.949	-	467.949	-	Deferred tax liabilities	17	58.524	75.303
Other tangible assets	15	831.593	512.931	318.662	336.084	Subordinated liabilities	24	4.307	4.311
Intangible assets	15	364.498	312.030	52.468	65.842	Other liabilities	25	292.900	303.417
Investments in associated companies	16	148.790	1.060	147.730	142.994	Total liabilities		<u>36.080.165</u>	<u>36.202.152</u>
Current tax assets	17	17.458	-	17.458	4.246	<b>Shareholders' equity</b>			
Deferred tax assets	17	540.675	-	540.675	631.578	Share capital	26	656.723	656.723
Other assets	18	281.693	23.098	258.595	190.956	Share premium account	26	193.390	193.390
						Other equity instruments	26	135.000	135.000
						Revaluation reserves	26	(573.189)	(699.202)
						Other reserves and retained earnings	26	1.477.217	1.421.512
						(Treasury shares)		(43.312)	(42.560)
						Consolidated net income attributable to the shareholders' of BST	27	89.164	88.068
						Shareholders' equity attributable to the shareholders' of BST		1.934.993	1.752.931
						Minority interests	28	795.370	572.160
						Total shareholders' equity		<u>2.730.363</u>	<u>2.325.091</u>
						Total liabilities and shareholders' equity		<u>38.810.528</u>	<u>38.527.243</u>
<b>Total assets, net</b>		<u>40.911.843</u>	<u>2.101.315</u>	<u>38.810.528</u>	<u>38.527.243</u>				

The accompanying notes form an integral part of the consolidated balance sheet as of December 31, 2013.



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of income originally issued in Portuguese - Note 52)

	Notes	2013	2012
Interest and similar income	30	1.271.127	1.648.148
Interest and similar charges	31	(763.859)	(1.106.614)
<b>Net interest income</b>		<u>507.268</u>	<u>541.534</u>
Income from equity instruments	32	1.313	1.698
Income from services and commissions	33	370.626	384.701
Charges with services and commissions	34	(55.116)	(53.893)
Result of assets and liabilities at fair value through profit or loss	35	20.326	37.183
Result of available-for-sale financial assets	36	4.534	(2.696)
Result of foreign exchange revaluation	37	4.039	5.652
Result from the sale of other assets	38	2.476	85.689
Other operating results	39	(34.431)	(12.760)
<b>Net income from banking activities</b>		<u>821.035</u>	<u>987.108</u>
Staff costs	40	(269.577)	(257.636)
General administrative costs	41	(137.159)	(137.496)
Depreciation in the year	15	(59.777)	(63.873)
Provisions, net of reversals	23	(6.930)	(22.821)
Loan impairment net of reversals and recoveries	23	(197.039)	(378.147)
Impairment of other financial assets net of reversals and recoveries	23	(3.155)	(16.504)
Impairment of other assets net of reversals and recoveries	23	(36.827)	(49.137)
Result from associates	42	14.069	11.864
<b>Income before taxes and minority interests</b>		<u>124.640</u>	<u>73.358</u>
Taxes			
Current	17	(35.321)	(29.593)
Deferred	17	(9.037)	44.303
<b>Income after taxes and before minority interests</b>		<u>80.282</u>	<u>88.068</u>
Minority interests	28	8.882	-
<b>Consolidated net income attributable to the shareholders of BST</b>	27	<u>89.164</u>	<u>88.068</u>
Average number of ordinary shares outstanding		641.959.603	642.021.170
Earnings per share (in Euros)		0,14	0,14

The accompanying notes form an integral part of the consolidated statement of income for the year ended December 31, 2013.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of comprehensive income originally issued in Portuguese - Note 52)

	December 31, 2013		December 31, 2012	
	Attributable to the shareholders' of BST	Attributable to minority interests	Attributable to the shareholders' of BST	Attributable to minority interests
Consolidated net income for the year	89.164	(8.882)	88.068	-
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations				
. Fair value	(37.785)	-	(35.093)	-
. Tax effect	7.447	-	10.178	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences on transaction of foreign subsidiaries	(4.487)	(11.811)	1.527	(5.377)
. Revaluation reserves of associated companies valued at equity method				
. Fair value	767	-	1.446	-
. Tax effect	(157)	-	(420)	-
. Changes in fair value of financial assets available for sale				
. Fair value	278.591	-	427.590	-
. Tax effect	(79.604)	-	(124.000)	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	(55.108)	-	40.944	-
. Tax effect	15.760	-	(11.874)	-
Consolidated comprehensive income for the year	<u>214.588</u>	<u>(20.693)</u>	<u>398.366</u>	<u>(5.377)</u>

The accompanying notes form an integral part of the consolidated statement of income and other comprehensive income for the year ended December 31, 2013.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 52)

	Share Capital	Share Premium Account	Other equity instruments	Revaluation reserves			Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income in the year	Minority interests	Shareholder equity
				Legal revaluation	Fair value	Foreign exchange fluctuation								
<b>Balances as at December 31, 2011</b>	<b>656.723</b>	<b>193.390</b>	<b>135.000</b>	<b>23.245</b>	<b>(1.435.951)</b>	<b>(6.116)</b>	<b>410.361</b>	<b>243.633</b>	<b>934.465</b>	<b>226.484</b>	<b>(42.400)</b>	<b>47.121</b>	<b>577.520</b>	<b>1.963.475</b>
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	229	2.229	30.069	14.594	-	(47.121)	-	-
. Preference shares	-	-	-	-	-	(1.268)	-	-	(29.346)	-	-	-	16	(30.598)
Long-term incentives	-	-	-	-	-	-	-	-	(616)	-	-	-	-	(616)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(160)	-	-	-	(160)
Other	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Comprehensive income for the year 2012	-	-	-	-	434.887	1.527	(126.116)	-	-	-	-	88.068	(5.377)	392.989
<b>Balances as at December 31, 2012</b>	<b>656.723</b>	<b>193.390</b>	<b>135.000</b>	<b>23.245</b>	<b>(1.001.064)</b>	<b>(5.857)</b>	<b>284.474</b>	<b>245.862</b>	<b>934.572</b>	<b>241.078</b>	<b>(42.560)</b>	<b>88.068</b>	<b>572.160</b>	<b>2.325.091</b>
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	453	-	(3.908)	91.523	-	(88.068)	-	-
. Preference shares	-	-	-	-	-	136	-	-	(30.750)	-	-	-	36	(30.578)
Long-term incentives	-	-	-	-	-	-	-	-	(799)	-	-	-	-	(799)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(752)	-	-	-	(752)
Entries in the consolidation perimeter:														
. Novimovest Fund	-	-	-	-	-	-	-	-	(358)	-	-	-	111.241	110.883
. Santander Multiobrigações Fund	-	-	-	-	-	-	-	-	-	-	-	-	132.701	132.701
Other	-	-	-	-	-	-	-	-	(3)	-	-	-	(75)	(78)
Comprehensive income for the year 2013	-	-	-	-	186.465	(4.487)	(56.554)	-	-	-	-	89.164	(20.693)	193.895
<b>Balances as at December 31, 2013</b>	<b>656.723</b>	<b>193.390</b>	<b>135.000</b>	<b>23.245</b>	<b>(814.599)</b>	<b>(10.208)</b>	<b>228.373</b>	<b>245.862</b>	<b>898.754</b>	<b>332.601</b>	<b>(43.312)</b>	<b>89.164</b>	<b>795.370</b>	<b>2.730.363</b>

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the year ended December 31, 2013.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of cash flows originally issued in Portuguese - Note 52)

	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commissions received	1.490.692	1.862.203
Payment of interest and commissions	(738.522)	(1.065.914)
Payments to staff and suppliers	(414.641)	(430.528)
Contributions to the Pension Fund	(56.000)	(12.023)
Foreign exchange and other operating results	(41.654)	(14.081)
Recovery of uncollectable loans	7.457	8.638
Operating results before changes in operating assets and liabilities	247.332	348.295
 (Increase) / decrease in operating assets:		
Loans and advances to banks	(171.659)	(403.229)
Financial assets held for trading	433.845	(257.082)
Loans and advances to customers	556.972	981.684
Assets and liabilities at fair value through profit and loss	(14.399)	(32.618)
Non-current assets held for sale	(55.204)	(108.330)
Other assets	(55.098)	(28.209)
	694.457	152.216
 Increase / (decrease) in operating liabilities:		
Resources of financial institutions	2.588.358	(723.734)
Resources of customers and other loans	(734.970)	1.585.956
Financial liabilities held for trading	(428.975)	385.444
Other liabilities	(1.457)	20.553
	1.422.956	1.268.219
 Net cash flow from operating activities before income tax	2.364.745	1.768.730
Income tax paid	(31.459)	(19.588)
<b>Net cash flow from operating activities</b>	<b>2.333.286</b>	<b>1.749.142</b>
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	1.313	1.698
Purchase of available-for-sale financial assets	(1.205.590)	(435.853)
Sale of available-for-sale financial assets	379.880	1.873.570
Income from available-for-sale financial assets	148.823	229.159
Purchase of tangible and intangible assets	(36.798)	(33.341)
Sale of tangible assets	5.535	7.945
<b>Net cash flow from investment activities</b>	<b>(706.837)</b>	<b>1.643.178</b>
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Issuance/(redemption) of debt securities	(1.378.946)	(3.283.192)
Interest paid on bonds issued and other	(94.338)	(116.114)
Interest paid on subordinated liabilities	(91)	(125)
<b>Net cash flow from financing activities</b>	<b>(1.473.375)</b>	<b>(3.399.431)</b>
 <b>Net Increase / (Decrease) in cash and cash equivalents</b>	<b>153.074</b>	<b>(7.111)</b>
 Cash and cash equivalents at the beginning of the period	737.688	744.799
Cash and cash equivalents at the end of the period	890.762	737.688

The accompanying notes form an integral part of the consolidated statement of cash flows  
for the year ended December 31, 2013.

# Notes to the Consolidated Financial Statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

## INTRODUCTION

Banco Santander Totta, S.A. (hereinafter referred to as the “Bank”, “BST” or “Group”) previously known as Companhia Geral de Crédito Predial Português, S.A. (“CPP”), was founded in 1864 and has its registered office in Portugal, in Rua do Ouro, no. 88, 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 2013 and 2012 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 Financeiro 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 604 branches (633 branches as at December 31, 2012) 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. Where Group companies used different accounting principles, appropriate adjustments are made for conversion to the IAS/IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In 2013, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union of mandatory application for the first time in the end of that year:

- IFRS 1 – “First time adoption of International Financial Reporting Standards “(Government loans) (amendment) – This amendment exempts first-time adopters of IFRS from the retrospective application of the provisions of IAS 39 and paragraph 10 A of IAS 20 related to government loans.
- IFRS 7 – “Financial instruments: Disclosures”: (Offsetting financial assets and financial liabilities) (amendment) – This amendment requires additional disclosures regarding financial instruments, particularly those related to offsetting of financial assets and liabilities.
- IAS 1 – “Presentation of financial statements” (Other comprehensive income) (amendment) – This amendment is embodied in the following changes: (i) the items that comprise the “Other comprehensive income” and that in the future will be recognised in the income statement shall be presented separately; and (ii) the Statement of comprehensive income is renamed to Statement of income and other comprehensive income.
- IAS 19 – “Employee Benefits” (Revised) - This amendment introduced several changes, namely: (i) recognition of actuarial and financial gains and losses arising from the difference between the assumptions used in determining liabilities and expected asset performance and values, as well as those resulting from changes in actuarial and financial assumptions during the year, against reserves (Other comprehensive income); (ii) a single interest rate shall be applied to determine the present value of liabilities and expected return from the assets of the plan; (iii) costs reflected in the income statement correspond only to current service cost and net interest cost; and (iv) introduction of new requirements in terms of disclosures.
- IFRS 13 – “Fair Value Measurement” – This standard replaces the guidelines in the several IFRS relating to fair value measurements. This standard applies when another IFRS standard requires or allows measurements or disclosures of fair value. Additionally, according to the dispositions of this standard, no comparative information is requested to be disclosed in the first year of adoption.
- Improvements to IFRS (2009-2011 Cycle): These improvements involve the review of several standards, namely IFRS 1 – “Repeated standard application”, IAS 1 – “Comparative information”, IAS 16 – “Service Equipment”, IAS 32 – “Tax effect of distribution of equity instruments” and IAS 34 – “Segment information”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The adoption of the above referred standards and interpretations had impact particularly in terms of disclosures.

On December 31, 2013, the following standards (new and revised) and interpretations already endorsed by the European Union, were available for early adoption:

- IFRS 10 - “Consolidated financial statements” - This standard establishes the requirements relating to the presentation of consolidated financial statements by a parent company, replacing, with regard to these matters, standard IAS 27 – “Consolidated and separate financial statements” and SIC 12 – Consolidation – “Special purpose entities”. This standard also introduces new rules regarding the definition of control and the determination of the consolidation perimeter. Application of this standard is mandatory for reporting periods beginning on or after January 1, 2014.
- IFRS 11 – “Joint Arrangements” – This standard replaces IAS 31 – “Joint Ventures” and SIC 13 – “Jointly Controlled Entities – Non monetary contribution by venturers” and eliminates the possibility of using the proportional consolidation method in accounting for interests in joint ventures. It is mandatory for annual periods beginning on or after January 1, 2014.
- 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. It is mandatory for annual periods beginning on or after January 1, 2014.
- IAS 27 – “Separate financial statements” (2011) (revised) – This amendment restricts the scope of IAS 27 to separate financial statements only. It is mandatory for annual periods beginning on or after January 1, 2014.
- 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”. The application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.
- 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. It is mandatory for annual periods beginning on or after January 1, 2014.
- 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. Application of this amendment is mandatory for reporting periods beginning on or after January 1, 2014.
- 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 where no impairment loss or reversal has been recognized. This standard also introduces additional disclosures for assets where 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. It is mandatory for annual periods beginning or in after January 1, 2014.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

- 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 an hedge instrument is novated. It is mandatory for annual periods beginning on or after January 1, 2014.

These standards, although endorsed by the European Union have not been adopted by the Bank on December 31, 2013, as their application was not yet mandatory. However, the Board of Directors believes that their adoption will not have a material impact on the accompanying financial statements.

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

- IFRS 9 – “Financial instruments” (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.
- IFRS 9 – “Financial instruments” (2013) and IFRS 7 – “Financial instruments disclosures” – The amendment to IFRS 9 is part of the draft revision of IAS 39 and establishes the requirements for the application of hedge accounting rules. IFRS 7 was also revised as a result of this amendment.
- 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.
- Improvements to International Financial Reporting Standards (2010-2012 Cycle): These improvements involve the review of several standards.
- Improvements to International Financial Reporting Standards (2011-2013 Cycle): These improvements involve the review of several standards.
- 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), where payment is not made for the acquisition of an asset or specific services.

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, 2013.

The Bank’s financial statements for the year ended December 31, 2013 are pending approval from the General Shareholders’ Meeting. Nevertheless, the Bank’s Board of Directors believes that they will be approved without significant amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

1.2. Consolidation principles and recording of associated companies

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

Subsidiary companies are those in which the Bank exercises effective control over the current management in order to obtain economic benefits from their activities. Control usually exists when more than 50% of the share capital or the voting rights are held. Furthermore, as a result of the application of the IAS 27 – “Consolidated and Separate Financial Statements”, the Group includes special purpose entities in 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 control cease. 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 application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full integration method are accounted for under the caption “Minority interests” (Note 28).

As part of its fund management activity, the Bank manages assets held by investment funds whose units are held by third parties. The financial statements of investment funds are not included in the consolidation of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participating units, in which case they are consolidated by the full integration method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

Acquisitions of subsidiaries and associated companies after January 1, 2004 were recorded in accordance with the acquisition method. Cost of the acquisition corresponds to the fair value of the assets and liabilities of the subsidiaries and associated companies as of the acquisition date. Goodwill is recorded as an asset and is subject to impairment tests in accordance with IAS 36, but is not 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 recognised 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 share 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 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 foreign currency financial statements of subsidiary and associated companies have been converted to Euros as follows:

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

Exchange differences arising upon conversion to Euros are accounted in shareholders’ equity in the caption of “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 period to which they relate, independently of when they are paid or received.

#### b) Foreign currency transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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 applications in credit institutions.

Loans and advances to customers include loans to costumers, as well as other securitized loans (commercial paper), not intended to be sold in the short term, being initially recorded at fair value, less any 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 recognised 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 credit granted as from January 1, 2004.

The Bank classifies as overdue credit, instalments of principal and interests overdue for more than 30 days. Credits with overdue instalments are denounced in accordance with the 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 where the effort to collect them has not been effective. When the prospects of recovering those loans are negligible, loans are considered to be uncollectible and impairment losses are recognised for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently are recognised in the income statement in the caption "Loan impairment net of reversals and recoveries".

Impairment

The Bank periodically analyses the loans and advances granted to customers and other receivable accounts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On the other hand, concerning the segment of credit provided to companies 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;
- 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 special monitoring system.

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

Customers assessed individually with impairment losses less than 0.5% are subsequently assessed on an 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 credits or other receivables, the impairment loss corresponds to the difference between the book value of those assets and the present value of the estimated future cash flows, discounted at the original interest rate of the asset or financial assets. The book value of the asset or assets is reduced by the impairment loss account balance. In the case of credits with variable interest rates, the discount rate used to determine an impairment loss is the current interest rate, as determined by the respective contract. Impairment losses are recorded by a corresponding charge in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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, there is a decrease in the amount of impairment losses due to a specific event occurring after the impairment determination, the previously recognised amount is reversed and the impairment loss balance is adjusted. The amount of the reversal is recognised directly by a corresponding charge in the income statement.

Write off of principal and interest

In accordance with the policies in place in the Bank, 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 credits is only recognised 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 value 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 value 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 value of the credits taken against the recognition of a liability under the caption "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 "Creditors and other resources - Other creditors - Creditors under factoring contracts."

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Non derecognised securitized credit

The Bank does not derecognise from the balance sheet credits sold in securitization transactions when:

- retains control over 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 derecognised are recorded under the caption "Loans and advances to customers" and are subject to the same accounting principles as other credit operations. The interests and commissions associated to the securitized loan portfolio are accrued over the term of the loan.

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

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

On December 31, 2013 and 2012, 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 tangible assets and in liabilities and the corresponding depreciation is recognised. Lease instalments are divided in accordance with the respective financial plan, the liabilities being decreased by the amount corresponding to payment of the principal. Interest included in the instalments is recorded in the caption "Interest and similar charges".

*ii) As lessor*

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

Guarantees given and irrevocable commitments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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

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

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

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

At 31 December 2012 other financial assets at fair value through profit or loss included fixed income securities.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Interest relating to trading derivatives is classified 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 prices information.

The fair value of the derivatives financial instruments that are not traded on a stock exchange 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 an active market 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 Reserve - Fair value” until they are disposed of or until impairment losses are recognised, time 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.

Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008 in Standard 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 are not permitted for the category Financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

iii) 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.

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

iv) Sale operations with repurchase agreements

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

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

The 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 in relation to their acquisition cost. 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 gain arising after recognition of an impairment loss are recorded in the fair value reserve. In the case of equity instruments for which impairment losses have been recognised, subsequent reductions in its fair value are always recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

For financial assets recorded at cost namely unquoted equity instruments which fair value cannot be measured reliably, 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.

vi) 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 obligations are included in proportion to the respective accounts of debt issued (capital, interest and commissions) and the differences between the amount settled and the write off, are recognised immediately in profit or loss or deferred during the period of the bonds.

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 "Financial assets available for sale" are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which an asset or financial liability can be sold or settled (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 unquoted 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

- iii) Valuation models, which take into account market inputs when determining the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and credit risk associated to the instrument.

Amortised cost

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

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

f) Valuation and registration of derivative instruments and hedge accounting

Financial derivative instruments traded by the Bank are always 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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

Cash flow hedges

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is early terminated, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that 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 systematic basis, on a monthly basis over the estimated useful life of the asset, which corresponds to the period in which the asset is expected to be available for use:

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

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

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

On the other hand, impairment tests are made periodically by the Bank to its tangible assets. The branches are considered as cash flows generating units for this purpose with impairment losses being recognised whenever the recoverable amount of the property (through the use in the operations or sale) is lower than its carrying amount.

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

h) Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

i) 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 use in the provision of goods, services, or for administrative purposes.

Investment properties are stated at their fair value based on periodic valuations performed by independent experts. 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 18). 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. In the other hand, property recovered following the termination of finance lease contracts is recorded in assets at the amount of the outstanding principal on the date the contract is terminate.

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

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

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

According to IFRS 5 – "Non-current assets held for sale and discontinued operations", 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 market situation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

k) Provisions and contingent liabilities

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

Thus, in accordance with IAS 37, this caption includes the provisions to cover specific post-employment benefits of members of the Board of Directors, restructuring plans, tax contingencies, legal processes and other losses arising from the Bank's activity (Note 23).

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, where the pensions are updated annually based on the remuneration established in the ACT for the serving employees. For these employees, the Bank has been responsible for the payment of the full amount of the pensions established under the ACT. The liabilities arising out from the defined benefit plan are covered by a Pension Fund.

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

The employees of the former totta were already covered by Social Security, thus the Bank's liability 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Past service liabilities as at December 31, 2010 have not changed as result of the above-mentioned Decree-Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011. Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). 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, as at December 31, 2011 were covered by the substitutive regime of the Social Security as per the Collective Labour Agreement (ACT) in force for the banking sector.

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

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 benefits ("*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.

Under the transfer of responsibilities to the Social Security, the Bank's pension fund assets backing such responsibilities were also transferred. The value of the Pension Fund assets transferred corresponds to the value of the responsibilities assumed under the 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 in cash and up to 50% in Portuguese government debt securities valued at the respective market value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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

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

Following the transfer agreement 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 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 assumptions and the liabilities determined based on updated actuarial assumptions as adopted by the Bank, was recorded under the caption “Staff Costs” in the income statement.

Furthermore, the London branch employees are covered by a defined benefit pension plan, for which there is a separate pension fund (Note 44).

On the other hand, in February 2010, a supplementary defined contribution pension plan was approved for a defined set of the Bank’s executives, for which an insurance policy was taken out.

BST’s retirement pension liability is calculated annually by external experts (Towers Watson (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 the BSN established a defined contribution pension fund under which employees are 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Application of IAS 19

On 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 as at January 1, 2004, as well as those resulting from adopting IAS 19 were reversed/recorded against retained earnings as at the transition date.

In 2011 the Bank decided to change the accounting policy for recognizing actuarial gains and losses using the corridor method, having started to recognize actuarial gains and losses in equity, as provided in the revised version of IAS 19.

From January 1, 2013 following the revision of IAS 19 - "Employee Benefits", the Bank records under "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 (liability less the fair value of plan assets) by the discount rate used in determining pension 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 and actuarial values (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 values obtained are recognized against the statement of other comprehensive income.

The liability for retirement pensions, less the fair value of the assets of the Pension Fund is recorded in the captions "Other assets" or "Other liabilities", depending on whether there is financial surplus or deficit.

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 liability of serving employees. Notwithstanding this, it also established a transition period ranging from 5 to 7 years in respect of the increase in the liability as result of the adoption of IAS 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

At December 31, 2013 and 2012, the rate of coverage of the full amount of the liability of BST for employee benefits, including SAMS, was 99.30% and 98.80%, 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 by actuarial calculations using the "Projected Unit Credit" method. The actuarial assumptions used (financial and demographic) are based on expectations, as of the balance sheet date, regarding salary increases and are based on mortality tables adapted to Bank's population. The discount rate used is determined based on market rates for high quality corporate bonds with similar maturity of the liability.

Long service bonus liabilities are recorded in the caption "Accrued costs - Relating to personnel – Long service bonus" (Note 25).

n) Income tax

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

With the wording used in the State Budget Law for 2011 (Law no. 55–A/2010, of December 3), in accordance with article 92 of the Corporate Income Tax Code, tax paid under the terms of item 1, article 90, net of international double taxation and any tax benefits, cannot be less than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in item 13, article 43 and article 75 of the Corporate Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum local surcharge of up to 1.5% over taxable income subject to and not exempt from corporate income tax. With the publication of Law no. 12 - A/2010, of 30 June, 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 the year and on the two following years were subject to higher state surcharge rates. Companies with taxable income between tEuros 1,500 and tEuros 10,000 are now subject to a state surcharge rate of 3% and the companies with taxable income exceeding tEuros 10,000 are subject to a rate of 5%. Consequently, the tax rate used in the years 2012 and 2013 was 26.5% up to tEuros 1,500 of taxable income, 29.5% up to tEuros 8,500 of taxable income and 31.5% for the remainder. The Bank determined a tax loss for the years 2012 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Additionally, following the publication of Law no. 2/2014, of 16 January, the taxation of corporate profits for the year 2014 became the following:

- Corporate income tax (IRC) rate of 23% on taxable income (25% in year 2013);
- Municipal surcharge at a rate 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%.

Thus, the above referred change implied that the rate used by the Bank in the calculation and recognition of deferred taxes for the year 2013 was 23% for tax losses and 29.5% for temporary differences (25% and 29% in fiscal year 2012).

On the other hand, the tax losses for the years 2012 and 2013 may be used in the five subsequent tax periods (or the twelve subsequent tax periods for the tax losses generated from 2014, inclusive). However, within the terms allowed in the State Budget Law for 2012, the deduction of the losses in each year cannot exceed 75% of the respective taxable profit (70% from the year 2014), although the remaining 25% continue to be deductible up to the end of the reporting period.

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

- a) Liabilities calculated and approved by taxpayers deducted from own funds (Tier 1) and supplementary own funds (Tier 2) and deducted from the deposits under the Deposits Guaranteed Fund coverage. The following are deducted from the liability thus computed:
  - Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
  - Liabilities associated to the recognition of liabilities for defined benefit plans;
  - Provisions;
  - Liabilities resulting from the revaluation of derivative financial instruments;
  - Deferred income, without consideration of that arising from liability operations; and
  - Liabilities resulting from assets not derecognised within securitization operations.
- b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, with the exception of hedge derivatives or with open symmetric risk positions.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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" and in the caption "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentives plans for stocks and stock options of Banco Santander S.A. in force in reporting periods of 2013 and 2012 is included in Note 47.

p) Treasury shares

Treasury shares are recorded in the equity accounts at their acquisition cost and are not subject to revaluation. Gains or losses arising from the sale of treasury 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 classified as equity instruments when:

- There is no contractual obligation on the part 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.

On December 31, 2013 and 2012, the Bank classified as equity instruments the issues of preference shares 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 "Minority Interests".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

r) Insurance brokerage services rendered

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

The Bank does not engage in the collection of insurance premiums on behalf of insurers, or perform the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the activity of insurance mediation performed by the Bank, other than those already disclosed.

s) Cash and cash equivalents

In preparing 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".

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 Portugal Insurance Institute (ISP). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, mortality, disability, 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 Notes 1.3 e) and f) above, are used to value financial instruments not traded on active markets. Consequently, the valuations correspond to the best estimate of the fair value of these instruments as at the balance sheet date. As mentioned in Note 1.3. e) to ensure an adequate segregation of duties, the valuation of those financial instruments is determined by an independent area of the trading function.

Determination of loans impairment losses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

As described in Note 1.3. e), the unrealised capital losses resulting from the valuation of these assets are recognised under the revaluation reserve. Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses of that reserve are transferred to the income statement.

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

In the case of debt instruments recorded in this caption, unrealised capital losses are transferred from the caption revaluation reserve to the income 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, deferred tax assets and liabilities have been determined based on the interpretation of the tax legislation currently in force. Therefore, changes in tax legislation or in its interpretation by the competent authorities may have an impact on the amount of deferred taxes.

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

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

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 1 January 2010.

In this regard, these new rules were observed to compute the taxable profit for 2013 and 2012, in accordance with their interpretation by the Bank.

Determining the outcome of litigation in progress

The outcome of the legal proceedings, 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

3. SEGMENT REPORTING

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

**Global Banking & Markets:**

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

**Retail banking:**

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

**Commercial banking:**

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

**Asset management:**

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

At the end of the year 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, and also includes liquidity management, balance sheet hedging and Bank funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The income statement by segment as at December 31, 2013 is made up as follows:

	2013					Consolidated Total
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	
Financial margin (narrow sense)	95,721	281,023	157,883	(1,784)	(25,575)	507,268
Income from equity instruments	-	-	-	-	1,313	1,313
<b>Financial margin</b>	<b>95,721</b>	<b>281,023</b>	<b>157,883</b>	<b>(1,784)</b>	<b>(24,262)</b>	<b>508,581</b>
Net commissions	63,663	231,843	22,722	5,122	(7,840)	315,510
Other results from banking activity	-	1,421	-	(15,375)	(20,477)	(34,431)
<b>Commercial margin</b>	<b>159,384</b>	<b>514,287</b>	<b>180,605</b>	<b>(12,037)</b>	<b>(52,579)</b>	<b>789,660</b>
Results from financial operations	2,065	839	429	9,187	18,855	31,375
<b>Net income from banking activities</b>	<b>161,449</b>	<b>515,126</b>	<b>181,034</b>	<b>(2,850)</b>	<b>(33,724)</b>	<b>821,035</b>
Operating costs	(17,063)	(337,141)	(45,758)	(6,774)	-	(406,736)
Depreciation and amortization	(2,230)	(54,202)	(3,189)	(156)	-	(59,777)
<b>Net operating income</b>	<b>142,156</b>	<b>123,783</b>	<b>132,087</b>	<b>(9,780)</b>	<b>(33,724)</b>	<b>354,522</b>
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
<b>Income before taxes</b>	<b>131,401</b>	<b>(58,406)</b>	<b>69,358</b>	<b>(8,347)</b>	<b>(9,366)</b>	<b>124,640</b>
Taxes	(38,106)	17,428	(16,441)	(3,062)	(4,177)	(44,358)
Minority interests	-	-	-	8,903	(21)	8,882
<b>Net income for the year</b>	<b>93,295</b>	<b>(40,978)</b>	<b>52,917</b>	<b>(2,506)</b>	<b>(13,564)</b>	<b>89,164</b>

At December 31, 2013 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:

	2013					Consolidated Total
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	
<b>Assets</b>						
<b>Loans and advances to customers</b>						
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
<b>Total assets</b>						<b>38,810,528</b>
<b>Liabilities</b>						
<b>Resources in the balance sheet</b>						
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
	<b>763,842</b>	<b>16,737,854</b>	<b>2,185,913</b>	<b>-</b>	<b>3,553,553</b>	<b>23,241,162</b>
<b>Guarantees and other sureties given</b>	171,674	167,383	846,410	-	-	1,185,467
<b>Investment funds</b>	-	1,151,870	394,550	871,953	-	2,418,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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

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

	2012					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
<b>Assets</b>						
<b>Loans and advances to customers</b>						
Mortgage Loans	-	15,788,523	-	-	-	15,788,523
Consumer credit	-	1,433,532	-	-	-	1,433,532
Other loans	2,024,753	3,309,047	4,423,794	-	-	9,757,594
Total allocated assets	2,024,753	20,531,102	4,423,794	-	-	26,979,649
Total non-allocated assets	-	-	-	-	-	11,547,594
<b>Total assets</b>						<b>38,527,243</b>
<b>Liabilities</b>						
<b>Resources in the balance sheet</b>						
Customers' accounts and other resources	415,014	18,193,057	2,889,103	-	-	21,497,174
Debt securities issued	-	353,878	328,165	-	3,271,476	3,953,519
	415,014	18,546,935	3,217,268	-	3,271,476	25,450,693
<b>Guarantees and other sureties given</b>	206,332	189,279	824,119	-	-	1,219,730
<b>Investment funds</b>	-	1,261,600	641,874	813,723	-	2,717,197

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The information by geographic area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as at December 31, 2013 and 2012, by geographic segments was as follows:

	2013						Inter segment balances	Consolidated
	Portugal	International operations				Total		
		Ireland	Angola	Puerto Rico	Other			
<b>Assets</b>								
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
Financial assets at fair value through profit or loss	4,382,253	1,186,994	-	-	-	1,186,994	(1,186,994)	4,382,253
Available-for-sale financial assets	3,270,749	50,000	-	424,659	327,238	801,897	(801,676)	3,270,970
Loans and advances to credit institutions	26,107,521	-	-	-	-	-	-	26,107,521
Loans and advances to customers	199,427	-	-	-	-	-	-	199,427
Hedging derivatives	206,943	-	-	-	-	-	-	206,943
Non-current assets held for sale	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
<b>Total Net Assets</b>	<b>38,693,691</b>	<b>1,244,062</b>	<b>115,396</b>	<b>431,313</b>	<b>328,394</b>	<b>2,119,165</b>	<b>(2,002,328)</b>	<b>38,810,528</b>
<b>Liabilities</b>								
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
Subordinated liabilities	4,307	-	-	-	-	-	-	4,307
Other liabilities	290,702	140,767	-	1,935	178	142,880	(140,682)	292,900
<b>Total Liabilities</b>	<b>35,922,418</b>	<b>845,688</b>	<b>-</b>	<b>146,788</b>	<b>178</b>	<b>992,654</b>	<b>(834,907)</b>	<b>36,080,165</b>
<b>Shareholders' equity</b>								
Shareholders' equity attributable to shareholders	2,535,536	398,374	115,396	23,485	29,623	566,878	(1,167,421)	1,934,993
Minority interests	235,737	-	-	261,040	298,593	559,633	-	795,370
<b>Total shareholders' equity</b>	<b>2,771,273</b>	<b>398,374</b>	<b>115,396</b>	<b>284,525</b>	<b>328,216</b>	<b>1,126,511</b>	<b>(1,167,421)</b>	<b>2,730,363</b>
<b>Total liabilities and shareholders' equity</b>	<b>38,693,691</b>	<b>1,244,062</b>	<b>115,396</b>	<b>431,313</b>	<b>328,394</b>	<b>2,119,165</b>	<b>(2,002,328)</b>	<b>38,810,528</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In the reporting periods ending on December 31, 2013 and 2012, the income statement by geographic segments was as follows:

	2013					Total	Inter segment balances	Consolidated
	Portugal	Ireland	Angola	Puerto Rico	Other			
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)
<b>Financial margin</b>	<b>512,092</b>	<b>38,066</b>	<b>-</b>	<b>20,715</b>	<b>-</b>	<b>58,781</b>	<b>(63,605)</b>	<b>507,268</b>
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	(34,340)	-	-	(4)	(87)	(91)	-	(34,431)
<b>Net income from banking activities</b>	<b>826,138</b>	<b>43,564</b>	<b>-</b>	<b>20,764</b>	<b>(328)</b>	<b>64,000</b>	<b>(69,103)</b>	<b>821,035</b>
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
<b>Income before taxes and minority interests</b>	<b>118,722</b>	<b>43,057</b>	<b>12,669</b>	<b>20,456</b>	<b>(1,161)</b>	<b>75,021</b>	<b>(69,103)</b>	<b>124,640</b>
Current taxes	(29,042)	(6,266)	-	-	(13)	(6,279)	-	(35,321)
Deferred taxes	(9,895)	858	-	-	-	858	-	(9,037)
<b>Income after taxes and before minority interests</b>	<b>79,785</b>	<b>37,649</b>	<b>12,669</b>	<b>20,456</b>	<b>(1,174)</b>	<b>69,600</b>	<b>(69,103)</b>	<b>80,282</b>
Minority interests	(8,882)	-	-	-	-	-	-	(8,882)
<b>Consolidated net income attributable to the shareholders of the Bank</b>	<b>88,667</b>	<b>37,649</b>	<b>12,669</b>	<b>20,456</b>	<b>(1,174)</b>	<b>69,600</b>	<b>(69,103)</b>	<b>89,164</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

The accounting policies used in the preparation of financial information by segment were consistent with those described in Note 1.3. from these accompanying notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

4. GROUP COMPANIES AND TRANSACTIONS OCURRED DURING THE YEAR

As at December 31, 2013 and 2012, the subsidiaries and associated companies and their most significant financial data, taken from their respective individual financial statements, excluding conversion adjustments to the IAS/IFRS, may be summarised as follows:

Company	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
BANCO SANTANDER TOTTA, S.A.	-	-	100.00	100.00	40,260,305	38,501,791	1,471,117	1,212,474	2,449	(9,180)
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A. (3)	-	-	24.99	24.99	1,371,384	1,199,433	247,304	183,537	52,120	44,023
TOTTA & AÇORES FINANCING (1) (5)	100.00	100.00	100.00	100.00	311,787	311,789	311,787	311,789	12,360	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	32,592	33,736	32,578	33,717	320	401
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,180	1,187	1,014	1,013	47	(88)
TOTTA IRELAND, PLC (4)	100.00	100.00	100.00	100.00	1,011,636	1,373,246	298,037	359,293	2,732	4,040
SANTOTTA-INTERNACIONAL, SGPS, S.A.	100.00	100.00	100.00	100.00	110,807	101,468	74,397	74,865	4,933	4,293
TOTTA URBE - Emp.Admin. e Construções, S.A. (2)	100.00	100.00	100.00	100.00	114,033	112,634	110,246	109,225	1,997	2,474
BENIM - Sociedade Imobiliária, S.A. (3)	-	-	25.81	25.81	n/a	11,427	n/a	8,249	n/a	(283)
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	100.00	100.00	100.00	100.00	49,795	41,656	49,417	41,633	7,784	1,331
SANTANDER ASSET MANAGEMENT, SGFIM, S.A. (9)	-	100.00	-	100.00	-	26,426	-	22,270	-	11
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (6)	100.00	100.00	100.00	100.00	431,322	473,237	284,486	294,675	20,457	18,276
TAXAGEST, SGPS, S.A.	99.00	99.00	99.00	99.00	55,731	55,043	55,724	54,963	761	(37)
PARTANG, SGPS, S.A. (3)	0.49	0.49	49.00	49.00	152,642	139,611	140,714	130,108	25,616	21,433
SANTANDER PENSÕES, S.A. (9)	-	100.00	-	100.00	-	3,685	-	3,607	-	769
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. (3)	21.50	21.50	21.50	21.50	315,889	305,005	89,696	84,595	9,785	11,256
HIPOTOTTA nº 1 PLC	-	-	-	-	194,678	215,728	(1,654)	(3,423)	(152)	(2,061)
HIPOTOTTA nº 4 PLC	-	-	-	-	1,147,748	1,220,666	(13,619)	(20,466)	(2,036)	(8,699)
HIPOTOTTA nº 5 PLC	-	-	-	-	972,764	1,021,215	(8,404)	(12,215)	(1,155)	(5,081)
HIPOTOTTA nº 7 Ltd (7)	-	-	-	-	-	1,258,561	-	(17,739)	-	(5,684)
LEASETOTTA nº 1 Ltd	-	-	-	-	428,640	569,976	(13,187)	(23,142)	3,434	(15,292)
HIPOTOTTA nº 1 FTC	-	-	-	-	179,215	202,335	178,077	201,123	(24)	(2,282)
HIPOTOTTA nº 4 FTC	-	-	-	-	1,107,500	1,182,405	1,104,994	1,178,445	(1,035)	(9,982)
HIPOTOTTA nº 5 FTC	-	-	-	-	953,003	1,004,670	947,977	1,001,819	(1,932)	(7,814)
HIPOTOTTA nº 7 FTC (7)	-	-	-	-	-	1,226,920	-	1,228,066	-	(13,001)
LEASETOTTA nº 1 FTC	-	-	-	-	347,423	485,651	350,252	506,336	(1,599)	(15,108)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (8)	71.60	-	71.60	-	477,098	-	360,442	-	(28,670)	-
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (8)	64.32	-	64.32	-	374,590	-	371,951	-	8,824	-

n/a – not available



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

As at December 31, 2013 and 2012, the business, the location of the headquarters and the consolidation method for the companies included in the consolidation are as follows:

Company	Business	Head office	Consolidation method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Parent company
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A. (3)	Banking	Angola	Equity Method
TOTTA & AÇORES FINANCING (1) (5)	Banking	Cayman Islands	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Islands	Full
TOTTA & AÇORES, INC. - NEWARK	Obtaining funds	USA	Full
TOTTA IRELAND, PLC (4)	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Madeira	Full
TOTTA URBE - Emp. Admín. e Construções, S.A. (2)	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A. (3)	Real estate	Portugal	Equity Method
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	Holding company	Portugal	Full
SANTANDER ASSET MANAGEMENT, SGFIM, S.A. (9)	Investment management	Portugal	Full
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (6)	Banking	Puerto Rico	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
PARTANG, SGPS, S.A. (3)	Holding company	Portugal	Equity Method
SANTANDER PENSÕES, S.A. (9)	Pension fund management	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. (3)	Credit Card Management	Portugal	Equity Method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 7 Ltd (7)	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
HIPOTOTTA nº 7 FTC (7)	Securitized loans fund	Portugal	Full
LEASETOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (8)	Investment fund	Portugal	Full
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (8)	Investment fund	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) Valued by the equity method.
- (4) As this subsidiary closes its financial year on November 30, the amounts reflected in the columns "Net income" correspond to the net income determined in December of each year. In the periods comprised between January 1 to November 30, 2013 and 2012, the net income of Totta Ireland, PLC. amounted to tEuros 41,105 and tEuros 56,680, respectively.
- (5) The share capital of this subsidiary is made up of 50,000 ordinary shares with a nominal value of 1 Euro each and 300,000 non-voting preference shares with a nominal value of 1,000 Euros each. Considering preference shares, the Bank's effective participation in this entity is 0.01%.
- (6) The share capital 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%.
- (7) This entity was liquidated during 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

- (8) These companies were consolidated for the first time during the year 2013, since the Bank holds more than 50% of their participating units.
- (9) In December 2013, the Bank sold Santander Asset Management, SGFIM, S.A. and Santander Pensões, S.A. for tEuros 41,500, generating a gain of tEuros 12,588 (Note 38).

In compliance with IAS 27 and SIC 12, the Bank's consolidated financial statements include special purpose entities (SPE) created for securitization operations, given that the Bank retains most of the risks and benefits of their activity, namely the bonds issued by these entities with a higher degree of subordination (Note 45). These entities are referred to above as Leasetotta Ltd or Hipototta FTC (securitised loans funds) and Hipototta PLC or Ltd. (entities which acquired the participating units issued by the securitised loan funds).

During the year 2013, the Bank increased its participation in the Fundo de Investimento Imobiliário - Novimovest managed by Santander Asset Management, SGFIM, S.A. ("SAM"), to hold a share of more than 50%. According to the accounting policy adopted by the Bank, the investment funds are consolidated (by the full consolidation method) when control exists, 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, as at December 31, 2013, the Bank also consolidated Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações, also managed by SAM.

On December 31, 2013, the Funds consolidated for the first time during the year, their activity, the percentage of ownership held by the Bank and the amount incurred in their acquisition were as follows:

Entity	Developed Activity	% Participation	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 these acquisitions. Moreover, all subscriptions of participating units in those funds had cash in return.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

On December 31, 2013, the balance sheet of those funds was as follows:

	Novimovest	Multiobrigações	Total
Securities portfolio	3,151	344,421	347,572
Real estate portfolio	449,758	-	449,758
Accounts receivables	23,257	-	23,257
Cash and banks	513	28,150	28,663
Accruals and deferrals	419	2,019	2,438
	<u>477,098</u>	<u>374,590</u>	<u>851,688</u>
Fund Capital	360,442	371,951	732,393
Adjustments and provisions	5,285	580	5,865
Accounts payable	104,260	1,718	105,978
Accruals and Deferrals	7,111	341	7,452
	<u>477,098</u>	<u>374,590</u>	<u>851,688</u>

On December 31, 2013, the consolidated net income includes a loss of tEuros 18,428 attributable to Novimovest 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, S.A., to an entity of the Santander Group, recording a gain of tEuros 12,588, 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

## 5. CASH AND DEPOSITS AT CENTRAL BANKS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Cash	221,706	210,763
Demand deposits at Central Banks:		
European Central Bank	116,135	141,602
	<u>337,841</u>	<u>352,365</u>
	=====	=====

In accordance with European Central Bank Regulation 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves consists in all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of clients repayable in less than two years' time, to which 1% is applied and 100,000 Euros is deducted from the amount calculated. The minimum cash reserve requirements earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Balances due from domestic banks		
Cheques for collection	54,077	62,074
Demand deposits	756	490
Balances due from foreign banks		
Demand deposits	496,556	321,138
Cheques for collection	1,532	1,621
	-----	-----
	552,921	385,323
	=====	=====

On December 31, 2013 and 2012, sub captions "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following days.

On December 31, 2013 and 2012, the caption "Balances due from foreign banks – Demand deposits" included deposits in the amount of tEuros 165,375 and of tEuros 188,916, respectively, which are mobilized as the fulfilment of certain obligations towards third parties, occurs.

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
<u>Financial assets held for trading</u>		
Derivatives with positive fair value	1,599,893	2,031,856
Securities – Debt instruments	346,070	-
Securities - Participating units	3,152	233,639
	-----	-----
	1,949,115	2,265,495
	=====	=====
<u>Financial liabilities held for trading</u>		
Derivatives with negative fair value	( 1,619,768 )	( 2,048,743 )
	-----	-----
Net balance of the fair value of derivative financial instruments	( 19,875 )	( 16,887 )
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

On December 31, 2013 and 2012 the caption of derivative financial instruments is made up as follows:

	2013			2012		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
FRA's	-	-	-	227	-	227
Forwards	1,250	1,311	(61)	576	746	(170)
Swaps						
Currency swaps	1,119	7,400	(6,281)	3,179	18,900	(15,721)
Interest rate swaps	1,203,389	1,217,597	(14,208)	1,687,138	1,689,107	(1,969)
Equity swaps	76,883	76,233	650	113,516	112,843	673
Options	137,907	137,912	(5)	22,343	22,343	-
Caps & Floors	179,345	179,315	30	204,877	204,804	73
	<u>1,599,893</u>	<u>1,619,768</u>	<u>(19,875)</u>	<u>2,031,856</u>	<u>2,048,743</u>	<u>(16,887)</u>

On December 31, 2013, the captions of derivative financial instruments include amounts of approximately tEuros 187,800 and tEuros 168,000, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments".

On December 31, 2013 and 2012, almost all derivative financial instruments for trading were covered "back-to-back" with Banco Santander, S.A..

On December 31, 2013, the caption "Securities - Debt instruments" is made up as follows:

Description	Book Value
Issued by residents	
Portuguese public debt	76,613
Others	23,583
Issued by non residents	
Public foreign issuers	7,667
Others	238,207
<b>Total</b>	<b><u>346,070</u></b>

As at December 31, 2013 and 2012, the caption "Securities - Participating units" corresponds to the following real estate funds:

	<u>2013</u>	<u>2012</u>
Fundo Maxirent	3,152	-
Fundo Santander Multiobrigações	-	233,613
Others	-	26
	<u>3,152</u>	<u>233,639</u>
	<u>=====</u>	<u>=====</u>

On December 31, 2013, the Bank started to consolidate by the full integration method Fundo Santander Multiobrigações.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

As at December 31, 2013 and 2012, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 225,613 and tEuros 321,577, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

Description	2013					2012						
	Acquisition cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Gains in hedging operations	Fair value reserve	Impairment	Book value
Treasury bonds - Portugal												
. Maturing in one year	649,159	4,981	12,388	(7,573)	-	658,955	50,676	747	-	460	-	51,883
. Maturing between one and three years	-	-	-	-	-	-	771,722	5,906	28,518	(28,560)	-	777,586
. Maturing between three and five years	517,531	6,447	-	(4,195)	-	519,783	114,678	1,009	-	(7,666)	-	108,021
. Maturing between five and ten years	675,000	17,728	93,220	(124,701)	-	661,247	675,000	17,728	126,708	(193,435)	-	626,001
Treasury bills - Portugal	288,293	-	-	106	-	288,399	-	-	-	-	-	-
Other	487	5	-	-	(231)	261	489	5	-	-	(252)	242
	<u>2,130,470</u>	<u>29,161</u>	<u>105,608</u>	<u>(136,363)</u>	<u>(231)</u>	<u>2,128,645</u>	<u>1,612,565</u>	<u>25,395</u>	<u>155,226</u>	<u>(229,201)</u>	<u>(252)</u>	<u>1,563,733</u>
Treasury bonds - Spain												
. Maturing between five and ten years	1,000,000	23,028	120,005	(75,105)	-	1,067,928	1,000,000	23,028	166,351	(207,771)	-	981,608
Other	7,249	80	-	109	-	7,438	7,573	83	-	294	-	7,950
	<u>1,007,249</u>	<u>23,108</u>	<u>120,005</u>	<u>(74,996)</u>	<u>-</u>	<u>1,075,366</u>	<u>1,007,573</u>	<u>23,111</u>	<u>166,351</u>	<u>(207,477)</u>	<u>-</u>	<u>989,558</u>
	<u>3,137,719</u>	<u>52,269</u>	<u>225,613</u>	<u>(211,359)</u>	<u>(231)</u>	<u>3,204,011</u>	<u>2,620,138</u>	<u>48,506</u>	<u>321,577</u>	<u>(436,678)</u>	<u>(252)</u>	<u>2,553,291</u>

At December 31, 2013 and 2012, the Bank held in its portfolio Treasury Bonds of Portugal and Spain amounting to tEuros 2,666,582 and tEuros 1,115,614 respectively, used as collateral in financing operations (Note 20).

On December 31, 2013 and 2012, the caption “Debt instruments – Issued by residents - Other residents” includes, amongst others, the following securities:

Description	2013					2012				
	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value
Acquired in securitization operations										
ENERGY ON NO.2 CLASS A NOTES 2015	86,455	87	(23,329)	-	63,213	92,998	88	(27,673)	-	65,413
Other	50	-	(20)	-	30	49	-	(15)	-	34
	<u>86,505</u>	<u>87</u>	<u>(23,349)</u>	<u>-</u>	<u>63,243</u>	<u>93,047</u>	<u>88</u>	<u>(27,688)</u>	<u>-</u>	<u>65,447</u>
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	199,820	7,144	6,521	-	213,485	-	-	-	-	-
GALP ENERGIA 2013/2017	99,226	446	1,141	-	100,813	-	-	-	-	-
SONAE DISTRIBUICAO SET 2007/2015	35,000	98	(2,295)	-	32,803	70,000	235	(10,290)	-	59,945
BERWIND II P. CONSULTORIA SENIO A	29,956	32	(5,845)	-	24,143	32,078	30	(1,482)	-	30,626
OBRIGACOES ZON MULTIMEDIA 2014	24,300	50	(294)	-	24,056	24,300	47	(1,011)	-	23,336
EDIA 2010/2030	19,250	227	(1,413)	-	18,064	19,250	248	(11,144)	-	8,354
AUTO SUECO 2009/2014	-	-	-	-	-	15,000	3	(1,202)	-	13,801
Other	9,032	16	(1,373)	(231)	7,444	9,657	16	(352)	(230)	9,091
	<u>416,584</u>	<u>8,013</u>	<u>(3,558)</u>	<u>(231)</u>	<u>420,808</u>	<u>170,285</u>	<u>579</u>	<u>(25,481)</u>	<u>(230)</u>	<u>145,153</u>
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	111,360	32	-	(11,193)	100,199	110,492	24	-	(15,674)	94,842
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	2	(5,150)	-	8,852	14,000	1	(8,428)	-	5,573
Other	2,873	2	(2,106)	-	769	2,802	3	(2,380)	-	425
	<u>128,233</u>	<u>36</u>	<u>(7,256)</u>	<u>(11,193)</u>	<u>109,820</u>	<u>127,294</u>	<u>28</u>	<u>(10,808)</u>	<u>(15,674)</u>	<u>100,840</u>

The operations of commercial paper held in 2011 fell due in the first semester of 2012. On the other hand, the issues subscribed in 2012 and 2013 were recorded under the caption of “Loans and advances to customers”.

In the last quarter of 2012, the Bank acquired to Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by the Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its fair value. Following this operation, impairment losses of the same amount were recorded. During the year 2013, the Bank reversed tEuros 4,481 of impairment losses at that securities due to its valuation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

As at December 31, 2013 and 2012, the caption "Equity instruments" includes the following securities:

Description	2013			2012			Book value
	Acquisition cost	Fair value reserve	Impairment	Acquisition cost	Fair value reserve	Impairment	
Valued at fair value							
FUNDO RECUPERAÇÃO FCR	28.491	-	(3.850)	24.641	25.014	(2.478)	22.536
FUNDO SOLUÇÃO ARRENDAMENTO	24.915	(319)	-	24.596	15.000	-	15.000
LUSIMOVEST - F.I. IMOBILIÁRIO	26.379	-	(1.998)	24.381	26.379	(461)	25.918
GARVAL - SOC.DE GARANTIA MUTUA S.A.	1.759	51	-	1.810	2.086	-	2.086
Other	6.690	316	(3.392)	3.614	6.628	21	3.950
NOVIMOVEST - F.I. IMOBILIÁRIO	-	-	-	-	125.910	649	126.559
Securities with 100% impairment losses	33.415	-	(33.415)	-	33.415	-	-
	<u>121.649</u>	<u>48</u>	<u>(42.655)</u>	<u>79.042</u>	<u>234.432</u>	<u>(2.269)</u>	<u>196.049</u>
Valued at cost							
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS SARL	3.461	-	-	3.461	3.461	-	3.461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (ex-AENOR)	3.749	-	(531)	3.218	3.749	-	3.345
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions) (ex-AENOR)	3.749	-	(531)	3.218	3.749	-	3.749
Other	4.951	-	(1.339)	3.612	6.158	-	4.130
Securities with 100% impairment losses	5.027	-	(5.027)	-	4.281	-	-
	<u>20.937</u>	<u>-</u>	<u>(7.428)</u>	<u>13.509</u>	<u>21.398</u>	<u>-</u>	<u>14.685</u>

During the year 2013, following the subscription of several participating units, the Bank started to consolidate by the full integration method the real estate Fund Novimovest.

During the years 2013 and 2012, the Bank subscribed capital calls of the Fundo Recuperação, FCR in the amounts of tEuros 3,477 and tEuros 6,658, respectively. On December 31, 2013, the Bank held in its portfolio 28,427 participating units corresponding up to 4.12% of the capital of that Fund.

During 2012, the Bank subscribed 3,002,028 participating units of Solução Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional amounting to tEuros 15,000. The capital was paid up in cash for the amount of tEuros 2 and the remainder was settled through the delivery of buildings. During the year 2013, the Bank has reinforced its position at that Fund in tEuros 9,915 through the delivery of buildings.

In the first semester of 2012 the Bank reclassified the participating units held in the real estate investment funds "Novimovest" and "Lusimovest" from the caption "Financial assets held for trading" to the caption "Available-for-sale financial assets". The impact of the reclassification of these participating units on the results and in the fair value reserve was the following:

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

On the other hand, in October 2012 the Bank reclassified the credit rights held over Lusimovest Fund, which at that date amounted to tEuros 24,500 (Note 18), from "Available-for-sale financial assets" to "Debtors and other applications – Other debtors".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

At last, in the first semester of 2012, the Bank reclassified to the caption “Non-current assets held for sale” (Note 13), the 2,748,238 participating units valued at tEuros 18,663 of Fundo Fechado de Investimento Imobiliário Imorent, received in 2011, following a settlement agreement of a debt receivable on a loan granted. This Fund is in a liquidation process.

At December 31, 2013 and 2012, the negative fair value reserve resulting from the fair value valuation of the available for sale assets had the following percentages in relation to cost:

	2013				Book Value
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	
<b>Debt Instruments</b>					
. 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
	<u>3,071,378</u>	<u>52,699</u>	<u>225,613</u>	<u>(254,855)</u>	<u>3,094,835</u>
<b>Equity Instruments</b>					
. Between 0% and 25%	24,988	-	-	(326)	24,662
	<u>3,096,366</u>	<u>52,699</u>	<u>225,613</u>	<u>(255,181)</u>	<u>3,119,497</u>
	2012				
	Acquisition cost	Interest receivable	Gains on hedging operations	Negative reserve	Book Value
<b>Debt Instruments</b>					
. Between 0% and 25%	2,297,157	33,638	194,869	(265,195)	2,260,469
. Between 25% and 50%	778,551	17,817	126,708	(223,703)	699,373
. Over 50%	36,052	252	-	(21,954)	14,350
	<u>3,111,760</u>	<u>51,707</u>	<u>321,577</u>	<u>(510,852)</u>	<u>2,974,192</u>
<b>Equity Instruments</b>					
. Between 0% and 25%	51,393	-	-	(2,939)	48,454
	<u>3,163,153</u>	<u>51,707</u>	<u>321,577</u>	<u>(513,791)</u>	<u>3,022,646</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Loans and advances to the European Central Bank	1,600,000	900,000
	-----	-----
Loans and advances to other Portuguese banks		
Deposits	200,407	-
Loans	36,522	46,581
Interest receivable	3,523	261
	-----	-----
	240,452	46,842
	-----	-----
Loans and advances to other foreign banks		
Deposits	1,158,953	1,192,627
Other applications	172,463	709,874
Very short term loans and advances	68,797	216,402
Interest receivable	30,305	31,677
	-----	-----
	1,430,518	2,150,580
	-----	-----
	3,270,970	3,097,422
	=====	=====

On December 31, 2013 and 2012, the caption "Loans and advances to other foreign banks - Other applications" includes margin accounts of tEuros 172,446 and tEuros 209,856, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

11. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Unsecured credit		
Domestic loans		
To corporate clients		
Loans	3,898,652	4,148,746
Current account loans	1,011,146	1,195,764
Factoring	995,271	905,312
Finance leasing	460,387	455,646
Overdrafts	105,260	337,700
Discount and credit securities	144,180	137,300
Other credits	20,309	26,898
To individuals		
Mortgage loans	12,554,234	11,745,561
Consumer credit and other loans	1,722,630	1,798,911
Foreign loans		
To corporate clients		
Loans	132,935	124,141
Factoring	57,974	42,147
Current account loans	11,615	9,558
Finance leasing	2,282	3,276
Overdrafts	440	2,559
Other credits	3,231	1,541
Discount and credit securities	128	85
To individuals		
Mortgage loans	361,067	377,167
Consumer credit and other loans	32,147	39,894
	-----	-----
	21,513,888	21,352,206
	-----	-----
Loans represented by securities		
Non-subordinated debt securities		
Commercial paper	2,003,612	1,451,055
	-----	-----
Non-derecognised securitised assets (Note 45)		
Companies		
Finance leasing		
. Leasetotta no. 1	335,458	462,375
To individuals		
Loans		
Mortgage loans		
. Hipototta no. 1	177,830	200,164
. Hipototta no. 4	1,103,384	1,177,349
. Hipototta no. 5	945,687	997,032
. Hipototta no. 7	-	1,217,069
Finance leasing		
. Leasetotta no. 1	206	685
	-----	-----
	2,562,565	4,054,674
	-----	-----

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

	<u>2013</u>	<u>2012</u>
Overdue loans and interest		
Up to 90 days	61,292	45,689
More than 90 days	948,738	891,127
Non-derecognised securitised assets	63,934	89,771
	-----	-----
	1,073,964	1,026,587
	-----	-----
	27,154,029	27,884,522
	-----	-----
Interest receivable		
Unsecuritised credit	47,101	52,626
Loans represented by securities	4,791	4,161
Non-derecognised securitised assets	3,165	6,852
Deferred expenses	77,414	89,526
Commissions associated with amortised cost (net)	( 105,303 )	( 98,476 )
Value adjustment of hedged assets	4,200	6,100
	-----	-----
	31,368	60,789
	-----	-----
	27,185,397	27,945,311
Impairment of loans and advances to customers (Note 23)	( 1,077,876 )	( 965,662 )
	-----	-----
	26,107,521	26,979,649
	=====	=====

In the years 2013 and 2012, the Bank has sold mortgage loans and company loans portfolios, most of which had already been written off. As a result of these operations, net gains were recorded in 2013 and 2012 amounting to tEuros 2,321 and tEuros 4,117 respectively (Note 38).

On December 31, 2013 and 2012, the caption "Domestic loans - To individuals – Mortgage loans" includes loans allocated to the autonomous pool of the covered bonds issued by the Bank totalling tEuros 8,245,739 and tEuros 7,675,686, respectively (Note 22).

During 2012 the securitization operations Hipototta no. 11, Hipototta no. 12, BST SME no. 1 and Totta Consumer no. 1 were settled in advanced. During the year 2013 the securitization operation Hipototta no. 7 was settled in advance, which justified the increase in the caption of "Domestic loans – To individuals – Mortgage loans".

Changes in impairment of loans and advances to customers during 2013 and 2012 are presented in Note 23.

On December 31, 2013 and 2012, overdue loans and interest are made up as follows:

	<u>2013</u>	<u>2012</u>
Up to three months	61,292	46,934
Between three and six months	32,115	97,166
Between six months and one year	163,839	247,703
Between one year and three years	627,701	515,542
More than three years	189,017	119,242
	-----	-----
	1,073,964	1,026,587
	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

The portfolio of loans to customers as at December 31, 2013 and 2012, by business sector is as follows:

	2013			%
	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%
	<u>26,080,065</u>	<u>1,073,964</u>	<u>27,154,029</u>	<u>100.00%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

	2012			
	Performing	Overdue	Total	%
Agriculture and forestry	196.186	10.979	207.165	0,74%
Fishing	22.465	885	23.350	0,08%
Mining	76.740	3.341	80.081	0,29%
Manufacturing:				
Food, beverage and tobacco	377.099	12.505	389.604	1,40%
Textiles, leather and clothing	367.730	17.189	384.919	1,38%
Wood and cork	87.374	5.657	93.031	0,33%
Paper and publishing	253.911	4.114	258.025	0,93%
Chemical industry	139.790	1.108	140.898	0,51%
Ceramics, glass and cement	227.827	3.158	230.985	0,83%
Metal-working	140.131	7.236	147.367	0,53%
Machines and vehicles	234.778	11.074	245.852	0,88%
Electricity, water and gas	269.065	4.332	273.397	0,98%
Construction and public works	1.535.568	204.745	1.740.313	6,24%
Commerce and hotels				
Wholesale trading	622.867	39.232	662.099	2,37%
Retail sale	668.126	44.678	712.804	2,56%
Restaurants and hotels	397.555	43.092	440.647	1,58%
Transport and communications	614.601	15.413	630.014	2,26%
Non-monetary financial institutions	449.620	4.232	453.852	1,63%
Government administration	653.341	7.028	660.369	2,37%
Other service companies	1.495.854	86.876	1.582.730	5,68%
Loans to individuals	16.782.550	459.107	17.241.657	61,83%
Foreign loans	369.628	4.588	374.216	1,34%
Holding companies	738.732	31.100	769.832	2,76%
Other loans	136.397	4.918	141.315	0,51%
	<u>26.857.935</u>	<u>1.026.587</u>	<u>27.884.522</u>	<u>100,00%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

On December 31, 2013 and 2012, the overdue and performing loans, with and without objective evidence of impairment, considering the segmentation for the purpose of calculating impairment losses, are made up as follows:

	2013		
	Overdue <u>loans</u>	Performing <u>loans</u>	Total <u>loans</u>
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	-	14,314,279	14,314,279
· With objective evidence of impairment	339,470	664,763	1,004,233
	-----	-----	-----
	339,470	14,979,042	15,318,512
	-----	-----	-----
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	-	353,916	353,916
· With objective evidence of impairment	100,924	73,087	174,011
	-----	-----	-----
	100,924	427,003	527,927
	-----	-----	-----
	1,073,964	26,080,065	27,154,029
	=====	=====	=====

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

	<u>2012</u>		
	<u>Overdue loans</u>	<u>Performing loans</u>	<u>Total loans</u>
Loans granted to companies			
· Without objective evidence of impairment	-	9,254,210	9,254,210
· With objective evidence of impairment	547,969	217,601	765,570
	-----	-----	-----
	547,969	9,471,811	10,019,780
	-----	-----	-----
Mortgage loans			
· Without objective evidence of impairment	-	14,823,138	14,823,138
· With objective evidence of impairment	303,252	701,747	1,004,999
	-----	-----	-----
	303,252	15,524,885	15,828,137
	-----	-----	-----
Consumer credit			
· Without objective evidence of impairment	-	1,048,143	1,048,143
· With objective evidence of impairment	37,458	62,869	100,327
	-----	-----	-----
	37,458	1,111,012	1,148,470
	-----	-----	-----
Loans granted through credit cards			
· Without objective evidence of impairment	-	248,211	248,211
· With objective evidence of impairment	31,912	12,159	44,071
	-----	-----	-----
	31,912	260,370	292,282
	-----	-----	-----
Other loans to individuals			
· Without objective evidence of impairment	-	412,022	412,022
· With objective evidence of impairment	105,996	77,835	183,831
	-----	-----	-----
	105,996	489,857	595,853
	-----	-----	-----
	1,026,587	26,857,935	27,884,522
	=====	=====	=====



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

12. HEDGING DERIVATIVES

This caption is made up as follows:

	2013			2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	46,101	272,356	(226,255)	90,407	370,277	(279,870)
Equity swaps	51,381	37,484	13,897	50,522	14,273	36,249
AutoCallable options	-	49,951	(49,951)	2,656	71,361	(68,705)
Cash flow hedges						
Interest rate swaps	101,945	10,893	91,052	141,265	-	141,265
	<u>199,427</u>	<u>370,684</u>	<u>(171,257)</u>	<u>284,850</u>	<u>455,911</u>	<u>(171,061)</u>

On December 31, 2013 and 2012, derivatives were broken down as follows:

Type of financial Instruments	Book Value	2013					Total	Notional amounts	
		Notional amounts						EUR	Other
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years			
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased		30,337	58,904	7,202	81	-	96,524	45,471	51,053
. Sold	(61)	30,306	58,916	7,214	81	-	96,517	42,220	54,297
Currency swaps									
. Purchased		1,212,071	-	-	-	-	1,212,071	-	1,212,071
. Sold	(6,281)	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		13,489	11,956	10,333	-	-	35,778	-	35,778
. Sold	(5)	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
	<u>(19,875)</u>	<u>2,827,927</u>	<u>695,777</u>	<u>539,747</u>	<u>3,508,042</u>	<u>6,300,918</u>	<u>13,872,411</u>	<u>12,522,446</u>	<u>1,349,965</u>
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	-
. Financial assets available for sale	(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	-
	<u>(171,257)</u>	<u>3,496,051</u>	<u>407,192</u>	<u>1,878,381</u>	<u>4,013,557</u>	<u>3,446,869</u>	<u>13,242,050</u>	<u>13,073,012</u>	<u>169,038</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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

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.

This type of contracts, anticipates compensation of liabilities in the event of default (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 their relevant jurisdictions).

The derivative contract may also include an agreement of collateralization of credit risk that is generated by the transactions covered by it. Note that the derivative contract between two parties normally includes all OTC derivative transactions made between those two parties, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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.

13. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Property received as settlement of defaulting loans	268,035	245,155
Own property for sale	28,706	31,428
Participating units (Note 9)	18,663	18,663
Equipment	4,021	5,558
Other properties	100	100
	-----	-----
	319,525	300,905
	-----	-----
Impairment (Note 23)	( 112,582 )	( 94,065 )
	-----	-----
	206,943	206,840
	=====	=====

The changes occurred under "Non-current assets held for sale" in the years ended December 31, 2013 and 2012 were as follows:

	2013										
	December 31 2012		Increases	Sales	Transfers (Notes 9 and 15)	Impairment (Note 23)			December 31 2013		
	Gross amount	Accumulated impairment				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
	<u>300,905</u>	<u>(94,065)</u>	<u>163,593</u>	<u>(151,957)</u>	<u>6,984</u>	<u>(66,519)</u>	<u>22,144</u>	<u>25,858</u>	<u>319,525</u>	<u>(112,582)</u>	<u>206,943</u>

	2012										
	December 31 2011		Increases	Sales	Transfers (Notes 9 and 15)	Impairment (Note 23)			December 31 2012		
	Gross amount	Accumulated impairment				Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	177,737	(53,639)	178,631	(111,213)	-	(38,106)	4,328	16,339	245,155	(71,078)	174,077
. Own property for sale	26,625	(10,757)	55	(507)	5,355	(5,024)	292	76	31,528	(15,413)	16,115
Equipment	3,982	(2,785)	2,808	(1,231)	-	(1,485)	610	86	5,559	(3,574)	1,985
Participating units	-	-	-	-	18,663	(4,000)	-	-	18,663	(4,000)	14,663
	<u>208,344</u>	<u>(67,181)</u>	<u>181,494</u>	<u>(112,951)</u>	<u>24,018</u>	<u>(48,615)</u>	<u>5,230</u>	<u>16,501</u>	<u>300,905</u>	<u>(94,065)</u>	<u>206,840</u>

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 the initial recognition value and the 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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) Market method

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 place where that asset is located.

b) Income method

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) Cost method

The cost method consists in determining the replacement value of the property taking into consideration the cost of building 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).

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

14. INVESTMENT PROPERTIES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Properties held by Fundo Imobiliário Novimovest	449,758	-
Hotel	18,191	-
	-----	---
	467,949	-
	=====	==

During the year 2013, following the subscription of several participating units, the Bank started to consolidate by the full integration method the Fundo Imobiliário Novimovest, which main assets are properties for rental.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

On December 31 2013, the properties held by Fundo Imobiliário Novimovest have the following characteristics:

Land	
Urbanized	47,809
Non - Urbanized	9,457
Finished constructions	
Rented	307,213
Not rented	85,279
	-----
	449,758
	=====

On the other hand, during the year 2013, the properties held by Fundo Imobiliário Novimovest generated, amongst others, the following revenues and annual charges:

Rents	22,744
Taxes	( 4,762 )
Condominium expenses	( 1,369 )
Maintenance and repair expenses	( 945 )
Insurances	( 316 )
	-----
	15,352
	=====

Finally, during the first half of 2013, the Bank received in settlement of a non performing loan a hotel valued at that date in tEuros18,660. Simultaneously, the Bank celebrated a lease contract for that property for a period of 1 year automatically renewable. On December 31, 2013, the Bank updated the fair value of that property.

The changes occurred under "Investment properties" for the year ended December 31, 2013 were as follows:

	Balances on		Changes in the			Balances on
	January 1,		consolidation	Fair value		December 31,
	2013	Increases	perimeter	valuation	Sales	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 investment properties is recorded in the income statement caption "Other operating income - Unrealized gains on investment properties" (Note 39).

Investment properties held by the Bank are valued mostly on an annual basis, using specialized independent entities, in accordance with the valuation methodologies described in Note 13.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

On December 31, 2013, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

31-12-2013				
Valuation techniques				
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	467,949	467,949

In compliance with the requirements of IFRS 13, for the investment properties with higher value in the Bank's portfolio at December 31, 2013, a summary of their main characteristics, the valuation techniques adopted and relevant inputs used in the estimation of their fair value are presented below:

Property description	Status	Amount	Valuation method	Relevant inputs
Hotel Delfim - Alvor				
Hotel in Portimão	Rented	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	Rented	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	31,006	Income method / Comparative market method	Rent value by square meter Yield
Hotel in Cascais	Rented	18,191	Income method / Depreciated replacement cost method	Yield Occupation rate
Warehouse in Perafita				
Warehouse in Matosinhos	Rented	17,315	Income method / Comparative market method	Yield Rent value by square meter
Antero de Quental Avenue, 9				
Offices and shops in Ponta Delgada	Rented	12,441	Income method / Comparative market method	Yield Rent value by square meter
Estrada da Outurela, 119, Camaxide				
Offices in Oeiras	Rented	12,399	Income method / Cost method	Yield Rent value by square meter
Golf courses "Vila Sol" - G1 and G2				
Golf courses in Loulé	Rented	11,799	Income method / Cost method	Yield Rent value by square meter
Logistics parks SPC - warehouses 1 and 4				
Warehouses in Vila Franca de Xira	Rented	10,823	Income method / Cost method	Yield Rent value by square meter
Alfena - Land in Valongo				
Land in Valongo	Non - urban area	8,224	Comparative market method / Cost method/ Residual value method	Land price and construction and sale costs by square meter
		<u>187,278</u>		

If an increase in the rent value per square meter occurs or an increase in the occupancy 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, the fair value of these investment properties will decrease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013  
(Translation of notes originally issued in Portuguese – Note 49)  
(Amounts expressed in thousands of Euros - tEuros, unless otherwise expressly indicated)

15. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions for the years ended on December 31, 2013 and 2012 are as follows:

	2013																		
	31/12/2012			Entrance and/or exit of entities in the consolidation perimeter				Write-offs		From/to assets held for sale (Note 13)		Amortization of the year	Reversal of Impairment (Note 23)	Foreign exchange differences		31/12/2013			
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount			Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 23)
<b>Tangible assets</b>																			
Property																			
. Property for own use	408,502	126,731	3,875	-	-	5,922	1010	412	(8,569)	(1,601)	7,294	(32)	-	-	404,845	132,012	3,843	268,990	
. Leasehold expenditure	134,256	10,170	-	(258)	(258)	790	5,527	5,504	-	-	6,578	-	(7)	(7)	129,254	10,979	-	118,275	
. Other property	306	4	20	-	-	6	-	-	-	-	2	-	-	-	312	6	20	286	
<b>Tangible assets in progress</b>																			
. Property for own use	131	-	-	-	-	406	-	-	-	-	-	-	-	-	537	-	-	537	
. Leasehold expenditure	1	-	-	-	-	4	-	-	-	-	-	-	-	-	5	-	-	5	
	<u>543,196</u>	<u>236,905</u>	<u>3,895</u>	<u>(258)</u>	<u>(258)</u>	<u>7,128</u>	<u>6,537</u>	<u>5,916</u>	<u>(8,569)</u>	<u>(1,601)</u>	<u>13,874</u>	<u>(32)</u>	<u>(7)</u>	<u>(7)</u>	<u>534,953</u>	<u>242,997</u>	<u>3,863</u>	<u>288,093</u>	
<b>Equipment</b>																			
. 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	
. Interior installations	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)	(163)	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	4,411	-	1,316	
. Tangible assets in progress	-	-	-	-	-	2	-	-	-	-	-	-	-	-	2	-	-	2	
	<u>295,358</u>	<u>263,207</u>	<u>-</u>	<u>(2,550)</u>	<u>(2,488)</u>	<u>8,869</u>	<u>6,780</u>	<u>6,655</u>	<u>(66)</u>	<u>(50)</u>	<u>11,783</u>	<u>-</u>	<u>(8)</u>	<u>(7)</u>	<u>294,823</u>	<u>265,790</u>	<u>-</u>	<u>29,033</u>	
<b>Other tangible assets</b>																			
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-	
. Work of Art	1,537	-	-	(1)	-	-	-	-	-	-	-	-	-	-	1,536	-	-	1,536	
	<u>1,818</u>	<u>281</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,817</u>	<u>281</u>	<u>-</u>	<u>1,536</u>	
	<u>840,372</u>	<u>500,393</u>	<u>3,895</u>	<u>(2,809)</u>	<u>(2,746)</u>	<u>16,997</u>	<u>13,317</u>	<u>12,571</u>	<u>(8,635)</u>	<u>(1,651)</u>	<u>25,657</u>	<u>(32)</u>	<u>(16)</u>	<u>(14)</u>	<u>831,593</u>	<u>509,068</u>	<u>3,863</u>	<u>318,662</u>	
<b>Intangible assets</b>																			
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)	-	-	-	-	-	-	-	-	-	-	-	-	-	
	<u>346,605</u>	<u>280,763</u>	<u>-</u>	<u>(2,028)</u>	<u>(1,974)</u>	<u>20,800</u>	<u>879</u>	<u>879</u>	<u>-</u>	<u>-</u>	<u>34,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>364,498</u>	<u>312,030</u>	<u>-</u>	<u>52,468</u>	

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..

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

	2012																					
	31/12/2011			Transfers																31/12/2012		
	Gross amount	Accumulated depreciation	Impairment (Note 23)	Acquisitions	Write-offs		From/to assets held				Amortization of the year	Impairment (Note 23)	Reversal of Impairment (Note 23)	Foreign exchange differences		Gross amount	Accumulated depreciation	Impairment (Note 23)	Net amount			
					Gross amount	Accumulated depreciation	for sale (Note 13)		Between fixed assets					Gross amount	Accumulated depreciation					Gross amount	Accumulated depreciation	
Tangible assets																						
Property																						
· Property for own use	4 45,472	120,714	2,486	351	1548	3	(6,914)	(1602)	1,144	(164)	7,786	1,389	-	(3)	-	408,502	126,731	3,875	277,896			
· Leasehold expenditure	134,230	105,217	-	912	-	1,470	(166)	(166)	(713)	163	6,429	-	-	(7)	(3)	134,256	110,170	-	24,086			
· Other property	347	1	43	-	41	-	-	-	-	-	1	-	(23)	-	2	306	4	20	282			
Tangible assets in progress																						
· Property for own use	240	-	-	336	-	-	-	-	(445)	-	-	-	-	-	-	131	-	-	131			
· Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1			
	<b>550,290</b>	<b>225,932</b>	<b>2,529</b>	<b>1,599</b>	<b>1,589</b>	<b>1,473</b>	<b>(7,080)</b>	<b>(1,768)</b>	<b>(14)</b>	<b>(1)</b>	<b>14,216</b>	<b>1,389</b>	<b>(23)</b>	<b>(10)</b>	<b>(1)</b>	<b>543,196</b>	<b>236,905</b>	<b>3,895</b>	<b>302,396</b>			
Equipment																						
· Furniture and fixtures	23,160	17,689	-	192	133	133	-	-	-	-	1,732	-	-	-	(1)	23,219	19,287	-	3,932			
· Machinery and tools	3,922	3,817	-	57	13	13	-	-	-	-	52	-	-	-	(2)	3,966	3,854	-	112			
· Computer hardware	124,015	107,115	-	1,524	814	678	-	-	-	-	6,627	-	-	-	-	124,725	113,064	-	11,661			
· Interior installations	91,268	82,545	-	2,153	1,031	1,029	(59)	(16)	14	1	2,621	-	-	1	(2)	92,346	84,120	-	8,226			
· Vehicles	18,482	11,002	-	2,070	2,841	2,629	-	-	-	-	3,597	-	-	(3)	-	17,708	11,970	-	5,738			
· Security equipment	27,805	26,737	-	59	272	272	-	-	-	-	439	-	-	1	-	27,593	26,904	-	689			
· Other equipment	5,663	3,359	-	178	41	41	-	-	-	-	692	-	-	1	(2)	5,801	4,008	-	1,793			
	<b>294,315</b>	<b>252,264</b>	<b>-</b>	<b>6,233</b>	<b>5,145</b>	<b>4,795</b>	<b>(59)</b>	<b>(16)</b>	<b>14</b>	<b>1</b>	<b>5,760</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>295,358</b>	<b>263,207</b>	<b>-</b>	<b>32,151</b>			
Other tangible assets																						
· Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-			
· Work of Art	1,535	-	-	-	-	-	-	-	-	-	-	-	-	2	-	1,537	-	-	1,537			
	<b>1,816</b>	<b>281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>1,818</b>	<b>281</b>	<b>-</b>	<b>1,537</b>			
	<b>846,421</b>	<b>478,477</b>	<b>2,529</b>	<b>7,832</b>	<b>6,734</b>	<b>6,268</b>	<b>(7,139)</b>	<b>(1,784)</b>	<b>-</b>	<b>-</b>	<b>29,976</b>	<b>1,389</b>	<b>(23)</b>	<b>(8)</b>	<b>(8)</b>	<b>840,372</b>	<b>500,393</b>	<b>3,895</b>	<b>336,084</b>			
Intangible assets																						
· Software purchased	317,482	243,252	-	13,933	-	-	-	-	11,576	-	33,897	-	-	-	-	342,991	277,149	-	65,842			
· Intangible assets in progress	-	-	-	11,576	-	-	-	-	(11,576)	-	-	-	-	-	-	-	-	-	-			
· Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-			
· Other	29	29	-	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-	-			
	<b>321,096</b>	<b>246,866</b>	<b>-</b>	<b>25,509</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>346,605</b>	<b>280,763</b>	<b>-</b>	<b>65,842</b>			

The caption "Software purchased" at December 31, 2013 and 2012 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 50,783 and tEuros 64,273, respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

16. INVESTMENTS IN ASSOCIATED COMPANIES

On December 31, 2013 and 2012, this caption was made up as follows:

	2013		2012	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
. Partang, SGPS, S.A.	49.00	115,396	49.00	111,284
. Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	21.50	31,265	21.50	30,168
. Benim - Sociedade Imobiliária, S.A	25.81	2,129	25.81	2,202
		-----		-----
		148,790		143,654
		-----		-----
Impairment of investments in associates (Note 23)				
. Benim – Sociedade Imobiliária, S.A. (Benim)		( 1,060 )		( 660 )
		-----		-----
		147,730		142,994
		=====		=====

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 capital increase. After this operation Partang was 50% owned by CGD and 50% by the Santander Group (of which 49.51% was held by the subsidiary Santotta – Internacional SGPS, S.A. (Santotta) and 0.49% was held directly by BST).

On December 31, 2013 and 2012, Partang, SGPS, S.A. owned 51% of Banco Caixa Geral Totta de Angola.S.A..

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 owned 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, the 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. Additionally, CGD has 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 capital increase of Partang (July 2, 2009).

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The summary of the financial data from the main associated companies of the Bank in December 31, 2013 was made up as follows:

	<u>Partang</u>
<b><u>Balance sheet</u></b>	
Current assets	10,558
Non current assets	<u>142,084</u>
	<u>152,642</u>
Current liabilities	10,555
Non current liabilities	<u>1,373</u>
	<u>11,928</u>
Shareholders equity excluding net income	115,098
Net income for the year	25,616
<b><u>Statement of income</u></b>	
Operating income	25,643
Income before tax	25,643
Net income for the year	25,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

17. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

On December 31, 2013 and 2012, these captions were made up as follows:

	<u>2013</u>	<u>2012</u>
Current tax assets:		
. Corporate income tax receivable	16,973	3,889
. Other	485	357
	-----	-----
	17,458	4,246
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	3,361	1,898
. Tax on rental income (Fundo Novimovest)	4,762	-
. Corporate income tax payable from previous years	6,190	2,789
	-----	-----
	14,313	4,687
	=====	=====
Deferred tax assets		
. Relating to temporary differences	500,144	604,209
. Tax losses carried forward	40,531	27,369
	-----	-----
	540,675	631,578
	=====	=====
Deferred tax liabilities		
. Relating to temporary differences	54,759	71,442
. Relating to tax credits	3,765	3,861
	-----	-----
	58,524	75,303
	=====	=====

On December 31, 2013, the caption "Current tax assets – Corporate income tax receivable" includes tEuros 9,807 paid by the Bank concerning corrections made by the Tax Authorities to its tax declarations in previous years. Since the Bank does not agree with the fundamentals the Bank appealed from those corrections.

On December 31, 2013 and 2012, income tax for the year was made up as follows:

	<u>2013</u>	<u>2012</u>
Current tax		
. Of the year	( 20,214 )	( 23,715 )
. Special contribution of the banking sector	( 10,802 )	( 11,842 )
. Consortiums ("ACE's")	( 1,597 )	( 1,482 )
. Other	( 2,708 )	7,446
	-----	-----
	( 35,321 )	( 29,593 )
	-----	-----
Deferred tax		
. Increases and reversals of temporary differences	( 8,941 )	44,803
. (Expense)/Income for tax credits	( 500 )	( 500 )
	-----	-----
	( 9,037 )	44,303
	-----	-----
	( 44,358 )	14,710
	=====	=====



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In 2013 and 2012, the reconciliation between the nominal and effective income tax rate is as follows:

	2013		2012	
	Income Tax Rate	Amount	Income Tax Rate	Amount
Income before income tax		124,640		73,358
Income tax based on the current tax rate				
in force in Portugal and countries where the subsidiaries are established	22.67%	28,252	-28.84%	(21,154)
Insufficiency(excess) of tax estimate of the previous year	1.67%	2,084	3.30%	2,421
Impact on the effective tax rate of income from associated companies	-3.35%	(4,172)	-4.69%	(3,438)
Constitution/(reversal) of taxed provisions	4.74%	5,903	5.13%	3,761
Impact of the income tax rate change in deferred tax calculation	-3.93%	(4,902)	0.00%	-
Deductible tax losses (consortiums)	0.01%	8	-0.44%	(323)
Tax exempt dividends	-0.20%	(246)	-0.42%	(307)
Tax benefits	-0.31%	(386)	-0.46%	(341)
Non tax deductible costs	-0.90%	(1,122)	0.00%	-
Special contribution of the banking sector	8.67%	10,802	16.14%	11,842
Autonomous taxation	2.17%	2,699	5.07%	3,720
Tax losses of previous years that became recoverable	1.43%	1,777	0.00%	-
Non taxable results from the sale of investments	-2.98%	(3,713)	0.00%	-
Other	5.92%	7,375	-14.85%	(10,891)
Income tax for the year	35.61%	44,358	-20.06%	(14,710)

Following the changes of the tax legislation for the year 2014, the Bank started to measure and recognize the deferred tax assets related to tax losses carried forward at a rate of 23% (25% at December 31, 2012) and the deferred taxes associated with temporary differences at a rate of 29.5% (29% on December 31, 2012).

The dividends distributed to the Bank by its subsidiaries and associated companies in Portugal are not taxed in result of the arrangements laid down in Article 46 of the Corporate Income Tax Code providing for the elimination of double taxation on distributed profits.

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

The Bank was subject to tax inspections for the years up to 2011, inclusive. As a result of the inspection for 2011, 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 the Bank was also subject to an additional assessment. The corrections made to the tax base related to several matters, including, amongst others, adjustments for early retirement and use of provisions for overdue loans. Some of these corrections are only temporary.

As regards the additional assessments received (this years or in past years), the Bank has paid the assessment amounts. However, the Bank has challenged the majority of the additional tax assessments.

The Bank records in the liability caption "Provisions" the amount considered to be necessary to cover the risks of the additional tax assessments received as well as contingencies relating to prior years not yet reviewed by the Tax Authorities (Note 23).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

18. OTHER ASSETS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Other available funds	315	333
Debtors and other applications		
Debtors resulting from operations with futures	12,548	3,895
VAT recoverable	1,905	548
Debtors for loan interest subsidy	4,617	5,939
Other debtors	56,481	47,850
Debtors and other applications - overdue capital	6,441	528
Debtors - unrealised capital	38	38
Shareholders' loans:		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestinsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2,443	2,443
Gold, other precious metals, coins and medals	2,503	2,465
Promises and other assets received as settlement of defaulting loans	72,477	104,672
Income receivable	66,441	25,314
Other income receivable - securitization	4,991	10,767
Deferred costs on participations in consortiums		
NORTREM - Aluguer Material Ferroviário ACE	2,093	2,762
TREM - Aluguer Material Circulante ACE	-	137
TREM II - Aluguer Material Circulante ACE	216	443
Deferred costs	6,891	7,893
Over-the-counter transactions pending settlement	-	28
Asset transactions pending settlement	40,803	253
	-----	-----
	281,693	216,798
	-----	-----
Impairment losses (Note 23):		
Shareholders' loans	( 2,222 )	( 2,042 )
Assets received as settlement of defaulting loans	( 14,933 )	( 22,921 )
Debtors and other applications	( 5,943 )	( 879 )
	-----	-----
	( 23,098 )	( 25,842 )
	-----	-----
	258,595	190,956
	=====	=====

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 relating to the trading of futures. Futures margin accounts are recorded under the caption "Creditors and other resources - Creditors resulting from operations with futures" (Note 25).

The balance of the caption "Debtors and other applications - Other debtors" at December 31, 2013 and 2012, includes the amount of the credit rights held over Lusimovest Fund totalling tEuros 24,500, relating to redemptions settled on account of that Fund. Additionally, in December 31, 2013, that caption included tEuros 16,488 relating to amounts receivable by Novimovest Fund from sales of property made during the year.

On December 31, 2013, the caption "Debtors and other applications - Debtors and other applications - Overdue capital" includes tEuros 5,017 relating to overdue rents from properties leased by Novimovest Fund. For those rents, the Fund recognized impairment losses in the same amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012 the caption "Income receivable" includes mainly commissions receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. for the sale of its insurance products (tEuros 61,647 and tEuros 13,712, respectively, on December 31, 2013 and 2012).

On December 31, 2013 and 2012, the caption "Other income receivable - securitization" corresponds to the amount receivable on swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles. The amount payable relating to these transactions is recorded in the caption "Other liabilities – Accrued costs – relating to swap agreements" (Note 25).

On December 31, 2013, the caption "Asset transactions pending settlement" includes, amongst others, the following debtors and (creditors) balances:

- tEuros 45,022 associated with interest receivable from swaps established with some Portuguese public sector entities (Note 50);
- tEuros 30,128 relating to cheques, values in transit and other transactions to be settled;
- tEuros 26,317 relating to amounts receivable under the Clearing System Direct Debits;
- tEuros 9,957 relating to amounts charged to suppliers under confirming contracts;
- (tEuros 37,645) relating to transfers to be paid relating to SEPA (Single Euro Payments Area); and
- (tEuros 34,736) relating to credit amounts outstanding to be settled at ATMs.

19. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Resources of the European Central Bank		
Demand Deposits	6,200,000	5,837,226
Interest payable	41,394	-
Resources of other Central Banks		
Demand deposits	16	16
	-----	-----
	6,241,410	5,837,242
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

20. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Resources of domestic credit institutions		
Deposits	136,765	31,778
Interest payable	39	47
Other resources	-	2
	-----	-----
	136,804	31,837
	-----	-----
Resources of foreign credit institutions		
Sale operations with repurchase agreement	3,082,444	1,115,715
Deposits	711,980	745,391
Very short term resources	41,261	48,976
Other resources	202,242	7,236
Interest payable	327	419
	-----	-----
	4,038,254	1,917,737
	-----	-----
	4,175,058	1,949,574
	=====	=====

On December 31, 2013 and 2012, the caption “Resources of foreign credit institutions – Sale operations with repurchase agreement”, is made up as follows, by type of underlying asset:

Assets	2013			
	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 operation	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
	-----	-----	-----	-----
Assets	2012			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	146,305	46	(9)	146,342
Treasury Bonds - Spain	969,309	123	(59)	969,373
	-----	-----	-----	-----
	1,115,614	169	(68)	1,115,715
	-----	-----	-----	-----

On December 31, 2013, the caption “Resources of foreign credit institutions – Other resources” includes tEuros 200,000 related to loans obtained from the European Investment Bank (EIB).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

21. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Term deposits	13,062,376	14,431,667
Demand deposits	4,595,022	4,890,448
Structured deposits	2,766,498	1,764,839
Savings deposits	36,599	55,081
Advance notice deposits	18,267	21,365
	-----	-----
	20,478,762	21,163,400
	-----	-----
Interest payable	156,382	171,186
Cheques and orders payable	75,843	117,294
Value adjustments of hedging operations	( 3,986 )	45,294
	-----	-----
	228,239	333,774
	-----	-----
	20,707,001	21,497,174
	=====	=====

22. DEBT SECURITIES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Bonds in circulation		
Covered bonds		
Issued	7,132,300	5,880,000
Repurchased	( 6,225,750 )	( 4,003,450 )
Interest from covered bonds	5,365	23,576
Bonds issued in securitization operations		
Issued	2,714,309	4,270,551
Repurchased	( 1,538,636 )	( 3,004,781 )
Interest payable	( 1,496 )	( 1,597 )
Cash bonds		
Issued	614,557	660,960
Repurchased	( 255,543 )	( 33,446 )
Interest payable	11,023	9,782
	-----	-----
	2,426,129	3,801,595
	-----	-----
Other		
EMTN Program	141,830	160,530
Repurchased	( 2,940 )	-
Interest payable	4	1,123
	-----	-----
	138,894	161,653
	-----	-----
Value adjustments of hedging operations	( 30,862 )	( 9,729 )
	-----	-----
	2,534,161	3,953,519
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In accordance with the law, the holders of covered bonds have a special credit privilege on the cover pool, which is 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 cash bonds are described in Annex I.

Between May of 2008 and December of 2013, BST made eleven issues of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". As at December 31, 2013 and 2012, the covered bonds had an autonomous pool of assets comprised by:

	<u>2013</u>	<u>2012</u>
Loans and advances to customers (Note 11)	8,245,739	7,675,686
Interest on loans	8,649	8,888
Commissions	( 36,575 )	( 34,574 )
Deferred expenses	11,222	14,552
	-----	-----
	8,229,035	7,664,552
	-----	-----
Hedging derivatives	11,642	42,106
	-----	-----
	8,240,677	7,706,658
	=====	=====

Changes in the debt issued by the Bank during the years 2012 and 2013 were the following:

	<u>Bonds in circulation</u>		<u>EMTN Programme</u>	
	<u>Issued</u>	<u>Repurchased</u>	<u>Issued</u>	<u>Repurchased</u>
Balances on December 31, 2011	6,370,376	(3,591,441)	2,289,570	(22,920)
. Issues made	250,000	-	900	-
. Issues repaid	(79,416)	8,332	(2,129,940)	800,790
. Issues repurchased	-	(453,787)	-	(777,870)
Balances on December 31, 2012	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 on December 31, 2013	7,746,857	(6,511,293)	141,830	(2,940)

The debt issues repurchased during the year 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 on settlement of derivative transactions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the Bank had the following bonds issued under the Euro Medium Term Notes Programme:

	<u>2013</u>	<u>2012</u>
Bonds with remuneration indexed to baskets of shares . Maturity between one and three years	109,530	109,530
Bonds with remuneration indexed to Euribor . Maturity between three and five years	32,300	32,300
Fixed rate bonds . Maturity up to one year	-	18,700
	-----	-----
	141,830	160,530
	=====	=====

Changes in bonds issued in securitization operations during 2013 and 2012 were as follows:

	Bonds	
	Issued	Repurchased
Balances on December 31, 2011	4,972,943	(2,748,088)
Redemption	(702,392)	68,117
Repurchases:		
- Hipototta No. 1 - Class A	-	(26,140)
- Hipototta No. 4 - Class A	-	(241,122)
- Hipototta No. 5 - Class A2	-	(57,548)
	-	(324,810)
Balances on December 31, 2012	4,270,551	(3,004,781)
Redemption	(1,556,242)	1,479,075
Repurchases:		
- Hipototta No. 4 - Class A	-	(9,803)
- Hipototta No. 5 - Class A2	-	(3,127)
	-	(12,930)
Balances on December 31, 2013	2,714,309	(1,538,636)

In 2013 and 2012 the Bank repurchased bonds issued in securitization operations, recording capital gains of tEuros 2,942 and tEuros 84,193, respectively (Note 38).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

## 23. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment in the years 2013 and 2012 were as follows:

	2013					31/12/2013
	31/12/2012	Changes in the consolidation perimeter	Increases	Reversals	Utilizations	
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
	<b>72,271</b>	<b>168</b>	<b>25,240</b>	<b>(18,310)</b>	<b>(17,330)</b>	<b>62,039</b>

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

	2013						
	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 11):							
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 11):							
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)	-	-	-
	<b>965,662</b>	<b>-</b>	<b>394,916</b>	<b>(190,421)</b>	<b>(92,281)</b>	<b>1,077,876</b>	<b>(7,456)</b>
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 9)	58,983	-	11,100	(8,345)	-	61,738	-
Impairment of investments in associated companies (Note 16)	660	-	400	-	-	1,060	-
	<b>59,643</b>	<b>-</b>	<b>11,500</b>	<b>(8,345)</b>	<b>-</b>	<b>62,798</b>	<b>-</b>
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	94,065	-	66,519	(22,144)	(25,858)	112,582	-
Tangible assets (Note 15)	3,895	-	-	(32)	-	3,863	-
Other assets (Note 18)	25,842	5,095	12,340	(19,856)	(323)	23,098	-
	<b>123,802</b>	<b>5,095</b>	<b>78,859</b>	<b>(42,032)</b>	<b>(26,181)</b>	<b>139,543</b>	<b>-</b>
	<b>1,149,107</b>	<b>5,095</b>	<b>485,275</b>	<b>(240,798)</b>	<b>(118,462)</b>	<b>1,280,217</b>	<b>(7,456)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

	2012					31-12-2012	Impairment recovery
	31-12-2011	Impairment losses	Reversal of impairment losses	Utilizations	Other		
Impairment of loans and advances to customers (Note 11):							
Domestic loans	219,831	142,063	(40,966)	(1,265)	-	319,663	-
Foreign loans	869	1,251	-	-	-	2,120	-
Non-derecognized securitized loans	67,955	2,580	(47,793)	-	-	22,742	-
Other securitized loans and receivables	3,094	366	-	-	-	3,460	-
Impairment of overdue loans and interest:							
Domestic loans	325,816	336,800	(29,683)	(89,582)	-	543,351	(8,544)
Foreign loans	10,095	8,405	(913)	(318)	-	17,269	(96)
Non-derecognized securitized loans	44,203	23,302	(11,151)	(1,874)	-	54,480	-
Other securitized loans and receivables	51	2,526	-	-	-	2,577	-
	<u>671,914</u>	<u>517,293</u>	<u>(130,506)</u>	<u>(93,039)</u>	<u>-</u>	<u>965,662</u>	<u>(8,640)</u>
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 9)	64,670	17,280	(936)	(22,031)	-	58,983	-
Impairment of investments in associated companies (Note 16)	500	160	-	-	-	660	-
	<u>65,170</u>	<u>17,440</u>	<u>(936)</u>	<u>(22,031)</u>	<u>-</u>	<u>59,643</u>	<u>-</u>
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	67,181	48,615	(5,230)	(16,501)	-	94,065	-
Tangible assets (Note 15)	2,529	1,389	(23)	-	-	3,895	-
Other assets (Note 18)	21,653	9,196	(4,810)	(197)	-	25,842	-
	<u>91,363</u>	<u>59,200</u>	<u>(10,063)</u>	<u>(16,698)</u>	<u>-</u>	<u>123,802</u>	<u>-</u>
	<u>828,447</u>	<u>593,933</u>	<u>(141,505)</u>	<u>(131,768)</u>	<u>-</u>	<u>1,149,107</u>	<u>(8,640)</u>

On December 31, 2013 and 2012, the provision for pensions and other charges is made up as follows:

	<u>2013</u>	<u>2012</u>
Restructuring plans	9,880	18,111
Supplementary pension plan of the Board of Directors (Note 46)	15,598	13,735
	<u>25,478</u>	<u>31,846</u>
	<u>=====</u>	<u>=====</u>

During the year 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 (Note 29) and the execution of some guarantees.

On December 31, 2013 and 2012 the caption "Other provisions" includes:

- Provision for legal actions filed by customers and by Bank employees in the amounts of tEuros 4,094 and tEuros 3,358, respectively. The Legal Department of the Bank estimates the expected loss for each process, based on its evolution as reported by the lawyer responsible for it; and
- Other provisions in the amounts of tEuros 18,869 and tEuros 16,928, respectively. On December 31, 2013 and 2012, those provisions were aimed essentially to deal with several contingencies, including, fraud, operations pending confirmation, open items and fines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

24. SUBORDINATED LIABILITIES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-----	-----
Repurchased securities	288,540	288,540
Interest payable	( 284,265 )	( 284,265 )
	32	36
	-----	-----
	4,307	4,311
	=====	=====

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

25. OTHER LIABILITIES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Creditors and other resources		
Creditors resulting from operations with futures (Note 18)	12,548	3,895
Other resources		
Secured account resources	38,474	42,912
Collateral account resources	3,250	892
Other resources	1,438	1,411
Public sector		
VAT payable	3,047	7,828
Withholding taxes	17,622	24,073
Social Security contributions	3,883	3,873
Other	84	12
Collections on behalf of third parties	162	161
Contributions to other health systems	1,534	1,526
Other creditors		
Creditors under factoring contracts	45,443	36,178
Creditors for the supply of goods	9,196	1,635
Other creditors	15,483	8,398
Accrued costs:		
Relating to personnel		
Long service bonuses	28,552	27,140
Vacation and vacation subsidy	31,211	31,559
Other variable remuneration	24,593	17,592
Other personnel costs	381	789
General administrative costs	25,007	33,828
Relating to swap agreements (Note 18)	5,185	10,526
Other	5,146	6,384
Liabilities with pensions (Note 44):		
Total liabilities	882,308	829,811
Fair value of the Pension Fund's assets	( 871,649 )	( 816,279 )
Other deferred income	1,873	1,977
Amounts to be settled with banks and customers		
Liability operations to be settled	7,229	2,865
Other	900	24,431
	-----	-----
	292,900	303,417
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the amounts to be settled with banks and customers correspond essentially to inter-bank electronic transfers that were cleared in the first days of the following year.

26. SHAREHOLDERS' EQUITY

On December 31, 2013 and 2012 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:

	2013		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (treasury shares)	14,593,315	2.22	14,593
Treasury shares	249,427	0.04	249
Other	610,922	0.09	611
	-----	-----	-----
	656,723,284	100.00	656,723
	=====	=====	=====

	2012		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (treasury shares)	14,593,315	2.22	14,593
Treasury shares	125,169	0.02	125
Other	735,180	0.11	735
	-----	-----	-----
	656,723,284	100.00	656,723
	=====	=====	=====

During the years 2013 and 2012, the Bank proceeded with the acquisition of 124,258 and 26,239 treasury shares by the amount of tEuros 752 and tEuros 160, respectively.

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

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

During the years 2013 and 2012, the Bank did not distribute dividends.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the revaluation reserves were made up as follows:

	<u>2013</u>	<u>2012</u>
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available for sale financial assets (Note 9)	( 233,775 )	( 512,366 )
Available for sale financial assets of companies consolidated under the equity method	3,317	2,521
Cash flow hedging instruments	44,382	99,490
Actuarial gains and losses (Note 44)		
Pension Fund - BST	( 621,069 )	( 583,394 )
Pension Fund of the London branch of BST	( 6,076 )	( 5,966 )
Actuarial gains and losses of companies consolidated under the equity method	( 1,378 )	( 1,349 )
Foreign exchange differences in consolidation	( 10,208 )	( 5,857 )
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	-----	-----
	( 801,562 )	( 983,676 )
	-----	-----
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation:		
Available for sale financial assets	69,983	148,587
Available for sale financial assets of companies consolidated under the equity method	( 788 )	( 622 )
Cash flow hedging instruments	( 13,092 )	( 28,852 )
Tax impact of actuarial gains and losses	176,863	169,416
Tax impact from the change in accounting policies of companies consolidated under the equity method	400	391
Relating to the revaluation of tangible assets	( 3,861 )	( 4,314 )
Relating to the revaluation of tangible assets of companies consolidated under the equity method	( 132 )	( 132 )
	-----	-----
	228,373	284,474
	-----	-----
	( 573,189 )	( 699,202 )
	=====	=====

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.

During 1998, under Decree-Law no. 31/98, of 11 February, the Bank revalued its tangible fixed assets, which resulted in an increase in the respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the caption "Other reserves and retained earnings" was made up as follows:

	<u>2013</u>	<u>2012</u>
Legal reserve	245,862	245,862
	-----	-----
Other reserves		
Reserves of consolidated companies	149,216	190,849
Reserves of companies consolidated under the equity method	81,660	74,727
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	619	1,737
	-----	-----
	898,754	934,572
	-----	-----
Retained earnings	332,601	241,078
	-----	-----
	1,477,217	1,421,512
	=====	=====

Legal reserve

In accordance with the provisions of Decree Law no. 298/92, of 31 December, amended by Decree Law no. 201/2002, of 26 September, 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 fraction of the annual net income on a stand-alone basis is transferred to this reserve each year until the above said amount is reached.

This reserve may only be used to offset accumulated losses or to increase share capital.

Merger reserve

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

27. CONSOLIDATED NET INCOME FOR THE YEAR

Consolidated net income for 2013 and 2012 may be summarised as follows:

	2013		2012	
	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)	2,449	2,449	(9,180)	(9,180)
Net income of the other Group companies:				
BST International Bank, Inc	20,457	20,457	18,276	18,276
Banco Caixa Geral Totta de Angola (BCGTA)	55,120	13,025	44,023	11,001
Partang, SGPS	25,616	12,552	21,433	10,502
Totta & Açores, Financing, Ltd (TAF)	12,360	12,360	12,360	12,360
Santander Gestão de Activos, SGPS, S.A.	7,784	7,784	1,331	1,331
Santotta - Internacional, SGPS	4,933	4,933	4,293	4,293
Totta Ireland, Plc. <sup>(1)</sup>	43,837	43,837	60,720	60,720
Unicre	9,785	2,104	11,256	2,420
Totta Urbe	1,997	1,997	2,474	2,474
Taxagest	761	753	(37)	(37)
Serfin International Bank & Trust (SIBT)	320	320	401	401
Totta & Açores, Inc. - Newark	47	47	(88)	(88)
Santander Asset Management, SGFIM, S.A.	3,202	3,202	11	11
Santander Pensões	624	624	769	769
Novimovest - Fundo de Investimento Imobiliário Aberto	(28,670)	(18,428)	-	-
	<u>158,173</u>	<u>105,567</u>	<u>177,222</u>	<u>124,433</u>
Elimination of dividends:				
Totta Ireland, Plc.	(45,145)	(45,145)	(63,380)	(63,380)
Santotta - Internacional, SGPS, S.A.	(10,826)	(10,826)	(8,216)	(8,216)
Banco Caixa Geral Totta Angola, S.A.	(5,595)	(5,595)	(4,411)	(4,411)
Partang, SGPS, S.A.	(5,047)	(5,047)	(4,018)	(4,018)
Unicre, S.A.	(985)	(985)	(1,036)	(1,036)
Santander Gestão de Activos, SGPS, S.A.	-	-	(9,430)	(9,430)
Santander Pensões, S.A.	-	(760)	(1,000)	(1,000)
		<u>(68,358)</u>		<u>(91,491)</u>
Elimination of the equity method application by Partang in the participation held in BCGTA		(8,110)		(6,534)
Gains on the repurchase by the Group of bonds issued in mortgage securitization operations (Note 38)		2,942		84,193
Adjustments related with securitization operations				
Impairment and deferral of commissions from securitized loans recorded by BST		44,278		(9,381)
Other adjustments		(11,785)		(7,795)
Gain 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		17,821		-
Annulment of impairment reversals for supplementary capital contributions between Group companies		(5,500)		-
Other		(279)		3,823
Consolidated net income for the year		<u>89,164</u>		<u>88,068</u>

- (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 of 2013 and 2012, which amounted to tEuros 41,105 and tEuros 56,680, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	<u>2013</u>	<u>2012</u>
Consolidated net profit attributable to shareholders of BST	89,164	88,068
Weighted average number of common shares issued	656,723,284	656,723,284
Weighted average number of treasury shares	14,763,681	14,702,114
Weighted average number of ordinary shares outstanding	641,959,603	642,021,170
Basic earnings per share attributable to shareholders of BST (in Euros)	0.14	0.14

28. MINORITY INTERESTS

Third party participation in Group's companies in 2013 and 2012 was as follows by entity:

	<u>2013</u>		<u>2012</u>	
	<u>Balance sheet</u>	<u>Income statement</u>	<u>Balance sheet</u>	<u>Income statement</u>
Preference shares of BST				
International Bank, Inc	261,040	-	272,851	-
Preference shares of TAF	300,000	-	300,000	-
Santander Multiobrigações Fund	132,701	-	-	-
Novimovest Fund	102,353	( 8,886 )	-	-
Taxagest	554	3	550	-
Dividends received in advance	( 1,407 )	-	( 1,443 )	-
Other	129	1	202	-
	-----	----	-----	----
	795,370	( 8,882 )	572,160	-
	=====	=====	=====	==

On June 30, 2006 BST International Bank, Inc (BST Puerto Rico) issued 3,600 non-voting preference shares of 100,000 United States Dollars (USD) each, fully subscribed and paid up by Banco Santander, S.A.. The BST Porto 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.. The Totta & Açores Financing (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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

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

During the year 2013, the Bank started to consolidate by the full integration method the Funds Santander Multiobrigações and Novimovest, reason why the caption Minority Interests reflects the share of participation of third parties in those Funds.

On December 31, 2013, the main financial data of BST International Bank, Inc. (BST Puerto Rico) and TAF, were as follows:

	<u>BST Porto Rico (*)</u>	<u>TAF</u>
<b><u>Balance sheet</u></b>		
Cash and deposits at central banks	-	11,787
Balances due from other banks	593,203	297,750
Other assets	1,634	2,250
	<u>594,837</u>	<u>311,787</u>
Resources of other credit institutions	9,207	-
Resources of customers and other debts	190,623	-
Other liabilities	2,672	-
	<u>202,502</u>	<u>-</u>
Shareholders' equity (excluding net income)	365,179	299,427
Net income for the year	27,156	12,360
	<u>594,837</u>	<u>311,787</u>
<b><u>Statement of income</u></b>		
Net interest income	27,499	13,110
Operating income	27,565	13,335
Income before tax	27,156	12,360
Net income for the year	27,156	12,360

(\*) Amounts expressed in thousands of United States Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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:

	<u>2013</u>	<u>2012</u>
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,185,467	1,219,730
Documentary credits	199,314	125,913
Assets pledged as guarantee		
On loans of securities	526,722	478,249
Bank of Portugal	142,677	122,829
Deposit Guarantee Fund	71,645	84,425
Investor Indemnity System	4,980	4,864
Other contingent liabilities	6	6
	-----	-----
	2,130,811	2,036,016
	=====	=====
Commitments		
Credit lines		
Revocable	4,207,922	4,502,905
Irrevocable	652,278	1,496,610
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	3,178	2,625
Other irrevocable commitments	11,447	11,235
Other revocable commitments	215	478,466
	-----	-----
	4,929,132	6,545,933
	=====	=====
Liabilities for services rendered		
Deposit and custodial services	51,992,816	51,506,012
Amounts received for collection	142,214	131,479
Assets managed by the Bank		
Other values	13	7,656,254
	-----	-----
	52,135,043	59,293,745
	=====	=====

On December 31, 2012, the caption "Commitments - Credit lines - Irrevocable" included tEuros 553,450 relating to commercial paper lines that terminated during 2013.

During 2013, the reduction in the caption "Commitments - Other revocable commitments" is related essentially to the termination during the year of a securities' loan transaction.

During 2013, the reduction in the caption "Assets managed by the Bank - Other values" is justified by the change in the consolidation perimeter as a result of the sale of 100% of the shares held in Santander Asset Management, SGFIM, S.A. and Santander Pensões, S.A..

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Deposit Guarantee Fund

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

In 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amount of tEuros 3,918. In this period, 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 at December 31, 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 2013 and 2012 the Bank paid 100% of the annual contribution amounting to tEuros 4,642 and tEuros 4,906, respectively (Note 39).

Investor Indemnity System (SII)

The liability to pay the Investor Indemnity System is not recorded as a cost, but is covered by the acceptance of an irrevocable commitment to pay that amount, if required to do so, being part (50%) of the commitment guaranteed by a pledge of Portuguese Treasury Bonds. As at December 31, 2013 and 2012 this liability amounted to tEuros 3,178 and tEuros 2,625, respectively.

30. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	950	1,719
In credit institutions	16	221
Interest on applications		
In domestic credit institutions		
In the Bank of Portugal	-	999
In other credit institutions	5,474	7,281
In foreign credit institutions	53,150	49,809
Interest on loans and advances to customers		
Domestic loans	593,748	708,390
Foreign loans	16,115	18,739
Other loans and receivables (commercial paper)	64,284	47,200
Income from commissions received associated to amortised cost	35,719	42,468
Interest from securitized assets not derecognised	41,725	158,077
Interest on overdue credit (Note 48)	8,643	8,087
Interest and similar income on other financial assets		
Available for sale financial assets	157,758	198,167
Financial assets at fair value through profit or loss	3,506	4,267
Hedging derivatives	248,278	302,753
Debtors and other applications	-	16
Other interest and similar income		
Swap agreements	40,764	98,656
Other	997	1,299
	-----	-----
	1,271,127	1,648,148
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

31. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Interest on customers' deposits		
Public sector	9,646	23,299
Emigrants	17,421	21,462
Other-residents	346,024	406,696
Non-residents	28,781	27,208
	-----	-----
	401,872	478,665
	-----	-----
Interest on other customers' resources	-	7,225
Interest on resources of Central Banks		
Bank of Portugal	25,542	52,015
Interest on resources of credit institutions		
Domestic	1,000	8,448
Foreign	26,922	30,425
Interest on debt securities issued		
Bonds	44,994	86,421
EMTN	430	81,761
Commissions	-	30
Interest on hedging derivatives	217,973	261,123
Interest and commissions on other subordinated liabilities	189	202
Commissions paid associated with amortized cost of credit	116	246
Other interest and similar charges		
Swap agreements	44,821	100,053
	-----	-----
	361,987	627,949
	-----	-----
	763,859	1,106,614
	=====	=====

32. INCOME FROM EQUITY INSTRUMENTS

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

	<u>2013</u>	<u>2012</u>
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	881	1,075
Finangest	206	16
PME Investimentos	120	88
Unicampus	88	87
Imorent Fund	-	355
Visa	-	16
Others	18	61
	-----	-----
	1,313	1,698
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

33. INCOME FROM SERVICES AND COMMISSIONS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
On guarantees given		
Guarantees and sureties	16,294	16,704
Documentary credits	3,605	3,202
On commitments to third parties		
Revocable	4,619	4,822
Irrevocable	2,823	2,369
On services rendered		
Card transactions	63,742	71,042
Credit operations	44,327	53,281
Real estate and mutual fund management	24,994	25,475
Annuities	14,434	14,067
Asset management and collection	12,706	13,602
Other	7,681	9,866
On operations carried out on behalf of third parties		
On securities	39,961	31,899
Other	424	482
Other commission received		
Insurance companies	89,491	93,589
Demand deposits	25,603	20,361
Cheques	11,702	14,517
Booklets	8,192	9,381
Other	28	42
	-----	-----
	370,626	384,701
	=====	=====

34. CHARGES WITH SERVICES AND COMMISSIONS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
On guarantees received		
Guarantees and sureties	805	1,083
On commitments assumed by third parties		
Revocable commitments	76	1,734
On banking services rendered by third parties		
Credit operations	12,868	12,050
Funds for collection and management	3,535	3,813
Customer transactions	29,548	26,065
Other	4,524	4,736
On operations carried out by third parties		
Securities	1,972	2,378
Other	1,274	1,209
Other commission paid	514	825
	-----	-----
	55,116	53,893
	=====	=====



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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:

	<u>2013</u>	<u>2012</u>
Financial assets held for trading:		
Equity instruments	5,034	12,629
Derivative instruments:		
. FRA's	( 14 )	410
. Swaps:		
Currency swaps	256	( 117 )
Interest rate swaps	13,792	4,244
Equity swaps	12,892	3,219
Other	( 10,198 )	2,593
. Options:		
Foreign exchange rate contracts	476	( 329 )
Interest rate contracts	-	104
Equity contracts	( 24 )	474
Other	135	-
. Interest rate guarantee contracts	63	( 48 )
Financial assets and liabilities at fair value through profit or loss	( 1,777 )	14,230
	-----	-----
	20,635	37,409
	-----	-----
Hedging derivatives:		
Swaps		
. Interest rate swaps	62,331	( 90,993 )
. Equity swaps	( 43,648 )	( 2,568 )
. "Auto-callable" options	17,701	( 64,328 )
Value adjustments of hedged assets and liabilities:		
. Loans and advances to customers	( 1,738 )	774
. Available-for-sale financial assets	( 95,965 )	111,437
. Resources of customers and other debts	49,207	( 44,747 )
. Debt securities	11,803	90,199
	-----	-----
	( 309 )	( 226 )
	-----	-----
	20,326	37,183
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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:

	2013			2012		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	573	-	573	-	(1)	(1)
Of other residents	-	-	-	36	(35)	1
Issued by non-residents						
Of foreign public issuers	3,723	-	3,723	758	-	758
Of other non-residents	-	-	-	3,097	(3,101)	(4)
Equity instruments						
Valued at fair value	-	(2)	(2)	2,199	-	2,199
Other	240	-	240	9	(5,658)	(5,649)
	<u>4,536</u>	<u>(2)</u>	<u>4,534</u>	<u>6,099</u>	<u>(8,795)</u>	<u>(2,696)</u>

**37. RESULT OF FOREIGN EXCHANGE REVALUATION**

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Gains on the revaluation of the foreign exchange position	46,506	42,084
Losses on the revaluation of the foreign exchange position	( 42,467 )	( 36,432 )
	-----	-----
	4,039	5,652
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

38. RESULT FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Gains on disposal of investments in subsidiaries and associates (Note 4)	12,588	-
Gains on tangible assets	3,728	832
Gains on the repurchase of bonds issued under mortgage securitization operations (Note 22)	2,942	84,193
Gains on non-current assets held for sale	2,696	2,855
Gains on the sale of loans and advances to customers (Note 11)	2,321	5,535
Other	-	2
	-----	-----
	24,276	93,417
	-----	-----
Losses on the repurchase of debt issues (Note 22)	( 11,107 )	-
Losses on tangible assets	( 5,952 )	( 297 )
Losses on non-current assets held for sale	( 3,869 )	( 4,222 )
Losses on the sale of loans and advances to customers (Note 11)	-	( 1,418 )
Other	( 872 )	( 1,791 )
	-----	-----
	( 21,800 )	( 7,728 )
	-----	-----
	2,476	85,689
	=====	=====

In March 2012, BST made a tender offer for the acquisition of a set of bonds issued under mortgage securitization operations held by entities outside the Santander Group with a nominal value of tEuros 311,394. As a result of this operation, the Bank recorded gains of tEuros 80,409.

In August 2012, BST acquired again bonds issued under mortgage securitization operations held by entities outside the Santander Group with a nominal value of tEuros 10,370. As a result of this operation, the Bank recorded a gain of tEuros 3,172.

Finally, in October 2012, BST made an exchange offer of tEuros 3,046 of bonds issued under mortgage securitization operations held by entities outside the Santander Group for covered bonds. As a result of this operation, the Bank recorded a gain of tEuros 612.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

39. OTHER OPERATING RESULTS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Other operating income		
Rent of automatic payment terminals	15,455	16,847
Rents received	11,792	322
Income from sundry services rendered	5,585	5,195
Reimbursement of expenses	2,787	2,942
Unrealized gains on investment properties (Note 14)	2,767	-
Other	2,180	1,580
	-----	-----
	40,566	26,886
	-----	-----
Other operating expenses		
Unrealized losses on investment properties (Note 14)	( 29,214 )	-
Other operating expenses	( 13,882 )	( 12,206 )
Charges with transactions made by customers	( 10,677 )	( 11,885 )
Subscriptions and donations	( 5,087 )	( 3,820 )
Expenses with automatic teller machines	( 4,848 )	( 4,385 )
Contributions to the Deposit Guarantee Fund (Note 29)	( 4,642 )	( 4,906 )
Contributions to the Resolution Fund	( 4,205 )	-
Other taxation		
Direct	( 1,703 )	( 1,596 )
Indirect	( 738 )	( 848 )
	-----	-----
	( 74,997 )	( 39,646 )
	-----	-----
	( 34,431 )	( 12,760 )
	=====	=====

In the year ending December 31, 2013, the caption "Rents received" includes the amount of tEuros 11,036 relating to the income earned by Novimovest Fund.

The Decree-Law no. 24/2013 of February 19, established the system of contributions of banks to the new Resolution Fund created with the purpose of prevention, mitigation and containment of systemic risk. According to the Dispatch no. 1/2013 and the Instructions no. 6/2013 and 7/2013 of the Bank of Portugal, the banks should pay an initial and a regular contribution to the Resolution Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

40. STAFF COSTS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Remuneration		
Management and supervisory boards (Note 46)	6,310	5,675
Employees	186,346	187,564
Stock option plans (Note 47)	1,802	3,104
Other variable remuneration	17,189	18,424
	-----	-----
	211,647	214,767
	-----	-----
Mandatory social charges		
Charges on remuneration	50,172	51,291
Charges with pensions and other benefits (Note 44)	1,924	( 2,167 )
Decrease in liabilities with death subsidy (Note 44)	( 416 )	( 13,745 )
Effect of transfer of pension liabilities to the Social Security	-	58
Other mandatory social charges	815	968
	-----	-----
	52,495	36,405
	-----	-----
Other staff costs		
Staff transfers	599	556
Supplementary retirement plan (Note 44)	583	583
Other	4,253	5,325
	-----	-----
	5,435	6,464
	-----	-----
	269,577	257,636
	=====	=====

During 2013 and 2012, the Bank did not record any cost with early retirements as it used part of the provision recorded for that purpose (Note 23).

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 27 of June, which introduced a maximum to the amount for the death subsidy corresponding to six times the amount of the social support index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

41. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Specialised services	40,592	40,819
Maintenance of software and hardware	36,624	33,859
Communications	12,953	14,288
Rent and leases	10,273	11,037
Advertising and publishing	9,550	10,489
External supplies		
Water, electricity and fuel	7,778	7,888
Current consumable material	1,894	2,212
Other	278	358
Travel, lodging and representation expenses	4,590	5,007
Maintenance and repairs	3,536	2,545
Transportation	2,337	2,393
Staff training	1,807	1,796
Insurance	1,063	819
Other	3,884	3,986
	-----	-----
	137,159	137,496
	=====	=====

42. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	<u>2013</u>	<u>2012</u>
Partang, SGPS, S.A.	12,668	9,568
Unicre - Instituição Financeira de Crédito, S.A.	1,473	2,420
Benim - Sociedade Imobiliária, S.A.	( 72 )	( 124 )
	-----	-----
	14,069	11,864
	=====	=====

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..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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 placement of their products (Note 18), and is made up as follows:

	2013			2012		
	<u>Life Insurance</u>	<u>Non-Life Insurance</u>	<u>Total</u> (Note 31)	<u>Life Insurance</u>	<u>Non-Life Insurance</u>	<u>Total</u> (Note 31)
Santander Totta Seguros	77,742	204	77,946	82,313	239	82,552
Liberty Seguros	-	10,268	10,268	-	9,699	9,699
Other	-	1,277	1,277	-	1,338	1,338
	-----	-----	-----	-----	-----	-----
	77,742	11,749	89,491	82,313	11,276	93,589
	=====	=====	=====	=====	=====	=====

On December 31, 2013 and 2012, the caption "Other assets – Income receivable" (Note 18) includes commission's receivable from insurance companies, as follows:

	<u>2013</u>	<u>2012</u>
Santander Totta Seguros	61,647	13,712
Other	1,197	1,006
	-----	-----
	62,844	14,718
	=====	=====

These amounts refer essentially to the commissions earned on premiums for insurances sold during the last three quarters of 2013 and the last quarter of 2012, 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 2013 and 2012 by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability and corresponding current service cost were determined based on the Projected Unit Credit method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy as at December 31, 2013 and in the four previous years, as well as the respective coverage, are as follows:

	2013	2012	2011	2010	2009
Estimated past service liability					
- Pensions					
. Current employees	282,028	251,252	210,669	275,580	255,009
. Pensioners	22,891	21,002	18,455	36,406	34,692
. Retired and early retired staff	399,434	388,656	387,608	855,952	896,251
	<u>704,353</u>	<u>660,910</u>	<u>616,732</u>	<u>1,167,938</u>	<u>1,185,952</u>
- Healthcare benefits (SAMS)	137,970	129,267	117,422	127,822	127,877
- Death subsidy	4,562	4,331	16,973	18,184	17,728
	<u>846,885</u>	<u>794,508</u>	<u>751,127</u>	<u>1,313,944</u>	<u>1,331,557</u>
Coverage of the liability					
- Net assets of the Fund	<u>840,543</u>	<u>784,937</u>	<u>758,244</u>	<u>1,312,888</u>	<u>1,395,849</u>
Amount overfunded / (underfunded)	<u>(6,342)</u>	<u>(9,571)</u>	<u>7,117</u>	<u>(1,056)</u>	<u>64,292</u>
Actuarial and financial deviations generated in the year					
- Change in assumptions	42,565	73,518	(103,831)	-	(51,086)
- Experience adjustments					
. Other actuarial (gains) / losses	(1,775)	(25,383)	(23,708)	(29,458)	(21,172)
. Financial (gains) / losses	(3,115)	(15,796)	339,627	103,392	61,639
	<u>(4,890)</u>	<u>(41,179)</u>	<u>315,919</u>	<u>73,934</u>	<u>40,467</u>
	<u>37,675</u>	<u>32,339</u>	<u>212,088</u>	<u>73,934</u>	<u>(10,619)</u>

The increase in the responsibilities in the year 2013 is mainly explained by the decrease in the discount rate used to calculate the responsibilities for past services.

The reduction in liabilities with death subsidy in 2012 was essentially due to the amendments introduced by Decree Law no. 133/2012 of June 27, which introduced a maximum amount for the death subsidy, corresponding to six times the amount of the social support index. The gain in 2012 arising from the reduction in liabilities resulting from this amendment amounted to tEuros 13,745 (Note 40).

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 as 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 backing such liabilities were also transferred to the Social Security. Following Decree Law nº 127/2011, dated December 31, the value of 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, amounted to tEuros 435,260.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The difference between the liabilities transferred to the Social Security calculated using the assumptions set out in the Decree Law no. 127/2011, dated 31 December (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 responsibilities immediately before the transfer to the Social Security were the following:

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

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

The main assumptions used by the Bank for determining its liabilities with pensions at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	4.00%	4.50%
Actuarial technical rate (discount rate)		
- Current employees	4.30%	4.85%
- Non-serving	3.54%	4.00%
Salary growth rate for 2014 and 2015 (2013 and 2014)	0.50%	0.50%
Salary growth rate after 2015 (2014)	2.35%	2.35%
Pension growth rate for 2014 and 2015 (2013 and 2014)	0.00%	0.00%
Pension growth rate after 2015 (2014)	1.35%	1.35%
Inflation rate	1.75%	1.75%

In 2013, the discount rates of 4.30% for current employees and 3.54% for non-serving 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. In 2012 the corresponding rate was 4.5%.

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector, should reduce the pension to be provided under the ACT, the following assumptions were used on December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Salary growth rate to calculate the deductible pension:		
· For 2014 and 2015 (2013 and 2014)	0.50%	0.50%
· After 2015 (2014)	2.35%	2.35%
Inflation (no. 1 of Article 27)	1.75%	1.75%
Inflation (no. 2 of Article 27)	2.00%	2.00%
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	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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 at that age.

The discount rate is determined based on the market rates of low risk corporate bonds, for similar maturities as those of the Plan's liabilities.

The economic climate and the sovereign debt crisis of 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 on 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, on December 31, 2013 the Bank incorporated information on interest rates in the determination of the discount rate, which it is possible to obtain on bonds denominated in Euros, including public debt, which it considers to be of high quality in terms of credit risk.

Changes in the Bank's past service liability for the years ended December 31, 2013 and 2012 may be detailed as follows, with regard to the Bank's pension plan:

	<u>2013</u>	<u>2012</u>
Liabilities at the beginning of the year	794,508	751,127
Current service cost	1,054	398
Interest cost	32,880	37,483
Actuarial (gains)/losses	40,790	48,135
Early retirement	14,028	9,862
Amounts paid	( 38,285 )	( 41,005 )
Contributions of employees	2,326	2,297
Reduction of liabilities with death subsidy (Note 40)	( 416 )	(13,475 )
Correction of liabilities transferred to the Social Security	-	( 44 )
	-----	-----
Liabilities at the end of the year	846,885	794,580
	=====	=====

The cost of the year relating to pensions includes current service and interest cost, deducted from the estimated return from the assets of the Fund. In the years 2013 and 2012, costs with pensions are made up as follows (Note 40):

	<u>2013</u>	<u>2012</u>
Current service cost	1,054	398
Interest cost	32,880	37,483
Return on assets calculated at the discount rate	( 32,449 )	( 40,748 )
	-----	-----
Defined benefits plan	( 1,485 )	( 2,867 )
Defined contribution plan	42	39
London Branch plan	397	603
Other	-	58
	-----	-----
	( 1,924 )	( 2,167 )
	=====	=====

As from January 1, 2009, employees hired by BST were 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. The plan is supported by contributions of the employees (1.5%) and from BST(1.5%) over the amount of the effective monthly salary. For this purpose, each employee can choose the Pension Fund to which BST transfers its contribution.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Changes occurred in actuarial gains and losses in 2013 and 2012 were as follows:

Balance on December 31, 2011	551,055
	-----
Actuarial losses on pensions generated in 2012	37,239
Actuarial gains on pensions generated in 2012	( 12,913 )
Actuarial losses on healthcare benefits and death subsidy in 2012	10,896
Financial gains on healthcare and death subsidy in 2012	( 2,883 )
	-----
Balance on December 31, 2012 (Note 26)	583,394
	-----
Actuarial losses on pensions generated in 2013	32,728
Financial gains on pensions generated in 2013	( 2,653 )
Actuarial losses on healthcare and death subsidy in 2013	8,062
Financial gains on healthcare and death subsidy in 2012	( 462 )
	-----
Balance on December 31, 2013 (Note 26)	621,069
	=====

The actuarial deviation on pensions occurred in 2013 and 2012 may be explained as follows:

	<u>2013</u>	<u>2012</u>
Changes in actuarial assumptions	34,831	60,058
Changes in the salary table		
with impact on pensions and salaries	( 4,362 )	( 24,152 )
Changes in the population	2,693	1,837
Mortality deviations		
. Due to departures	( 4,049 )	( 5,227 )
. Due to maintenance	3,299	3,636
. Due to survival pensions and orphan hood	3,074	2,505
Transfer from early retirement to retirement	( 2,758 )	( 1,418 )
	-----	-----
	32,728	( 37,239 )
	=====	=====

In 2013 the changes of actuarial assumptions included the effect of reducing the discount rate from 4,5% to 4,0%, on average.

In 2012, the changes in actuarial assumptions include the effect of the changes in the discount rate from 5,5% to 4,5%, on average, and the changes in the pensions and salaries growth rates in 2013 and 2014, from 1.35% to 0.0% and 2.35% to 0.5%, respectively.

The increase in estimated salaries and pensions was revised taking into account the current situation in Portugal and the consequent prospects of smaller increases in the future or even of maintenance of the current amounts, particularly in the years 2014 and 2015.

The effective salary growth in 2013 and 2012 for the purpose of the contributions to the Social Security relating to the employees of the former Totta was 1.63% and 2.46% respectively.

There was no effective increase in the pensions and of the salary table in 2013 and 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The actuarial deviations in health care and in the death subsidy in the years 2013 and 2012 can be explained as follows:

	<u>2013</u>	<u>2012</u>
Changes in assumptions	7,734	13,460
Changes in salaries	130	( 2,293 )
Other	198	( 271 )
	-----	-----
	8,062	10,896
	=====	=====

In 2014, BST estimates to make a contribution of tEuros 2,694 to its defined benefit plan.

The average duration of BST's pension liability with employees is 17 years, including active and retired ones.

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. On December 31, 2013 and 2012, the number of participants in the Fund was as follows:

	<u>2013</u>	<u>2012</u>
Serving employees <sup>(1)</sup>	5,409	5,518
Pensioners	996	954
Retired and early retired staff	5,339	5,332
	-----	-----
	11,744	11,804
	=====	=====

(1) Of whom 181 and 177 employees are included in the new defined contribution plan as at 31 December 2013 and 2012, respectively.

The main demographic changes occurred in 2013 and 2012, were the following:

	Assets			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number on December 31, 2011	157	5,451	5,338	926
Exits:				
. Serving Employees	(18)	(55)	-	-
. By death	-	-	(77)	(32)
Transfers	-	(56)	56	-
Entries	38	1	15	60
Total Number as 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 as at December 31, 2013	181	5,228	5,339	996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Changes occurred in BST's Pension Fund during the years 2013 and 2012 were the following:

Net assets at December 31, 2011	758,244
	-----
Contributions made by the Bank (cash)	8,959
Contributions made by employees	2,297
Net return of the Fund:	
Return on assets calculated with the discount rate	40,748
Fund performance above the discount rate	15,796
Pensions paid	( 41,005 )
Transfer to the Social Security	( 102 )
	-----
Net assets at December 31, 2012	784,937
	=====
Contributions made by the Bank (cash)	56,000
Contributions made by 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	840,543
	=====

The rates of return of the Pension Fund in 2013 and 2012 were 4.66% and 7.65%, 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, giving to the manager of the Fund the choice for a more or less conservative policy, by increasing or decreasing the exposure to stocks 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:

<u>Classes of assets</u>	<u>Limits</u>
Liquidity	0% to 15%
Real Estate	5% to 25%
Fixed Rate bonds	0% to 40%
Variable rate bonds	20% to 60%
Commodities	0% to 5%
Shares	0% to 35%
Others	0% to 10%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, BST's Pension Fund portfolio included the following assets:

	<u>2013</u>	<u>2012</u>
Debt instruments		
. Rating A	-	14,394
. Rating BBB	83,939	139,877
. Rating BB	164,839	124,042
. Rating B	22,161	17,822
. Without rating attributed either to the issue or the issuer	36,372	13,082
Securities investment funds	207,011	221,462
Real estate investment funds	141,059	150,809
Deposits	75,556	33,936
Real Estate:		
. Retail buildings	63,316	67,966
. Land	860	860
Equity instruments:		
. Portuguese listed companies	2,582	-
. Portuguese unlisted companies	152	152
. Foreign listed companies	44,316	-
Derivative financial instruments		
. Listed options	( 1,765 )	-
Others	145	535
	-----	-----
	840,543	784,937
	=====	=====

On December 31, 2013 and 2012, the methodology for calculating the fair value of the above referred assets and liabilities adopted by the Management Company of the BST's Pension Fund, as defined in IFRS 13 (Note 48), was as follows:

	31-12-2013				31-12-2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment funds	138,865	16,004	193,201	348,070	141,699	18,020	212,552	372,271
Debt instruments	246,197	22,846	38,268	307,311	230,436	47,076	31,705	309,217
Equity instruments	46,898	-	152	47,050	-	-	152	152
Derivative financial instruments	(1,765)	-	-	(1,765)	-	-	-	-
Real estate	-	-	64,176	64,176	-	-	68,826	68,826
	430,195	38,850	295,797	764,842	372,135	65,096	313,235	750,466

On December 31, 2013 and 2012, the portfolio of the Pension Fund included the following assets with Santander Group companies in Portugal:

	<u>2013</u>	<u>2012</u>
Leased property	21,918	22,791
Securities (including participating units in funds managed by the Group)	160,279	168,989
	-----	-----
	182,197	191,780
	=====	=====

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 for the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2013 and 2012, 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

regular work or due to disablement.

For all the situations, the payments receivable by the beneficiaries are the accumulated balance in the supplementary plan on the date that these occur. In the event of death of the beneficiary this amount will be further increased by 6,000 Euros.

On December 31, 2013 and 2012, 111 and 107 employees were covered by this plan, respectively.

Defined benefit pension plan – London branch

On December 31, 2013 and 2012, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that covers the employees of the London branch were the following:

	<u>2013</u>	<u>2013</u>
	AMC00/AFC00	AMC00/AFC00
Mortality table	4.60%	4.25%
Actuarial technical rate (discount rate)	3.70%	2.80%
Salary growth rate	2.10%	1.90%
Pension growth rate	2.70%	2.20%
Inflation rate		

On December 31, 2013 and 2012, the liabilities with the defined benefit pension plan of the London branch and its coverage were as follows:

	<u>2013</u>	<u>2012</u>
Estimated liabilities for past services	35,037	35,303
Net assets of the Pension Fund	30,720	31,342
	-----	-----
Non-financed amount – London branch	( 4,317 )	( 3,961 )
	=====	=====

In relation to the specific pension plan of the London branch, the changes in the liabilities for past services in the years ending on December 31, 2013 and 2012 may be presented as follows:

Liabilities at December 31, 2011	29,260
	-----
Current service cost	207
Interest cost	1,447
Actuarial losses	4,533
Amounts paid	( 831 )
Foreign exchange fluctuations	687
	-----
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	35,037
	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Changes in the Pension Fund of the London branch during the years ending on December 31, 2013 and 2012 were the following:

Net assets on December 31, 2011	25,440
	-----
Net return of the fund	2,916
Contribution by the Bank	3,219
Pensions paid	( 831 )
Foreign exchange fluctuations	598
	-----
Net assets on December 31, 2012	31,342
	-----
Net return of the fund	741
Contribution by the Bank	152
Pensions paid	( 855 )
Foreign exchange fluctuations	( 660 )
	-----
Net assets on December 31, 2013	30,720
	=====

The costs of the defined benefit plan of the London branch in the years 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	174	207
Interest cost	1,513	1,447
Estimated return of assets calculated with the discount rate	( 1,290 )	( 1,051 )
	-----	-----
	397	603
	===	===

The actuarial gains and losses of the London branch are as follows:

Balance on December 31, 2011	3,212
	-----
Actuarial losses on pensions in 2012	4,533
Financial gains on pensions in 2012	( 1,865 )
Foreign exchange fluctuations	86
	-----
Balance on December 31, 2012	5,966
	-----
Actuarial losses on pensions in 2013	( 353 )
Financial gains on pensions in 2013	548
Foreign exchange fluctuations	( 85 )
	-----
Balance on December 31, 2013 (Note 26)	6,076
	=====



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the London branch's Pension Fund portfolio included the following assets:

	<u>2013</u>	<u>2012</u>
Debt instruments	25,218	26,649
Equity instruments	5,413	4,497
Deposits	89	196
	-----	-----
Fund's net asset value	30,720	31,342
	=====	=====

On December 31, 2013 and 2012, the balance amounts associated with the pension plans can be detailed as follows:

	<u>2013</u>	<u>2012</u>
(Insufficient) / excess funding (defined benefit plan)	( 6,342 )	( 9,571 )
Insufficient funding (London branch)	( 4,317 )	( 3,961 )
	-----	-----
Total (Note 25)	( 10,659 )	( 13,532 )
	=====	=====

The liabilities for pension plans with defined benefit expose 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 less 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 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 liabilities is calculated based in an assumption of the estimated future salaries of the participants. Thus, an increase in salaries of participants will increase pension liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013, a sensitivity analysis to a variation of the main financial assumptions at that date would lead to the following impacts in the current past services liabilities of the Bank (excluding London Branch):

	<u>(Reduction)/Increase</u>	
	<u>in %</u>	<u>in amount</u>
Variation of discount rate:		
· Increase of 0.5%	( 7.5% )	( 61,988 )
· Reduction of 0.5%	8.5%	70,339
Variation of salary growth rate:		
· Increase of 0.5%	5.1%	42,095
· Reduction of 0.5%	(4.6% )	( 37,779 )
Variation of pension growth rate:		
· Increase of 0.5%	7.8%	64,147
· Reduction of 0.5%	( 7.2% )	( 59,372 )

On December 31, 2013 and 2012, the amount of liabilities associated with health care (SAMS) resulting from a 1% change in the contribution rate can be presented as follows:

	2013			2012		
	Number of beneficiaries	Contribution rate -1%	contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	contribution rate + 1%
Serving employees (Defined benefit plan)	5,228	32,130	43,814	5,341	26,997	36,813
Serving employees (Defined contribution plan)	181	104	142	177	59	81
Pensioners	996	4,784	6,524	954	4,537	6,187
Retired and early retired staff	5,339	79,725	108,717	5,332	77,787	106,073
	<u>11,744</u>	<u>116,744</u>	<u>159,196</u>	<u>11,804</u>	<u>109,380</u>	<u>149,154</u>

This 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 portfolios, through twelve operations, with a total initial amount of tEuros 23,250,000. The loans were sold at their nominal value (book value) to Hipototta FTC Funds, with the exception of the last 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 portfolio and long-term rental through an operation with a total initial amount of tEuros 1,300,000. The loans were sold at their nominal value (book value) to a securitization fund called LeaseTotta no. 1 FTC.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In July 2010, BST securitized part of its mortgage loan portfolio, through an operation denominated Hipototta no. 11 for the total initial amount of tEuros 2,000,000. The loans were sold at their nominal value (book value) to Tagus.

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 May and June of 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 was reimbursed relating to the Notes it held in the portfolio associated to these securitizations at the respective 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 August 2012, BST liquidated the Totta Consumer no. 1. This liquidation occurred after a “Consumer Receivables Retransfer Agreement”, under which the Bank repurchased the credits 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 credits for tEuros 1,196,403.

Part of the funds Hipototta and Leasetotta are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under the loan contracts to Hipototta and Leasetotta Funds and to Tagus. Santander Group holds no direct or indirect participation in Navegator or in Tagus.

To finance these operations, Hipototta and LeaseTotta FTC Funds issued participating units for the same amount of the loans portfolios purchased, which were fully subscribed by the Hipototta and LeaseTotta PLC/Ltd Funds, both incorporated in Ireland.

Furthermore, Hipototta and LeaseTotta FTC Funds pay all the amounts received from BST and from the Portuguese Treasury (“Direcção Geral do Tesouro”) to the Hipototta PLC/Ltd Funds and Leasetotta no. 1 Limited, segregating the instalments between principal and interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

To finance these operations, the Hipottota and the LeaseTotta PLC/Ltd. Funds issued bonds with different levels of subordination and rating and, consequently, of return. On December 31, 2013, the bonds issued and still active are as follows:

Hipottota nº 1 PLC								
Issued debt	Amount		Rating		Redemption Date	Early Redemption Date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A	1,053,200	164,951	A-	Baa3	November of 2034	August of 2012	Euribor 3 m + 0.27%	Euribor 3 m + 0.54%
Class B	32,500	10,636	A-	Ba1	November of 2034	August of 2012	Euribor 3 m + 0.65%	Euribor 3 m + 0.95%
Class C	14,300	4,687	A-	Ba2	November of 2034	August of 2012	Euribor 3 m + 1.45%	Euribor 3 m + 1.65%
	<u>1,100,000</u>	<u>180,274</u>						
Class D	17,600	11,000			November of 2034	August of 2012	Residual income of the securitized portfolio	
	<u>1,117,600</u>	<u>191,274</u>						

Hipottota nº 4 PLC								
Issued debt	Amount		Rating Fitch	Redemption date	Early redemption rate	Remuneration		
	Initial	Current				Up to early redemption date	After early redemption date	
Class A	2,616,040	971,232	A	December of 2048	December of 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%	
Class B	44,240	35,335	A	December of 2048	December of 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%	
Class C	139,720	111,592	B	December of 2048	December of 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%	
	<u>2,800,000</u>	<u>1,118,159</u>						
Class D	14,000	14,000		December of 2048	December of 2014	Residual income of the securitized portfolio		
	<u>2,814,000</u>	<u>1,132,159</u>						

Hipottota nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			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	847,992	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%
	<u>2,000,000</u>	<u>954,992</u>						
Class F	10,000	9,951	CCC-	Ca	February of 2060	February of 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>964,943</u>						

Leasetotta nº 1 Ltd						
Issued debt	Amount		Rating DBRS	Redemption date	Remuneration	
	Initial	Current				
Class A	1,040,000	100,933	AAH	January of 2042	Euribor 3 m + 0.30%	
Class B	260,000	260,000		January of 2042	Euribor 3 m + 4.75%	
	<u>1,300,000</u>	<u>360,933</u>				
Class C	65,000	65,000		January of 2042	Residual income of the securitized portfolio	
	<u>1,365,000</u>	<u>425,933</u>				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The bonds issued by Hipototta no. 1 PLC and Hipototta no. 4 PLC bear interest payable quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta PLC no. 5 bear interest payable quarterly on February 28, May 30, August 31 and November 30 of each year. The bonds issued by LeaseTotta no. 1 Ltd bear interest payable quarterly on January 15, April 15, July 15 and October 15 of each year.

BST has the option to early redeem the bonds on the above-mentioned dates. For all Hipototta and Leasetotta PLC/Ltd, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or less than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, Hipototta and Leasetotta PLC/Ltd have the option to make partial repayments of the 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, the Class F bonds for Hipototta no.5 and the Class C bonds for LeaseTotta no. 1 Ltd 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 on the value of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were launched, 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. For the Class C bonds of LeaseTotta no. 1, it corresponded to an annual average rate of 0.7% of the total credit portfolio.

When the securitizations were issued, subordinated loans were granted by BST to Hipotottas for facilities / credit lines in case of need for liquidity by Hipotottas. There were also signed "Swap Agreements" between the Santander Group and the first issued Hipotottas and between the BST and the remaining securitization vehicles to cover the interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

46. RELATED PARTIES DISCLOSURES

Related parties disclosures of the Bank with which it had balances or transactions in 2013 and 2012 were the following:

Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
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
<b>Entities significantly influenced by the Group</b>	
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
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal

BANCO SANTANDER TOTTA, S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Name of the related entity	Head office
<b>Entities under direct or indirect common control by the group</b>	
Open Bank Santander Consumer S.A.	Spain
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
Banco Santander de Puerto Rico	Puerto Rico
Banco Santander Consumer Portugal, S.A.	Portugal
Santander Bank & Trust Ltd.	Spain
Banco Santander Brasil, S.A.	Brazil
Produban Servicios Informaticos Generales, S.L.	Spain
Portal Universia Portugal - Prestação de Serviços de Informática, S.A.	Portugal
Ingeniería de Software Bancário, S.L.	Spain
Ibérica de Compras Corporativas	Spain
Grupo Banesto	Spain
Union de Créditos Inmobiliários, S.A.	Spain
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Abbey National Treasury Services, PLC	United Kingdom
Santander Global Facilities	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Banco Banif, S.A.	Spain
All Funds Bank, S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Consumer Finance S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Santander de Titulización SGFT	Spain
Santander Investment, S.A.	Spain
Santander Investment Securities, Inc.	USA
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Konecta Portugal, Lda.	Portugal
Santander UK PLC	United Kingdom
Sovereign Bank	USA
Banco Santander (Suisse), S.A.	Switzerland
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Santander Asset Management, S.A., SGIC	Spain
Retama Real Estate, SL	Spain
Santander, Asset Management, SGFIM, S.A.	Portugal
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the balances with related parties were as follows:

	2013		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
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
<b>Liabilities:</b>			
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
<b>Costs:</b>			
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 valuation	-	-	312
General administrative costs	-	-	39.889
Impairment on investments in associated companies	-	400	-
<b>Income:</b>			
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	-
Other results	-	-	12.588
Other operating results	-	-	203
<b>Off balance sheet items:</b>			
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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

	2012		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
Balances due from banks	8,372	-	8,539
Financial assets held for trading	262,786	-	5,825
Available-for-sale financial assets	-	-	5,973
Loans and advances to credit institutions	1,825,070	-	1,405
Loans and advances to customers	-	-	38,179
Hedging derivatives	247,437	-	-
Investments in associated companies	-	142,994	-
Other assets	14,553	4,018	16,186
<b>Liabilities:</b>			
Financial liabilities held for trading	1,835,739	-	69,014
Resources of other credit institutions	599,332	158,341	24,286
Resources of customers and other debts	85,938	9,545	1,818,110
Debt securities	165,547	-	298,674
Hedging derivatives	453,444	-	-
Subordinated liabilities	-	-	4,311
Other liabilities	10,663	-	2,840
<b>Costs:</b>			
Interest and similar charges	348,656	958	90,756
Charges with services and commissions	880	-	3,081
Result of assets and liabilities at fair value through profit or loss	2,204,438	-	102,309
General administrative costs	-	-	36,922
Impairment on Investments in associated companies	-	160	-
<b>Income:</b>			
Interest and similar income	386,852	5	8,037
Result of assets and liabilities at fair value through profit or loss	1,559,475	-	80,279
Result of foreign exchange revaluation	360	-	-
Income from services and commissions	275	-	85,648
Results from associates	-	11,864	-
Other operating results	-	-	199
<b>Off-balance sheet Items:</b>			
Guarantees provided and other contingent liabilities	15,784	-	523,224
Guarantees received	710	-	1,400
Commitments to third parties	515	784	561,030
Commitments assumed by third parties	-	-	301,417
Currency operations and derivatives	21,073,204	881	1,073,094
Responsibilities for services rendered	2,812,706	34,592	8,079,659

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

**MANAGEMENT AND SUPERVISORY BOARDS**Board of Directors

As at December 31, 2013 and 2012 the loans and advances to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 1,009 and tEuros 1,135, respectively. Fixed and variable remuneration at these dates amounted to tEuros 6,310 and tEuros 5,675, respectively (Note 40).

The Santander Group, which includes BST, also has a worldwide long term incentive plan, which is described in Note 47 and is divided into cycles. For the members of the Board of Directors, the amount recorded in the caption staff costs in the reporting years ending on December 31, 2013 and 2012 is presented below:

	<u>2013</u>	<u>2012</u>
Fourth cycle – PI12 - assigned in 2009 exercisable in July 2012	-	87
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	118	225
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	11	15
	----	----
	129	327
	===	===

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:

<u>Cycle</u>	<u>Maturity date</u>	<u>Number of shares attributed</u>	<u>Value per share</u>
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.

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. I).

In the Shareholders’ General Meeting held on May 30, 2007, the BST’s shareholders approved the “Regulation for supplementary attribution of retirement pensions for age or disability” for the executive members of the Board of Directors of the former BTA Totta that are executive members of the BST’s Board of Directors (Executive Committee) which were in office for more than fifteen years, consecutive or interpolated. Under this Regulation they will be entitled to a pension supplement equivalent to 80% of 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, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the liabilities with this plan amounted to tEuros 15,598 and tEuros 13,735, respectively, and were covered by a provision of the same amount recorded in the caption "Provision for pensions and other charges" (Note 23).

With regard to employment termination benefits, in accordance with the Commercial Company Law ("Código das Sociedades Comerciais"), whenever the term of a member of the management or supervisory board is terminated early 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 remuneration of the statutory auditors of the Bank and its subsidiaries in 2013, excluding VAT, was as follows:

Statutory audit and external auditor services rendered (a)	791
Other assurance services (a)	1,347
Tax consulting (b)	122
Other (b)	95
	-----
	2,355
	=====

(a) Represents the amounts agreed for 2013, regardless of its invoicing.

(b) Represents the amounts invoiced during 2013.

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 the coefficients indexed to the evolution of Banco Santander, S.A. in relation to other entities included in a predefined group. The comparison is measured in relation to two parameters: total shareholders' return and increase in earnings per share for the first three cycles and for the remaining cycles the comparison is measured by the total shareholders' return only.

The maturity dates of the cycles for 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
Second	July 8, 2010	540,822	8.77
Third	July 11, 2011	571,640	7.51
Fourth	July 9, 2012	200,897	4.88
Fifth	July 31, 2013	-	n.a.

As described in Note 1.3. o), recognition of the share incentive plans consists in recognizing the right of the Bank's employees to such instruments in the income statement for the year under the caption "Staff costs", as it corresponds to 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 Plan worldwide.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
Fourth cycle – PI12 - assigned in 2009 and exercisable in July 2012	-	575
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	736	1,473
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	1,066	1,056
	-----	-----
	<u>1,802</u>	<u>3,104</u>
	=====	=====

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:

Stocks' Plans	Number of shares	Cost per share (Euros)	Estimated date of delivery of the shares	Number of employees	Entitlement date
<b>Plans in place as at December 31, 2011</b>					
PI12	747,059	4.5112	jul-2012	318	2009
PI13	779,212	5.5707	jul-2013	320	2010
PI14	609,358	4.5254	jul-2014	309	2011
Change in 2012					
PI12 - Shares available	(200,897)	-	jul-2012	(320)	-
PI12 - Shares not available <sup>(b)</sup>	(471,823)	-	-	-	-
PI12 - Reversals <sup>(a)</sup>	(74,339)	-	-	(2)	-
PI13 - Reversals <sup>(a)</sup>	(76,339)	-	-	(2)	-
<b>Plans in place as at December 31, 2012</b>					
PI13	702,873	5.5707	jul-2013	318	2010
PI14	609,358	4.5254	jul-2014	309	2011
Change in 2013					
PI13 - Shares not available	(702,873)	-	jul-2013	(318)	-
PI14 - Reversals <sup>(a)</sup>	(2,600)	-	jul-2014	(1)	-
<b>Plans in place as at December 31, 2013</b>					
PI14	606,758	4.5254	jul-2014	308	2011

## Notes:

- (a) Reversal of the rights granted to beneficiaries who have not completed the requirements of permanence in the Santander Group established in the Regulation Plan.
- (b) Difference between the maximum number of allocated shares and the number of shares actually delivered. The number of allocated shares results by applying a coefficient calculated according to the Santander Group's performance applied to the maximum number of shares allocated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

For the “Share Plan Linked to the Santander Group’s Objectives” in force on December 31, 2013 (6<sup>th</sup> cycle), the fair value was determined in accordance with the following methodology:

- It was considered that the beneficiaries will remain in the Santander Group during the period of the plan;
- The value associated with the relative position of the Total Return to Shareholders (TRS) was determined at the vested date based on the report performed by an independent expert who carried out a stochastic valuation using a “MonteCarlo” model with 10,000 simulations performed to determine the TRS for each entity included in the group of comparables. The results (each one representing the delivery of a number of shares) are sorted on a descending basis, calculating a weighted average and discounting the amount at a risk free interest rate.

	<u>PI14</u>
Volatility (*)	51.35%
Annual dividend yield in recent years	6.06%
Risk-free interest rate	4.073%

(\*) Historical volatility of the corresponding period (2 or 3 years)

Application of the above referred simulation model results in a percentage of 55.39% for PI14, to which 50% of the value allocated to determine the accounting cost of the TRS incentive is applied. Since the valuation refers to a market condition, it is not subject to adjustment as from the allocation date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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*

On December 31, 2013 and 2012, financial instruments had the following book value:

	2013				Net Value
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	
<b><u>Assets</u></b>					
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 banks	-	3,270,970	-	-	3,270,970
Loans and advances to customers	42,520	27,142,877	-	(1,077,876)	26,107,521
Hedging derivatives	199,427	-	-	-	199,427
	<u>6,614,116</u>	<u>31,027,294</u>	<u>298,252</u>	<u>(1,139,614)</u>	<u>36,800,048</u>
<b><u>Liabilities</u></b>					
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
	<u>6,938,466</u>	<u>28,638,081</u>	<u>75,842</u>	<u>-</u>	<u>35,652,389</u>
<b><u>2012</u></b>					
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	321,628	63,695	-	385,323
Financial assets held for trading	2,265,495	-	-	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	-	93,735
Available-for-sale financial assets	3,527,449	-	21,398	(58,983)	3,489,864
Loans and advances to banks	-	3,097,422	-	-	3,097,422
Loans and advances to customers	49,565	27,895,746	-	(965,662)	26,979,649
Hedging derivatives	284,850	-	-	-	284,850
	<u>6,221,094</u>	<u>31,456,398</u>	<u>295,856</u>	<u>(1,024,645)</u>	<u>36,948,703</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,048,743	-	-	-	2,048,743
Resources of other credit institutions	-	1,949,574	-	-	1,949,574
Resources of customers and other debts	3,070,416	18,309,464	117,294	-	21,497,174
Debt securities	2,637,250	1,316,269	-	-	3,953,519
Hedging derivatives	455,911	-	-	-	455,911
Subordinated liabilities	-	4,311	-	-	4,311
	<u>8,212,320</u>	<u>27,416,860</u>	<u>117,294</u>	<u>-</u>	<u>35,746,474</u>

In 2013 there were no reclassifications of financial assets.

In 2012 there were no reclassifications of financial assets, except for the reclassification of the participating units held in "Lusimovest" and "Novimovest" real estate funds from the caption "Financial assets held for trading" to the caption "Available-for-sale financial assets" (Note 9).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

In the years ending on December 31, 2013 and 2012, interest income and costs, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2013			2012		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Cash and deposits at central banks	950	-	950	1,719	-	1,719
Balances due from other banks	16	-	16	221	-	221
Available-for-sale financial assets	157,758	-	157,758	198,167	-	198,167
Loans and advances to credit institutions	58,625	-	58,625	58,089	-	58,089
Loans and advances to customers	765,796	(116)	765,680	982,961	(246)	982,715
	<u>983,145</u>	<u>(116)</u>	<u>983,029</u>	<u>1,241,157</u>	<u>(246)</u>	<u>1,240,911</u>
<b><u>Liabilities</u></b>						
Resources of central banks	-	(25,542)	(25,542)	-	(52,015)	(52,015)
Resources of other credit institutions	-	(27,922)	(27,922)	-	(38,873)	(38,873)
Resources of customers and other debts	8,872	(401,872)	(393,000)	8,417	(485,890)	(477,473)
Debt securities	-	(45,447)	(45,447)	-	(168,212)	(168,212)
Subordinated liabilities	-	(189)	(189)	-	(202)	(202)
	<u>8,872</u>	<u>(500,972)</u>	<u>(492,100)</u>	<u>8,417</u>	<u>(745,192)</u>	<u>(736,775)</u>
Guarantees given	19,899	-	19,899	19,906	-	19,906
Credit lines	7,443	-	7,443	7,191	-	7,191

In the years ending on December 31, 2013 and 2012, commissions income and costs, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	2013			2012		
	Income	Expense	Net	Income	Expense	Net
<b><u>Assets</u></b>						
Loans and advances to customers	44,327	(14,142)	30,185	53,281	(12,050)	41,231
<b><u>Liabilities</u></b>						
Resources of customers and other debts	37,307	-	37,307	20,361	-	20,361

In 2013 and 2012, the Bank recognised financial income relating to “Interest and similar income” on overdue or impaired credit operations amounting to tEuros 8,643 and tEuros 8,087, respectively (Note 30).





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The gains and losses recognised on fair value hedging operations in the income statement of the years ended December 31, 2013 and 2012, are as follows:

	2013			2012		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	(1,738)	1,738	-	774	(774)	-
Available-for-sale financial assets	(95,965)	95,965	-	111,437	(111,437)	-
Resources of customers and other debts	49,207	(29,353)	19,854	(44,748)	45,026	278
Debt securities	11,803	(31,966)	(20,163)	90,199	(90,703)	(504)
	<u>(36,693)</u>	<u>36,384</u>	<u>(309)</u>	<u>157,662</u>	<u>(157,888)</u>	<u>(226)</u>

Fair value of financial instruments

On December 31, 2013 and 2012, financial instruments were made up as follows:

	2013		
	Valued at fair value	Not valued at fair value	Total
<b><u>Assets</u></b>			
Cash and deposits at central banks	-	337,841	337,841
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	4,368,744	13,509	4,382,253
Loans and advances to credit institutions	-	3,270,970	3,270,970
Loans and advances to customers	42,523	26,064,998	26,107,521
Hedging derivatives	199,427	-	199,427
	<u>6,559,809</u>	<u>30,240,239</u>	<u>36,800,048</u>
<b><u>Liabilities</u></b>			
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	17,085,586	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
	<u>6,938,466</u>	<u>28,713,923</u>	<u>35,652,389</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

	2012		Total
	Valued at fair value	Not valued at fair value	
<b><u>Assets</u></b>			
Cash and deposits at central banks	-	352,365	352,365
Balances due from other banks	-	385,323	385,323
Financial assets held for trading	2,265,495	-	2,265,495
Financial assets at fair value through profit or loss	93,735	-	93,735
Available-for-sale financial assets	3,475,179	14,685	3,489,864
Loans and advances to credit institutions	-	3,097,422	3,097,422
Loans and advances to customers	49,546	26,930,103	26,979,649
Hedging derivatives	284,850	-	284,850
	<u>6,168,805</u>	<u>30,779,898</u>	<u>36,948,703</u>
<b><u>Liabilities</u></b>			
Resources of central banks	-	5,837,242	5,837,242
Financial liabilities held for trading	2,048,743	-	2,048,743
Resources of other credit institutions	-	1,949,574	1,949,574
Resources of customers and other debts	3,070,416	18,426,758	21,497,174
Debt securities	2,637,250	1,316,269	3,953,519
Hedging derivatives	455,911	-	455,911
Subordinated liabilities	-	4,311	4,311
	<u>8,212,320</u>	<u>27,534,154</u>	<u>35,746,474</u>

The financial assets and liabilities for which hedge accounting has been applied to are included as valued at fair value, being subject to fair value adjustments on the hedged risk only.

On December 31, 2013 and 2012, 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:

	2013					Net book value
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	
<b><u>Assets</u></b>						
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
	<u>4,763,698</u>	<u>63,496</u>	<u>1,561,398</u>	<u>225,613</u>	<u>(54,396)</u>	<u>6,559,809</u>
<b><u>Liabilities</u></b>						
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
	<u>4,917,356</u>	<u>65,506</u>	<u>1,990,452</u>	<u>(34,848)</u>	<u>-</u>	<u>6,938,466</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

	2012					Net book value
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment and depreciation	
<b>Assets</b>						
Financial assets held for trading	233,413	-	2,032,082	-	-	2,265,495
Financial assets at fair value through profit or loss	90,279	1,344	2,112	-	-	93,735
Available-for-sale financial assets	3,665,652	52,586	(512,366)	321,577	(52,270)	3,475,179
Loans and advances to customers	43,084	381	-	6,100	(19)	49,546
Hedging derivatives	-	-	284,850	-	-	284,850
	<u>4,032,428</u>	<u>54,311</u>	<u>1,806,678</u>	<u>327,677</u>	<u>(52,289)</u>	<u>6,168,805</u>
<b>Liabilities</b>						
Financial liabilities held for trading	-	-	2,048,743	-	-	2,048,743
Resources of customers and other debts	2,999,936	25,186	-	45,294	-	3,070,416
Debt securities	2,612,943	34,036	-	(9,729)	-	2,637,250
Hedging derivatives	-	-	455,911	-	-	455,911
	<u>5,612,879</u>	<u>59,222</u>	<u>2,504,654</u>	<u>35,565</u>	<u>-</u>	<u>8,212,320</u>

The methods used to determine fair value of the financial instruments are based on market prices on active markets or other valuation techniques, such as discounted cash flows.

On December 31, 2013 and 2012, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedging operations, by valuation methodology, is made up as follows:

	2013				
	Method of determining fair value			Total	
	Quoted in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)			
<b>Assets</b>					
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
		<u>3,684,465</u>	<u>2,468,284</u>	<u>407,060</u>	<u>6,559,809</u>
<b>Liabilities</b>					
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
		<u>-</u>	<u>6,938,466</u>	<u>-</u>	<u>6,938,466</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

	2012			Total
	Method of determining fair value			
	Quoted in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	
<b><u>Assets</u></b>				
Financial assets held for trading	233,612	2,031,883	-	2,265,495
Financial assets designated at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,207,474	227,682	40,023	3,475,179
Loans and advances to customers	-	49,546	-	49,546
Hedging derivatives	-	284,850	-	284,850
	<u>3,534,821</u>	<u>2,593,961</u>	<u>40,023</u>	<u>6,168,805</u>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	2,048,743	-	2,048,743
Resources of customers and other debits	-	3,070,416	-	3,070,416
Debt securities	-	2,637,250	-	2,637,250
Hedging derivatives	-	455,911	-	455,911
	<u>-</u>	<u>8,212,320</u>	<u>-</u>	<u>8,212,320</u>

In accordance with IFRS 7, the Bank's financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on quotes 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 financial assets available for sale valued with indicative bids provided by external counterparties and the majority of the derivative financial instruments used for hedging and trading. It should be pointed out that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flows models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or entity with similar rating.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

For derivative financial instruments, the main valuation techniques were as follows:

Derivative instrument	Main Valuation Techniques
Forwards	Present Value Model
Interest Rate Swaps	Present Value Model
Currency Swaps	Present Value Model
Equity Swaps	Present Value Model
FRA's	Present Value Model
Currency Options	Black-Scholes Model, Monte Carlo Model
Equity Options	Black-Scholes Model, Heston Model
Interest Rates Options	Black-Scholes Model, Heath-Jarrow-Morton Model
Options - Other	Black-Scholes Model, Monte Carlo Model, Heath-Jarrow-Morton Model
Caps/Floors	Black-Scholes Model, Monte Carlo Model, Heath-Jarrow-Morton Model

Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to financial derivative 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 this Annex) x loss given default (specific for project finance clients and 45% for other clients).

When the inputs used in the valuation of derivative financial instruments resulted from observable market data, the Bank classified its derivative financial instruments valued at fair value 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 observable market data. Some unquoted securities for which the Bank uses market data extrapolations were classified in this category.

In 2013, the movement in financial instruments classified in the column “Level 3”, presented the following detail:

	Financial assets held for trading		Available for sale financial assets	Total
	Securities	Derivatives		
Opening balance	-	-	40,023	40,023
Entries in the consolidation perimeter ("Multiorganizações")	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)
Closing balance	35,952	106,119	264,989	407,060

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The transfers 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;
- Level 3 classification of the derivative financial instruments whose respective Credit Value Adjustments / Debit Value Adjustments were calculated taking into account credit spreads calculated internally by the Bank.

On December 31, 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 assets	Valuation techniques	Inputs used	Relationship between the inputs used and the fair value determined
<i>Financial assets held for trading</i>			
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.
<i>Derivative financial instruments</i>	Discounted cash flows/ Valuation models	. Probability of default (PD) taking into account 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.
<i>Available for sale financial assets</i>			
Debt securities	Discounted cash flows	. <i>Credit spread calculated internally by the Bank</i>	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.

The most representative interest rate curves by maturity and currency are the following:

	31-12-2013		31-12-2012	
	EUR	USD	EUR	USD
Overnight	0.28%	0.31%	0.50%	0.30%
1 month	0.44%	0.25%	0.12%	0.19%
3 months	0.39%	0.25%	0.19%	0.25%
6 months	0.38%	0.27%	0.32%	0.46%
9 months	0.39%	0.29%	0.43%	0.62%
1 year	0.40%	0.31%	0.55%	0.77%
3 years	0.74%	0.86%	0.47%	0.48%
5 years	1.26%	1.80%	0.76%	0.83%
7 years	1.70%	2.51%	1.11%	1.25%
10 years	2.21%	3.18%	1.55%	1.76%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the book value and fair value of the financial instruments valued at amortised cost or historical cost was the following:

	2013		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
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 banks	3,270,970	3,358,931	87,961
Loans and advances to customers	26,064,998	23,114,032	(2,950,966)
	<u>30,240,239</u>	<u>27,377,234</u>	<u>(2,863,005)</u>
<b><u>Liabilities</u></b>			
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
	<u>28,713,923</u>	<u>28,475,521</u>	<u>238,402</u>
<b><u>2012</u></b>			
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	352,365	352,365	-
Balances due from other banks	385,323	385,323	-
Available-for-sale financial assets	14,685	14,685	-
Loans and advances to banks	3,097,422	3,279,009	181,587
Loans and advances to customers	26,930,103	24,481,609	(2,448,494)
	<u>30,779,898</u>	<u>28,512,991</u>	<u>(2,266,907)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	5,837,242	4,936,307	900,935
Resources of other credit institutions	1,949,574	1,986,334	(36,760)
Resources of customers and other debts	18,426,758	18,619,478	(192,720)
Debt securities	1,316,269	1,062,612	253,657
Subordinated liabilities	4,311	4,299	12
	<u>27,534,154</u>	<u>26,609,030</u>	<u>925,124</u>

If at December 31, 2013 the fair value of most of the debt issued subject to hedging operations included in the debt securities issued had been determined, for the second mortgage bonds issue, the valuation would be less than the respective book value by, approximately, tEuros 9,128 (tEuros 28,227 on December 31, 2012).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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 discounting future cash flows. On December 31, 2013, the recorded value of financial instruments measured at amortized cost or historical cost, presents the following detail by valuation methodology:

	2013			
	Methodology for determining fair value			
	Quoted in	Other valuation		Total
	active markets	techniques		
(Level 1)	(Level 2)	(Level 3)		
<b><u>Assets</u></b>				
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
<b><u>Liabilities</u></b>				
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 the fair value, by type of financial instrument, were the following:

- Future cash flows of applications and resources of credit institutions were discounted using the interest rate curves of the money market.
- The fair value of variable rate loans was determined by considering the average spread of the production in the last quarter of the year for the purpose of discounting the future portfolio cash flows. In the case of fixed rate loans, future cash flows were discounted at the average rates used by the Bank in the last quarter of the year;
- The fair value of demand deposits from customers was considered to be equal to their 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;
- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates for the residual term of each issue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

**RISK MANAGEMENT****CREDIT RISK**

Credit risk management by the Bank includes identification, measurement, integration and evaluation of different credit risk exposures and analysis of return in relation to risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group Risk Area, which is responsible for managing the special client vigilance system, credit risk segmentation based on the characteristics of customers and products and for the scoring systems (applicable to mortgage loans, consumer credit and credit cards) and ratings used by the Bank.

Counterparty risk consists 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, perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, 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.

On December 31, 2013 and 2012, the maximum exposure to credit risk and the corresponding book value of the financial instruments are made up as follows:

	2013		2012	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	337,841	337,841	352,365	352,365
Balances due from other banks	552,921	552,921	385,323	385,323
Financial assets held for trading	1,949,115	1,949,115	2,265,495	2,265,495
Financial assets at fair value through profit or loss	-	-	93,735	93,735
Available-for-sale financial assets	4,382,253	4,382,253	3,489,864	3,489,864
Loans and advances to credit institutions	3,270,970	3,270,970	3,097,422	3,097,422
Loans and advances to customers	26,107,521	30,967,721	26,979,649	32,979,164
Hedging derivatives	199,427	199,427	284,850	284,850
Investments in associated companies	147,730	147,730	142,994	142,994
	<u>36,947,778</u>	<u>41,807,978</u>	<u>37,091,697</u>	<u>43,091,212</u>
Guarantees given (Note 29)	<u>1,384,781</u>	<u>1,384,781</u>	<u>1,345,643</u>	<u>1,345,643</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The maximum exposure in “Loans and advances to customers” on December 31, 2013, includes tEuros 652,278 and tEuros 4,207,922 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 1,496,610 and tEuros 4,502,905 on December 31, 2012, respectively).

Loans granted

The Bank periodically reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and type of customer involved in the operations (Note 11). In this respect, on December 31, 2013 and 2012, loans granted to customers without objective evidence of impairment are made up as follows:

	2013	2012
Consumer credit	1,047,541	1,048,143
Mortgage loans	14,314,279	14,823,138
Other loans and advances to individuals	353,916	412,022
Credit cards of individuals	221,456	235,682
Total credit without objective evidence of impairment granted to individuals	<u>15,937,192</u>	<u>16,518,985</u>
Loans and advances to large companies	1,468,521	1,540,037
Loans and advances to medium-sized companies	3,226,212	3,934,174
Loans and advances to small companies	574,941	582,817
Leasing	693,098	803,190
Factoring	1,049,553	942,936
Credit cards	12,280	12,529
Commercial paper	2,003,612	1,451,056
Total credit without objective evidence of impairment granted to companies	<u>9,028,217</u>	<u>9,266,739</u>
Guarantees given	1,291,103	1,254,586
Total credit granted without evidence of impairment	<u><u>26,256,512</u></u>	<u><u>27,040,310</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The risk analysis for clients or economic groups where the Bank has an exposure of more than 500,000 Euros are made by risk analysts that follow 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 regular form. The rating is determined based on an analysis of the following parameters:

- . Demand/Market;
- . Partners/Management;
- . Access to credit;
- . Profitability;
- . Generation of funds;
- . Solvency.

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%
Partners/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by each weighting parameter, is subsequently introduced into the Bank's IT system.

In general terms, the Bank's internal rating classification may be described and classified in the following manner:

- Rating 1 – 3: Customer with high credit risk;
- Rating 4 – 6: Customer with moderate credit risk;
- Rating 7 – 9: Customer with low credit risk.

On December 31, 2013 and 2012, the loans granted to companies without objective evidence of impairment, are made up as follows by internal rating:

	2013		2012	
	Credit granted	Guarantees given	Credit granted	Guarantees given
Rating 7 - 9	179,533	35,001	82,325	22,249
Rating 4 - 6	4,660,640	954,308	5,008,549	973,574
Rating 1 - 3	821,852	92,463	759,243	115,581
	5,662,025	1,081,772	5,850,117	1,111,404
Without Rating	1,350,300	110,025	1,953,037	107,554
	7,012,325	1,191,797	7,803,154	1,218,958
Credit cards of companies	12,280	-	12,529	-
Financial institutions	-	99,306	-	35,628
Commercial paper	2,003,612	-	1,451,056	-
	9,028,217	1,291,103	9,266,739	1,254,586

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

With regard to loans granted to individuals without objective evidence of impairment, provisions obtained from the impairment model in force in the Bank as at December 31, 2013 and 2012 amounted to tEuros 53,607 and tEuros 56,185, respectively, corresponding to percentages on those dates of 0.34% and 0.34%, respectively.

On December 31, 2013 and 2012, loans granted to customers with objective evidence of impairment, were made up as follows:

	<u>2013</u>	<u>2011</u>
Performing loans	1,114,656	1,072,211
Overdue loans		
. Up to 90 days	61,292	46,934
. Between 90 and 180 days	32,115	97,166
. Over 180 days	980,557	882,487
	<u>1,073,964</u>	<u>1,026,587</u>
	<u>2,188,620</u>	<u>2,098,798</u>
	=====	=====
Guarantees given	96,639	91,057
	=====	=====

As at December 31, 2013 and 2012, overdue credit or impaired credit determined by a specific individual analysis guaranteed by mortgage, pledged deposits at the Bank, debt securities issued by the Bank or with no guarantee presents the following detail:

	2013		2012	
	Outstanding principal	Value of guarantee/collateral	Outstanding principal	Value of guarantee/collateral
Guarantees in excess of the principal due	407,194	1,331,091	368,871	963,298
Guarantees lower than the principal due	96,939	34,483	350,710	82,764
Without guarantee	1,584,634	-	1,303,597	-
	<u>2,088,767</u>		<u>2,023,178</u>	

As at December 31, 2013 and 2012, the book value of executed guarantees and other collateral relating to credit granted amounted to tEuros 271,850 and tEuros 272,476, respectively, and are made up as follows:

	<u>2013</u>	<u>2012</u>
Non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	268,035	245,156
. Participating units	18,663	18,663
. Equipment	4,021	5,558
Investment properties (Note 14)	18,191	-
Other assets received as settlement of defaulting loans (Note 18)	72,477	104,672
Available for sale financial assets	<u>22,121</u>	<u>22,121</u>
	<u>403,508</u>	<u>396,170</u>
Impairment of non-current assets held for sale (Note 13):		
. Properties received as settlement of defaulting loans	(87,677)	(71,078)
. Participating units	(4,000)	(4,000)
. Equipment	(2,927)	(3,574)
Impairment of other assets received as settlement of defaulting loans (Note 18)	(14,933)	(22,921)
Impairment of available for sale financial assets	<u>(22,121)</u>	<u>(22,121)</u>
	<u>(131,658)</u>	<u>(123,694)</u>
	<u>271,850</u>	<u>272,476</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Restructured credit

On December 31, 2013, the operations of restructured credit were identified in accordance with the Instruction n. 32/2013 of Bank of Portugal (which replaced the Instruction n. 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 fulfill 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 be verified 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.

On December 31, 2013 and 2012, the following amounts related to restructured credit operations have been identified by BST:

	31-12-2013				31-12-2012			
	Credit				Credit			
	Outstanding	Overdue	Total	Impairment	Outstanding	Overdue	Total	Impairment
Companies	835,336	293,063	1,128,399	(303,260)	867,806	264,220	1,132,026	(235,565)
Individuals								
Mortgage loans	836,299	49,675	885,974	(77,159)	488,340	18,058	506,398	(43,837)
Other credits	263,246	75,373	338,619	(108,886)	231,743	76,235	307,978	(98,806)
	<u>1,934,881</u>	<u>418,111</u>	<u>2,352,992</u>	<u>(489,305)</u>	<u>1,587,889</u>	<u>358,513</u>	<u>1,946,402</u>	<u>(378,208)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

As at December 31, 2013 and 2012, the book value associated with to debt and equity instruments is made up as follows, by external rating, in accordance with Standard & Poor's rating:

<u>Debt instruments</u>	<u>2013</u>	<u>2012</u>
Financial assets held for trading		
Rating S&P		
AA+ / AA / AA-	2,098	-
A+ / A / A-	53,382	-
BBB+ / BBB / BBB-	96,913	-
BB+ / BB / BB-	101,169	-
B+ / B / B-	7,815	-
Without external rating	84,693	-
	<u>346,070</u>	<u>-</u>
Financial assets at fair value through profit or loss		
Rating S&P		
BB+ / BB / BB-	-	93,735
	<u>-</u>	<u>93,735</u>
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	7,437	7,948
BBB+ / BBB / BBB-	1,067,927	981,608
BB+ / BB / BB-	2,246,906	1,658,576
B+ / B / B-	362,756	291,757
Without external rating	697,227	549,975
	<u>4,382,253</u>	<u>3,489,864</u>
	<u>4,728,323</u>	<u>3,583,599</u>

In cases in which 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 by the top level area in the organization structure responsible for Asset and Liability Management (ALM) and the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

The Bank financing policy considers the evolution of the balance sheet components, the structural position of terms to maturity of assets and liabilities, the net inter-bank indebtedness level given the credit lines available, dispersion of the maturities and minimization of funding activity related costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Under its liquidity policy, as at December 31, 2013 and 2012 the Bank has a Euro Medium Term Notes (EMTN) program, of which tEuros 141,830 and tEuros 160,530 has been issued, respectively.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

The contractual projected cash flows of financial instruments (not discounted) as at December 31, 2013 and 2012 were as follows:

	2013							Total
	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	
<b>Assets</b>								
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
	<b>5,268,569</b>	<b>3,250,472</b>	<b>5,221,258</b>	<b>6,410,214</b>	<b>4,237,039</b>	<b>17,161,864</b>	<b>290,297</b>	<b>41,839,713</b>
<b>Liabilities</b>								
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
	<b>7,702,998</b>	<b>8,148,702</b>	<b>6,450,848</b>	<b>12,303,256</b>	<b>552,939</b>	<b>1,315,083</b>	<b>-</b>	<b>36,473,826</b>

	2012							Total
	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	
<b>Assets</b>								
Cash and deposits at central banks	210,893	265	811	2,152	2,155	189,963	-	406,239
Balances due from other banks	385,323	-	-	-	-	-	-	385,323
Financial assets held for trading	2,265,495	-	-	-	-	-	-	2,265,495
Financial assets at fair value through profit or loss	-	-	94,901	-	-	-	-	94,901
Available-for-sale financial assets	2	3,394	328,007	1,380,559	408,460	2,049,478	254,623	4,424,523
Loans and advances to credit institutions	1,121,616	62,420	41,207	1,621,882	367,855	88,395	-	3,303,375
Loans and advances to customers	502,799	2,746,191	4,504,003	4,864,323	3,258,002	15,457,201	-	31,332,519
Hedging derivatives	284,850	-	-	-	-	-	-	284,850
Investments in associates	-	-	-	-	-	-	142,994	142,994
	<b>4,770,978</b>	<b>2,812,270</b>	<b>4,968,929</b>	<b>7,868,916</b>	<b>4,036,472</b>	<b>17,785,037</b>	<b>397,617</b>	<b>42,640,219</b>
<b>Liabilities</b>								
Resources of central banks	800,116	-	-	5,115,850	-	-	-	5,915,966
Financial liabilities held for trading	2,048,743	-	-	-	-	-	-	2,048,743
Resources of other credit institutions	382,424	980,845	27,004	325,569	277,780	-	-	1,993,622
Resources of customers and other debts	6,157,636	3,934,261	4,749,942	4,967,092	1,954,508	467,408	-	22,230,847
Debt securities	(9,730)	37,907	1,158,565	1,757,213	252,846	866,583	-	4,063,384
Hedging derivatives	455,911	-	-	-	-	-	-	455,911
Subordinated liabilities	-	4,325	-	-	-	-	-	4,325
	<b>9,835,100</b>	<b>4,957,338</b>	<b>5,935,511</b>	<b>12,165,724</b>	<b>2,485,134</b>	<b>1,333,991</b>	<b>-</b>	<b>36,712,798</b>

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:

- The projected cash flows of assets and liabilities with variable remuneration related to the interest rate curve were calculated considering the forward interest rate curve;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

- Financial instruments classified as “non-structural” were considered as maturing on demand, except for investments in associates and equity instruments recorded as available-for-sale financial assets, which were considered of undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rate (cash, balances due from banks, equity instruments classified as available-for-sale financial assets and investments in associates) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the 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 with periodically renewable dates, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;
- The projected cash flows of demand deposits were considered as being payable on demand.

### **MARKET RISK**

Market risk 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 rapidly 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 rate 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

(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 at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and
- Limits aimed at protecting the volume of effective losses or protecting the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables all the factors relating to balance sheet market risks to be controlled, namely the risk resulting directly from change in the yield curve, given the existing indexing and re-pricing structure that determine the sensitivity of the financial margin and sensitivity of the asset value of balance sheet instruments.

**Interest rate risk**

On December 31, 2013 and 2012, financial instruments by exposure to interest rate risk, are as follows:

	Exposure to		2013		Total
	Fixed rate	Variable rate	Not subject to interest rate risk	Derivatives	
<b><u>Assets</u></b>					
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	-	346,070	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
	<b>8,272,997</b>	<b>25,756,092</b>	<b>971,639</b>	<b>1,799,320</b>	<b>36,800,048</b>
<b><u>Liabilities</u></b>					
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
	<b>20,620,384</b>	<b>12,787,520</b>	<b>254,033</b>	<b>1,990,452</b>	<b>35,652,389</b>
<b>2012</b>					
	Exposure to		2012		Total
	Fixed rate	Variable rate	Not subject to interest rate risk	Derivatives	
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	141,602	210,763	-	352,365
Balances due from other banks	-	-	385,323	-	385,323
Financial assets held for trading	-	-	233,639	2,031,856	2,265,495
Financial assets at fair value through profit or loss	90,279	-	3,456	-	93,735
Available-for-sale financial assets	2,880,140	551,079	58,645	-	3,489,864
Loans and advances to credit institutions	1,717,489	1,347,731	32,202	-	3,097,422
Loans and advances to customers	1,639,586	25,224,780	115,283	-	26,979,649
Hedging derivatives	-	-	-	284,850	284,850
	<b>6,327,494</b>	<b>27,265,192</b>	<b>1,039,311</b>	<b>2,316,706</b>	<b>36,948,703</b>
<b><u>Liabilities</u></b>					
Resources of central banks	-	5,800,016	37,226	-	5,837,242
Financial liabilities held for trading	-	-	-	2,048,743	2,048,743
Resources of other credit institutions	1,512,634	272,851	164,089	-	1,949,574
Resources of customers and other debts	16,251,049	4,912,351	333,774	-	21,497,174
Debt securities	2,629,994	1,300,370	23,155	-	3,953,519
Hedging derivatives	-	-	-	455,911	455,911
Subordinated liabilities	-	4,275	36	-	4,311
	<b>20,393,677</b>	<b>12,289,863</b>	<b>558,280</b>	<b>2,504,654</b>	<b>35,746,474</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

Financial instruments – structural balance (excluding assets and liabilities held for trading)

The methodology used for the calculation of the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities, based on changes of 100 basis points (bp's) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- all assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin change as a result of changes in market rates;
- the assets and liabilities are grouped in accordance with their exposure to interest rate risk;
- future cash flows, duly distributed by the re-pricing dates (variable rate) or maturity dates (fixed rate), are calculated for each sensitive operation (contract);
- operations are sub-grouped by re-pricing/maturity date for each previously defined group;
- the intended time intervals for measurement of the interest rate gaps are defined;
- for each group, the flows are re-grouped based on the intervals created;
- for each product considered to be sensitive, but which does not have a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and
- the total inflows and outflows are calculated for each interval and the difference between them, corresponding to the interest rate risk gap, is determined for each interval.

The interest rate gap enables an approximation to be made of the sensitivity of the asset value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- the volumes remain constant in the balance sheet and are automatically renewed;
- the movement in interest rates are assumed to be parallel, while the possibility of actual changes for different terms of the interest rate curve is not considered; and
- different elasticity between the various products is not considered.

In terms of variation in net asset value, an increase in the interest rates originates a decrease in the amount of the intervals with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

*General assumptions of this interest rate sensitivity analysis*

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain constant during the period under analysis;
- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;
- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

- 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.

As at December 31, 2013 and 2012, the impact in the value of financial instruments sensitive to interest rate of changes of 100 basis points (bp's), over a time frame of one year, correspond to:

	2013		2012	
	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
<b><u>Assets</u></b>				
Cash and deposits at central banks	1,132	(452)	1,379	(759)
Available-for-sale financial assets	5,039	(2,070)	3,855	(2,472)
Loans and advances to credit institutions	25,314	(10,162)	19,133	(11,033)
Loans and advances to customers	199,861	(80,391)	202,472	(110,796)
	<u>231,346</u>	<u>(93,075)</u>	<u>226,839</u>	<u>(125,060)</u>
Hedging derivatives	<u>(34,983)</u>	<u>14,108</u>	<u>(36,845)</u>	<u>21,261</u>
<b><u>Liabilities</u></b>				
Resources of central banks	61,056	(18,487)	57,222	(39,964)
Resources of other credit institutions	35,474	(14,124)	21,464	(13,221)
Resources of customers and other debts	62,425	(25,699)	80,401	(48,644)
Debt securities	9,368	(3,769)	10,131	(6,191)
	<u>168,323</u>	<u>(62,079)</u>	<u>169,218</u>	<u>(108,020)</u>

**Financial instruments held for trading**

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;
- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);
- Exponential deterioration factor: Enables the amount of change in market factors to be exponentially weighted over time, by giving less weight to more distant observations in time. The exponential deterioration factor applied is calculated periodically by Market Risk Methodology.

In any case, the values of VaR are those which are greater when the calculation is made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk currency. VaR results are reported in US Dollars in order to allow accumulation of different units; 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The calculation of the VaR Percentile assumes that the set of 520 observations considered all have the same weight. The VaR Weighted Percentile assumes the granting of a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, the volatility and correlation between them, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires valuation for each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

On December 31, 2013 and 2012, the VaR associated to the interest rate risk corresponds to:

	<u>2013</u>	<u>2012</u>
VaR Percentil 99%	(4)	(9)
VaR Weighted Percentil 99%	(2)	(13)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

**Foreign exchange risk**

The profile defined for foreign exchange risk is very conservative and is based on the hedging policy adopted. Implementation of the policy is a responsibility of the Treasury Area so that the risks involved are maintained at a low level, this being achieved mainly through currency swaps. Exchange risk limits are established and monitored by the Market Risk Area.

On December 31, 2013 and 2012, financial instruments by currency are as follows:

	2013			Total
	Euros	US Dollars	Other currencies	
<b><u>Assets</u></b>				
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
	<u>36,272,587</u>	<u>451,558</u>	<u>75,903</u>	<u>36,800,048</u>
<b><u>Liabilities</u></b>				
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
	<u>34,330,443</u>	<u>1,160,907</u>	<u>161,039</u>	<u>35,652,389</u>
2012				
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	346,048	3,736	2,581	352,365
Balances due from other banks	357,445	12,559	15,319	385,323
Financial assets held for trading	2,263,593	1,871	31	2,265,495
Financial assets at fair value through profit or loss	93,735	-	-	93,735
Available-for-sale financial assets	3,481,916	7,948	-	3,489,864
Loans and advances to credit institutions	2,704,835	352,396	40,191	3,097,422
Loans and advances to customers	26,912,436	37,617	29,596	26,979,649
Hedging derivatives	284,180	670	-	284,850
	<u>36,444,188</u>	<u>416,797</u>	<u>87,718</u>	<u>36,948,703</u>
<b><u>Liabilities</u></b>				
Resources of central banks	5,837,242	-	-	5,837,242
Financial liabilities held for trading	2,046,582	2,085	76	2,048,743
Resources of other credit institutions	1,576,925	366,025	6,624	1,949,574
Resources of customers and other debts	20,491,407	826,056	179,711	21,497,174
Debt securities	3,953,519	-	-	3,953,519
Hedging derivatives	454,133	1,778	-	455,911
Subordinated liabilities	4,311	-	-	4,311
	<u>34,364,119</u>	<u>1,195,944</u>	<u>186,411</u>	<u>35,746,474</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

On December 31, 2013 and 2012, the VaR associated to foreign exchange risk corresponds to:

	<u>2013</u>	<u>2012</u>
VaR Percentil 99%	(7)	(11)
VaR Weighted Percentil 99%	(5)	(9)

**Equity risk of assets**

Financial instruments held for trading

On December 31, 2013 and 2012, the Bank had no equity risk of its financial instruments held for trading, therefore the VaR related to this risk is zero.

49. CAPITAL MANAGEMENT

BST endeavours to have significant financial stability through maintenance of an adequate equity ratio – relationship between Eligible Equity Funds capital and assets weighted by risk - above 8%, which is the minimum legal ratio requirement established under Bank of Portugal Notice no 5/2007.

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.

As from June 2009, BST has used the mixed method for credit risk, namely the advanced method (IRB) for some portfolios and the standard method for other portfolios (sovereign risk, cards and small businesses). The cards portfolio began to be treated in accordance with the IRB method as from March 2011 and the small businesses portfolio as from December 2012. Sovereign risk and manual operations are treated using the standard method.

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 operating risk, before which it used the basic indicator method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

The following table summarizes the composition of regulatory capital and ratios of the Bank, at the end of 2013 and 2012 (amounts in millions of Euros):

	2013 (*)	2012
<b>A - BASE OWN FUNDS (TIER I)</b>	2,292	2,069
Share Capital	943	943
Reserves and Retained earnings (excluding Minority Interest)	1,103	967
Minority Interest	500	449
IAS adoption impacts (transitory regime)	14	28
Deductions to base own funds	(268)	(318)
<b>B - COMPLEMENTARY OWN FUNDS (TIER II)</b>	-	-
Perpetual subordinated liabilities	4	4
Term subordinated liabilities	-	-
Revaluation reserves	24	24
Other elements/deductions to complementary own funds	(28)	(28)
<b>C - DEDUCTIONS TO OWN FUNDS</b>	(8)	(7)
<b>D - TOTAL OWN FUNDS (A+B+C)</b>	2,284	2,062
<b>E - ASSETS WEIGHTED BY RISK</b>	16,090	18,127

CAPITAL RATIOS	2013 (*)	2012
<b>TIER I (A/E)</b>	14.2%	11.4%
CORE CAPITAL	12.4%	9.9%
<b>TIER II (B/E)</b>	0.0%	0.0%
<b>CAPITAL ADEQUACY RATIO (D/E)</b>	14.2%	11.4%

(\*) In accordance with Instruction 16/2004 of the Bank of Portugal, excluding the income generated in 2013, the capital adequacy ratio is 14.2%, TIER I is 14.2% and the Core Tier I is 12.4%.

Despite the difficult macroeconomic context, the Bank's solvency consolidated ratios increased during 2013. The core capital and the Tier I ratios increased from 9.9% and 11.4% in December 2012 to 12.4% and 14.2%, respectively, in December 2013. The capital adequacy ratio also reached 14.2% in December 2013. The contributing factor to this improvement was fundamentally the deleveraging process carried out by the Bank.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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 transport sectors, have been challenged. These agreements were signed essentially until 2008, that 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, 2013 arises to approximately tEuros 1,030,000 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 doubt 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.

In September 2013, after the submission of the above referred legal actions, the state owned enterprises communicated to the Bank that they would suspend the payment of the net interest associated with those swap agreements until the on-going actions were decided. On December 31, 2013, the balance sheet caption "Other assets - Asset transactions pending settlement" includes approximately tEuros 45,000 relating to those interests (Note 18).

In November 2013, the state owned enterprises presented to the English courts their plea to the legal actions posted by the Bank requiring the nullity of the agreements and requesting the refund of the net flows of interests paid in the past, which amounted to approximately tEuros 134,000.

On February 14, 2014, the Bank presented to the English courts its reply to the plea submitted by the state owned enterprises. Currently, those legal actions are in progress following their normal procedures.

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.

Furthermore, on December 31, 2013, a set of claims / legal actions were placed against the Bank by its customers relating to swap agreements. In the majority of those complaints / legal actions the customer's request the cancelation of the swap agreements established with the Bank, as well as the reimbursement of the net amount of interest paid by them in the past. On December 31, 2013, the amounts involved in those complaints / legal actions were as follows:

Interests received from customers	34,216
Interests paid to customers	<u>(3,992)</u>
	<u>30,224</u>
Interests overdue not paid by customers	10,911
Swaps Mark to Market	267
Impairment recorded	<u>(7,195)</u>
	<u>3,983</u>
Exposure	<u><u>34,207</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2013

(Translation of notes originally issued in Portuguese – Note 52)

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

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 complaints / legal actions.

On the other hand, until the date of approval of these financial statements, new legal actions were placed against the Bank related to swap agreements, including two totalling tEuros 290,000, being one a legal action (“Acção Popular”) placed against both the Bank and “Metropolitano de Lisboa , EPE” involving a total amount of approximately tEuros 274,500. However, this last legal action is focused in the cancellation of some swap agreements signed between the Bank and “Metropolitano de Lisboa, EPE” 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. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors on April 24 2014.

52. NOTE ADDED FOR TRANSLATION

These financial statements are a translation of the financial statements originally issued in Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

## BANCO SANTANDER TOTTA, S.A.

## DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2013 (Note 22)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 52)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet							
<b>Bonds issued</b>											
Bonds											
Europe 155	EUR	1.920	-	1.920	-	(3)	1.917	Floating	June 28, 2010	June 28, 2014	Stock exchange index
Performance Mais	EUR	63.096	63.096	-	-	-	-	Floating	November 24, 2009	November 24, 2014	Basket of indexes
Performance Mais II	EUR	13.731	13.731	-	-	-	-	Floating	December 22, 2009	January 15, 2015	Basket of indexes
Rendimento Europeu	EUR	99.796	99.796	-	-	-	-	Floating	August 06, 2009	August 06, 2014	Basket of indexes
ST Diversificação Invest 3º amortização Clientes	EUR	23.913	6.925	16.988	611	1.673	19.272	Floating	March 17, 2009	March 28, 2015	Basket of indexes
ST Diversificação Invest 4º amortização Clientes	EUR	23.913	6.925	16.988	-	-	16.988	Floating	March 17, 2009	March 28, 2017	Basket of indexes
Valorização Performance 5 anos	EUR	21.533	-	21.533	351	194	22.078	Floating	September 30, 2010	September 30, 2015	Basket of indexes
Valorização Performance 5 anos October 2010	EUR	9.993	-	9.993	158	63	10.214	Floating	November 02, 2010	November 02, 2015	Basket of indexes
Top Germany	EUR	65.042	29.342	35.700	1.029	548	37.277	Floating	February 14, 2011	February 13, 2015	Basket of shares
Top Germany February 2011	EUR	57.892	26.513	31.379	1.105	430	32.914	Floating	March 09, 2011	March 09, 2015	Basket of shares
Appreciation China	EUR	56.379	9.215	47.164	1.294	582	49.040	Floating	April 11, 2011	April 02, 2015	Index FTSE China 25
Latin America	EUR	2.175	-	2.175	57	9	2.241	Floating	May 20, 2011	May 20, 2014	Basket of funds
EUA	EUR	74.607	-	74.607	2.806	272	77.685	Floating	June 30, 2011	June 30, 2014	Index of shares Standard & Poor's 500
Latin America top 3	EUR	99.997	-	99.997	3.612	663	104.272	Floating	August 01, 2011	October 31, 2014	Index of shares FTSE Latibex Top
AutoCallable 85-15	EUR	570	-	570	-	(317)	253	Floating	August 01, 2011	October 31, 2014	Basket of shares
		<b>614.557</b>	<b>255.543</b>	<b>359.014</b>	<b>11.023</b>	<b>4.114</b>	<b>374.151</b>				
<b>Covered bonds</b>											
Covered Mortgage Bonds 2nd Issue	EUR	1.000.000	125.750	874.250	5.334	13.836	893.420	3,25%	October 21, 2009	October 21, 2014	Fixed interest rate
Mortgage Bonds IV - 1st tranche	EUR	750.000	750.000	-	-	-	-	3,050%	January 12, 2011	January 12, 2014	Fixed interest rate
Mortgage Bonds IV - 2nd tranche	EUR	2.300	-	2.300	31	-	2.331	2,825%	January 21, 2011	January 12, 2014	Fixed interest rate
Mortgage Bonds V	EUR	1.250.000	1.250.000	-	-	-	-	2,698%	May 23, 2011	May 23, 2014	Fixed interest rate
Mortgage Bonds VI - 1st tranche	EUR	250.000	250.000	-	-	-	-	2,707%	November 04, 2011	November 04, 2014	Fixed interest rate
Mortgage Bonds VII - 1st tranche	EUR	380.000	380.000	-	-	-	-	2,707%	November 04, 2011	November 04, 2014	Fixed interest rate
Mortgage Bonds VIII - 1st tranche	EUR	250.000	250.000	-	-	-	-	2,708%	November 04, 2011	November 04, 2014	Fixed interest rate
Mortgage Bonds IX - 1st tranche	EUR	500.000	500.000	-	-	-	-	2,585%	April 02, 2013	April 02, 2016	Fixed interest rate
Mortgage Bonds IX - 2nd tranche	EUR	1.000.000	1.000.000	-	-	-	-	2,461%	April 15, 2013	April 15, 2017	Fixed interest rate
Mortgage Bonds X	EUR	750.000	750.000	-	-	-	-	2,475%	July 26, 2013	July 26, 2017	Fixed interest rate
Mortgage Bonds XI - 1st tranche	EUR	500.000	500.000	-	-	-	-	2,148%	December 19, 2013	December 19, 2017	Fixed interest rate
Mortgage Bonds X - 2nd tranche	EUR	500.000	500.000	-	-	-	-	2,243%	December 19, 2013	December 19, 2017	Fixed interest rate
		<b>7.132.300</b>	<b>6.255.750</b>	<b>876.550</b>	<b>5.365</b>	<b>13.836</b>	<b>895.751</b>				
<b>Bonds issued on securitization operations</b>											
Hipototta 1 - Class A - Notes	EUR	164.951	134.113	30.838	9	-	30.847	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	10.636	10.636	-	-	-	-	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	4.687	4.687	-	-	-	-	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	971.232	492.492	478.740	(1.140)	-	477.600	Floating	December 09, 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	35.335	35.335	-	-	-	-	Floating	December 09, 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	111.592	59.678	51.914	2	-	51.916	Floating	December 09, 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 09, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	847.992	233.811	614.181	(367)	-	613.814	Floating	March 22, 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 C - Notes	EUR	24.000	24.000	-	-	-	-	Floating	March 16, 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 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)

## BANCO SANTANDER TOTTA, S.A.

## DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2013 (Note 22)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 52)

Securities issued	Currency	Amount of the issue			Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
		Total	Subscribed by the Group	Consolidated Balance Sheet							
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	9.951	9.951	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
Leasetotta - Class A - Notes	EUR	100.933	100.933	-	-	-	-	Floating	April 20, 2009	January 15, 2042	Euribor 3m+0.30%
Leasetotta - Class B - Notes	EUR	260.000	260.000	-	-	-	-	Floating	April 20, 2009	January 15, 2042	Euribor 3m+4.75%
Leasetotta - Class C - Notes	EUR	65.000	65.000	-	-	-	-	Floating	April 20, 2009	January 15, 2042	Residual return generated by securitized portfolio
		<b>2.714.309</b>	<b>1.538.636</b>	<b>1.175.673</b>	<b>(1.496)</b>	<b>-</b>	<b>1.174.177</b>				
<b>Other</b>											
EMTN's	EUR	141.830	2.940	138.890	4	(48.812)	90.082				
		<b>141.830</b>	<b>2.940</b>	<b>138.890</b>	<b>4</b>	<b>(48.812)</b>	<b>90.082</b>				
<b>TOTAL DEBT SECURITIES ISSUED</b>		<b>10.602.996</b>	<b>8.052.869</b>	<b>2.550.127</b>	<b>14.896</b>	<b>(30.862)</b>	<b>2.534.161</b>				

## BANCO SANTANDER TOTTA, S.A.

## OTHER SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2013 (Note 24)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex II originally issued in Portuguese - Note 52)

Securities issued	Currency	Amount of the issue			Accrual			Total Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from
		Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet				
Subordinated Perpetual Bonds 2000	EUR	270.447	270.447	-	159	159	-	-	2,08%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	4.275	-	4.275	32	-	32	4.307	2,11%	Perpetual	February 23, 2011
Subordinated Perpetual Bonds BSP 2001	EUR	13.818	13.818	-	104	104	-	-	2,11%	Perpetual	February 23, 2011
		<u>288.540</u>	<u>284.265</u>	<u>4.275</u>	<u>295</u>	<u>263</u>	<u>32</u>	<u>4.307</u>			

## Consolidated Reports and Opinions



## 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 52)

#### **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 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, 2013, which comprise the consolidated balance sheet as at December 31, 2013 that presents a total of tEuros 38,810,528 and total shareholders' equity of tEuros 2,730,363, including consolidated net income attributable to the shareholders of BST of tEuros 89,164, 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 endorsed 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, 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 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 as at December 31, 2013, the consolidated income and comprehensive income from their operations, 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 endorsed 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 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. At December 31, 2013, 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 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. Consequently, no provisions were recorded in the accompanying consolidated financial statements for that situation.



**Report on other legal requirements**

7. It is also our opinion that the financial information contained in the Director's Report is consistent with the consolidated financial statements for 2013 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 28, 2014

---

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.)*