HALF YEAR REPORT

OF BANCO SANTANDER TOTTA, SA

January – June

2014

Santander Totta

TABLE OF CONTENTS

MAIN INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Jun-14	Jun-13	Var.
Net Assets	**39.898**	39,033	+2.2%
Net Loans	**25,688**	26,743	-3.9%
Customers' Resources	**25,507**	26,936	-5.3%
Own Funds + Minority Interests + Subordinated Liabilities	**2,743**	2,378	+15.4%
Net Interest Income (excludind dividends)	**266.3**	246.6	+8.0%
Fees and Other Income	**122.3**	165.7	-26.2%
Operating Income	**469.6**	422.9	+11.0%
Net Operating Income	**225.6**	186.5	+21.0%
Income Before Taxes & Minority Interests	**118.6**	45.5	+160.6%
Net Income	**81.3**	24.2	+236.2%

RATIOS	Jun-14	Jun-13	Var.
ROE	**8.4%**	2.8%	+5.6 p.p.
ROA	**0.4%**	0.1%	+0.3 p.p.
Efficiency Ratio (including depreciation)	**52.0%**	55.9%	-3.9 p.p.
Tier I* ratio	**12.6%**	10.9%	+1.7 p.p.
Core Capital* ratio	**14.8%**	12.7%	+2.1 p.p.
Core Capital* ratio	**14.8%**	12.6%	+2.2 p.p.
NPL and Doubtful Loans Ratio	**4.1%**	3.6%	+0.5 p.p.
Credit at Risk Ratio	**5.7%**	5.4%	+0.3 p.p.
Restructured Loans/Total Loans	**9.3%**	7.8%	+1.5 p.p.
Restructured Loans not included in Credito at Risk/Total Loans	**6.7%**	-	-
NPL and Doubtful Loans Coverage Ratio	**103.7%**	103.4%	+0.3 p.p.
Credit at Risk Coverage Ratio	**74.5%**	69.9%	+4.6 p.p.
Loan-to-Deposit Ratio**	**126.7%**	126.7%	+0.0 p.p.

RATING	Jun-14	Jun-13
FitchRatings		
short term	**F2**	F3
long term	**BBB**	BBB-
Moody´s		
short term	**NP**	NP
long term	**Ba1**	Ba1
Standard & Poor´s		
short term	**B**	B
long term	**BB**	BB
DBRS		
short term	**R-1L**	R-1L
long term	**BBBH**	BBBH

Other Data	Jun-14	Jun-13	Var.
Employees	**5,457**	5,582	-125
Employees in Portugal	**5,408**	5,533	-125
Branches	**626**	651	-25
Total Branches and Corporate Centers in Portugal	**611**	635	-24

* With results net of payout

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

CORPORATE OFFICERS

BANCO SANTANDER TOTTA, S.A.

General Meeting

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

Board of Directors

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

Audit Board

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

Auditors

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

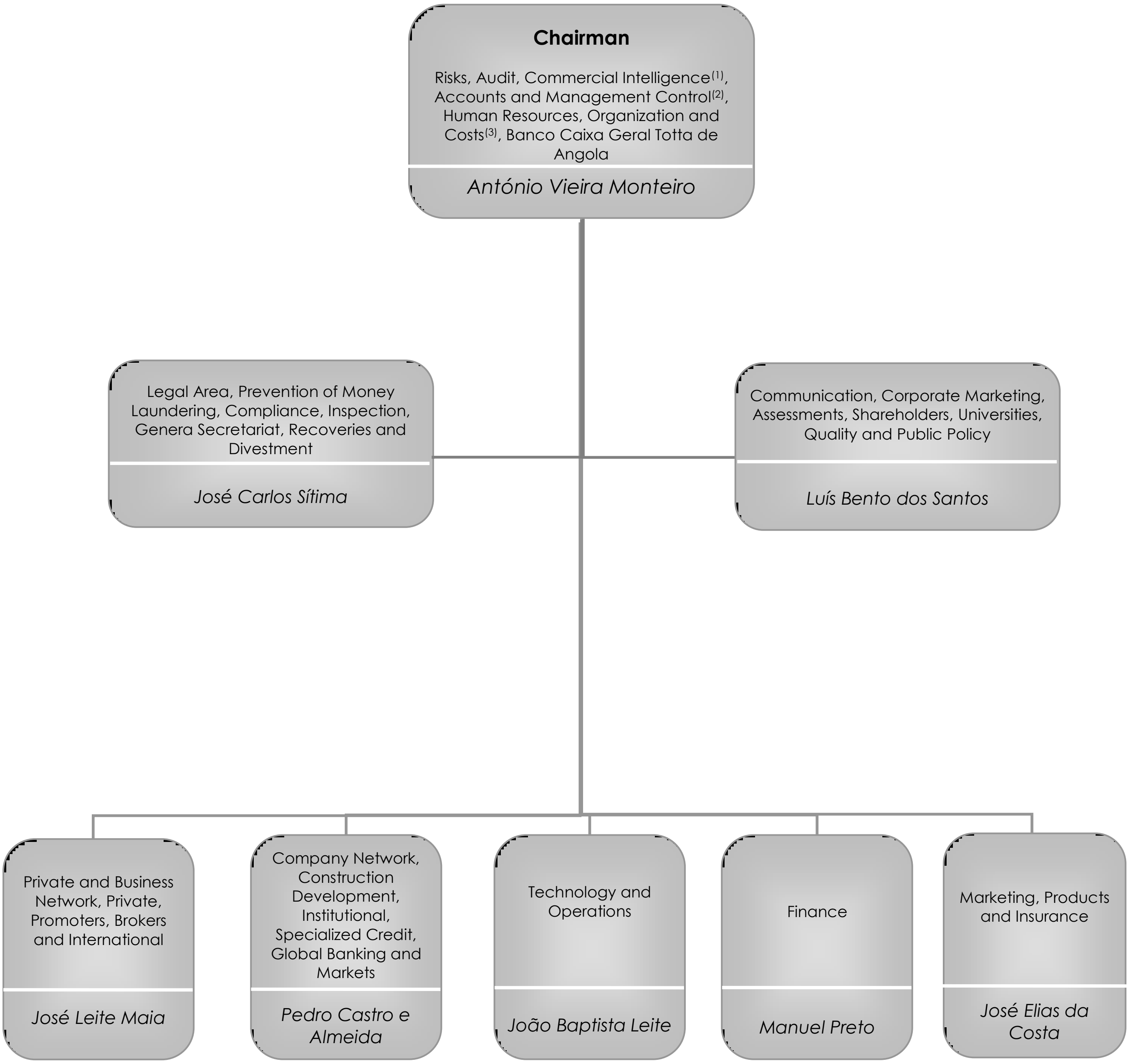
Executive Committee

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

Company Secretary

Office Holder	Luís Manuel Baptista Figueiredo
Alternate	Raquel João Branquinho Nunes Garcia

Functional Organization Chart of the Executive Committee



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

(2) The Accounts and Management Control area is ensured by Dr. Ignácio Centenera, an Assistant Manager attached to the Executive Committee

(3) The Human Resources, Organization and Costs area is ensured by Dr. Nuno Frias Costa, an Assistant Manager attached to the Executive Committee

International Economy

The growth dynamics in the first half year were characterized by high volatility and heterogeneous behaviour amongst regions, but with a clearer slowing down trend towards the end of the period, especially in the euro zone and in the emerging markets.

In July, the IMF revised the growth prospects for 2014 to a lower basis, by 0.3pp, to 3.7%, largely due to the expected economic path for the USA and the emerging markets. For the euro zone, the revision is reflected in differences amongst countries, without changes in the union as a whole. The IMF maintains, however, its 4% growth prospects for 2015, based upon acceleration in all the regions of the world economy. The risks, however, are biased downwards, also due to the geopolitical risk in some world regions, the Ukrainian conflict being especially relevant in the case of Europe.

The USA contributed toward a greater slowdown in growth, since its GDP contracted, unexpectedly, in the first quarter, largely affected by adverse climatic conditions, which affected not just investment in construction, but equally household consumption. This effect has already been reversed in the second quarter, with a reacceleration in the GDP, which the IMF considers as opening up favourable perspectives for 2015.

The labour market, however, continues very dynamic, with an average monthly job growth of 230,000 since the beginning of the year, which caused a faster reduction in the rate of unemployment, to 6.2% in July.

As a result of this development the US Federal Reserve continued gradually reducing its volume of acquisition of financial assets ("tapering") to a monthly rate of 25 billion dollars. Should this reduction pace be kept up the current cycle of quantitative easing will be concluded by November. The internal debate still continues, however, as to the moment when reference interest rates will be raised, which investors believe could occur in the first half of 2015 but which they equally believe, as declared by Federal Reserve governors, could be gradually implemented, with the main reference interest rates remaining at low levels.

The discussion as to the beginning of this "tapering" process and its execution had a relevant impact on the emerging markets, which had benefited, in the previous years, from the liquidity generated by the intervention of the central banks. There was a massive outflow of funds from these markets, leading to exchange rate volatility and requiring interventions by the authorities, including increases in reference interest rates. South Africa, Turkey and even Brazil adopted measures, already this year, such as sharp increases in reference interest rates, in order to reverse the exchange depreciation that their currencies were experiencing.

As a result, a significant part of these funds was channelled to Europe, jointly contributing with the favourable economic data (at the beginning of the year), towards an increase in value of the equity markets and to the lowering of the medium and long term interest rates.

In the euro area, the half year began with a greater than expected dynamism, with most of the business indicators generally showing an acceleration of the activity and the subsequent upgrading in the growth perspectives. However, the situation was reversed in the second quarter and some countries witnessed a contraction in GDP, thus increasing the growth heterogeneity amongst the members of the euro zone, especially between Germany and other countries.

The new IMF forecasts for the growth of GDP in the euro zone in 2014 precisely reflect these differentiated dynamics. Although the projections for the euro zone as a whole remained unaltered at 1.1% as compared to the April scenario, there was an upgraded review in the case of Germany, compensated by a downgraded review for France and Italy, countries where the manufacturing sector has shown greater weakness.

This environment of below potential growth, but especially a faster slowing down in inflation that, in June, stood at 0.4%, led the European Central Bank to lower its reference interest rates and to announce an increased number of measures intended to re-launch bank credit and, through this, support economic growth and increase the rate of inflation.

The rate for refinancing operations was lowered to an historical minimum of 0.15% (a 10bp reduction), whilst the rate for the deposit facility with ECB became negative. With this measure the ECB will endeavour that the financial sector reduces its volumes of deposits with it (which has already been significantly reduced since the 2012 maximums) and channels such funds into the real economy. Simultaneously, ECB announced it would maintain its unlimited liquidity provision until end 2016.

The second package of measures announced consists of a number of targeted long term refinancing operations (TLTRO), through which the ECB will provide liquidity: (i) in a first stage up to an amount of 7% of the credit portfolio to companies and families (excluding mortgages); and (ii) in a second stage, up to 3 times the net lending, relative to a reference, defined as the cumulative net lending in the 12 months up to April 2014. These operations, limited to a maximum of 4 years, will have a fixed interest rate, equivalent to the refi rate at the moment the funds are committed, accrued by 0.1%. In the first stage the amount of eligible liquidity is, additionally, almost 400 billion euros.

ECB, in later communications, indicates that it intends obtaining information on the demand for liquidity in these new operations, before considering new support measures for European economic recovery. However, it will continue placing efforts to re-launch the market for credit securitization, especially credit for companies.

During the first half year equity markets appreciated to all time highs, especially in the USA, due to positive results and to a general feeling of optimism and lower aversion to risk. At the end of the half year, the aversion to risk returned, resulting in a downgrading of the main indices, with the Portuguese Stock Exchange index PSI20 especially affected due to the events related with Banco Espírito Santo.

Long term yields were corrected from the maximums shown at the beginning of the year, reacting to the less favourable economic data which became known during the second quarter, and later influenced by a movement of escape towards quality, within a framework of divestment from equity markets. This effect was more largely felt in Europe, with German yields reverting to minimum levels.

Portuguese Economy

At the end of the first half year, Portugal concluded the Programme of Economic and Financial Adjustment (PRFA), agreed with the international institutions in April 2011, within which it received financing amounting to approximately 76 billion euros.

Portugal dispensed with the last instalment of three billion euros, due to the decision of unconstitutionality, by the Constitutional Court, of the new rules covering cuts in salaries (which enlarged the scope of the cuts to include 650 euro monthly salaries). To conclude the 12th assessment and receive the final instalment, Portugal would have to extend the period of the programme and adopt, in a reduced period of delay, the compensatory measures.

During the first half year, the Treasury maintained its access to the international financial markets, with several 5 and 10 year medium and long term debt issues, which attracted relevant demand and progressively lower interest rates. In June, the Treasury carried out a 10 year issue with a 3.25% yield (which compares with a 5.11% issue in February). In July, and for the first time since 2010, the Treasury placed an issue in US Dollars at a rate of 5.23%.

During the first half of the year the economic environment was characterized by a more moderate growth than was the case in late 2013, and which featured several factors, such as the temporary close down for maintenance purposes of the Sines Refinery, which resulted in the reduction in the exports of energy products and consequent impact on growth. GDP shrank 0.6% in the first quarter of 2014, due in large measure to the above factor, but will have recovered in the second quarter after the reopening of the refinery.

Internal demand indicators continue showing a moderate recovery in activity. Private consumption has expanded moderately, as households begin to reset the expenditure levels they had cut down during 2011 and 2012. The lowering of the unemployment rate, which fell to 13.9% in the second quarter, recovering to 2011 levels, and due to job creation, contributed to consumer confidence. In spite of a slight decrease, the rate of savings continues at high levels, in excess of 12%.

Investment continued recovering, in spite of several projects being brought forward into 2013, as a result of fiscal incentives to capital expenditure. However, the investment survey carried out by the National Statistics Institute and published in July, shows greater investment intentions in the current year (+2.4%, compared to the previous estimate of +1.1%).

This improvement is shown, partly, in the dynamics of the new production of credit to companies. In spite of the volumes still being historically low, a homologous growth of approximately 5% was recorded in April and May. The survey on credit market conditions, published by the Bank of Portugal, also signals a moderation in the conditions of credit granting by the banks, as well as an increase in demand from companies.

However, total credit to companies continues decreasing, reflecting, on the one hand, the ongoing deleveraging in the economy and, on the other, specific factors, such as the Portuguese State assuming the financing of some public transportation companies.

The impact on the trade balance of the shrinkage in exports, associated to the technical close down of the Sines Refinery, cancelled the surplus balance achieved in the past year, with any improvement now dependent upon a recovery in exports.

The budgetary execution to June, as recorded by public accounts (on a cash basis) shows a deterioration in the budgetary balance as compared to the homologous period, resulting from increase in expenditure (including employee expenses) in spite of a growth in revenue, especially in Personal Income Tax and VAT.

Already in July the Government took a series of legislative measures with respect to salaries and pensions, with the new remuneration regime and the substitute for the extraordinary solidarity contribution, but which still require being validated by the Constitutional Court. Corrective measures which may still affect the 2014 budgetary execution shall only be applied after this decision is known.

The Republic's risk notation was upgraded by Moodys, to Ba1 (one level below investment grade), with a stable outlook. The remaining agencies maintained their ratings but revised the Outlook to stable.

Main risks and uncertainties in the second half of 2014

Risks and uncertainties that may affect business activity in the second half year are related to domestic and external factors.

Internationally, the risk factors are related with the weaker perspectives of economic growth, as shown in the review of the IMF forecasts. Growth in emerging markets continues below the average of latter years, and there are additional risks associated to the termination of the US Federal Reserve programme of acquisition of financial assets, which has already generated upheavals in the flow of funds between markets and financial assets.

In the euro zone, economic growth continues weak, and there are risks associated with the geopolitical instability in the Ukraine/Russia issue, which could also affect the Russian supplies of natural gas to Central and Eastern Europe. Such upheavals, in the past, promptly affected economic growth.

At national level there are two types of uncertainties. On the one hand, the sustainability of the recovery in economic activity. The improved development in the second quarter must still be perceived as stable, and economic recovery is dependent upon the improvement in the international economy and in the confidence of the economic stakeholders. At Summer's end, the preparation of the 2015 Government Budget, which assumes the reduction of the budgetary deficit from 4% to 2.5% of GDP, demands the adoption of additional measures which may also require assessment by the Constitutional Court.

The recent developments in the banking sector with the BES resolution and its split into a "bad bank" (BES, which holds the exposure to the Espírito Santo Group – GES – and to Angola, amongst others) and into a "New Bank" (which holds the remaining assets), may cause several risks to arise with impacts in the national as well as in the European financial systems.

In the latter case, because Portugal tested the new framework of banking resolution contained in the recently approved European Regulation, although this only comes into force in 2015. The new rules demand a bail-in process, before the possibility of the use of public funds. In the BES case, the bail-in affected the shareholders and the holders of subordinated bonds issued by the institution.

Domestically, because the share capital of the New Bank was ensured by the Resolution Fund, a body which is financed by the participating banks, although in this case transiently financed by a loan from the Portuguese Government. The risks associated to the sale of the New Bank are, ultimately, the responsibility of these institutions.

Still with regard to the financial sector, ECB will publish in October the results of the Asset Quality Review and the stress test it is carrying out jointly with the national supervisors and the European Banking Authority, before it assumes responsibility for the "Single Supervisory Mechanism". These tests will assess the capital adequacy of 130 European banks, including 4 national banking groups.

Consolidated Activity

Introduction

In a macroeconomic environment that continues extremely difficult, Banco Santander Totta keeps on demonstrating a strong capability of generating results, with no need to increase its share capital or to obtain any public aid, thus showing very comfortable solvency ratios as compared to the minimum levels required.

At the end of the first half of 2014, Banco Santander Totta achieved net income amounting to 81.3 million euros, a significant increase over the 24.2 million euros in the homologous period (+236.2%). This evolution reflected the increase in recurring revenue, in which stood out the 8.0% growth in net interest income, the improvement of operational efficiency and the reduction in appropriations for impairments, notwithstanding a prudent risk and provisioning policy.

The credit portfolio stood at 26.8 billion euros at the end of June 2014, a homologous 3.5% decrease, within the context of a heavy reduction in the whole of the banking system, although credit granted to companies remained relatively stable throughout the first six months of the year.

The credit at risk ratio decreased to 5.7%, as compared to the 5.9% recorded at the end of the past year, although showing a slight increase relative to the 5.4% shown in June 2013.

Customer's resources stood at 25.5 billion euros, a -5.3% variation as compared with that of the homologous period, although with a favourable development in investment and private and business deposits.

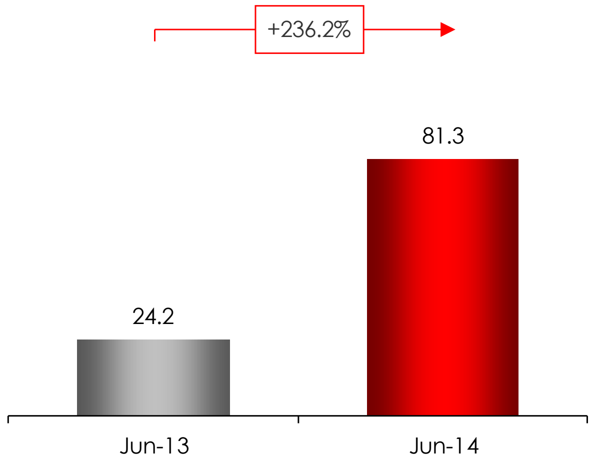
The transformation ratio, measured by the weight of net credit on deposits, stood at 126.7%, at the end of the first half of 2014.

The CET I *(Common Equity Tier I)* ratio, in line with the CRD IV/CRR rules for 2014, stood at 12.6%, greatly above the minimum 8% value. CET I ratio, *fully implemented*, stood at 10.5%.

During the first half of 2014, the Bank went back to the international markets through issues of mortgage bonds: one billion euros at 3 years with a 1.5% coupon at the end of the first quarter, and 750 million euros at 5 years, with a 1.625% coupon, at the beginning of June. In both issues demand largely exceeded the offer and spreads were 88 and 93 basis points, at 3 and 5 years respectively, these levels significantly below the Republic's cost of financing. With these issues the net financing obtained with the Eurosystem stood at 3.3 billion euros, a reduction of 2.3 billion euros compared to the homologous period and of 1.8 billion euros, relative to March 2014.

The rating of Banco Santander Totta is the best within the financial system. At the beginning of July, Fitch upgraded the Bank's short and long term ratings, with the outlook going from negative to positive. The current rating notations of the long term debt of Banco Santander Totta as compared with the ratings of the Republic are the following: Fitch – BBB (Portugal – BB+); Moody's – Ba1 (Portugal – Ba1); S&P – BB (Portugal – BB); and DBRS – BBBH (Portugal – BBBL)

NET INCOME
Million euros



PROFIT AND LOSS ACCOUNT (million euro)

	Jun-14	Jun-13	Var.
Net Interest Income (without Dividends)	**266.3**	**246.6**	**+8.0%**
Dividends	1.1	1.0	+10.3%
Net Interest Income	**267.4**	**247.7**	**+8.0%**
Fees and Other Income	122.3	165.7	-26.2%
Commercial Revenue	**389.7**	**413.4**	**-5.7%**
Gain/Losses on Financial Transactions	79.9	9.6	>+250,0%
Operating Income	**469.6**	**422.9**	**+11.0%**
Operating Costs	(244.0)	(236.4)	+3.2%
Net Operating Income	**225.6**	**186.5**	**+21.0%**
Impairment and Other Provisions	(113.9)	(147.5)	-22.7%
Results from Associated Companies	6.9	6.5	+7.1%
Income Before Taxes and MI	**118.6**	**45.5**	**+160.6%**
Taxes	(37.4)	(21.3)	+75.1%
Minority Interests	(0.0)	(0.0)	-4.0%
Net Income	**81.3**	**24.2**	**+236.2%**

Net interest income amounted to 266.3 million euros at the end of June 2014, an 8.0% homologous increase, which benefited from the decrease in finance costs, especially in the case of deposits.

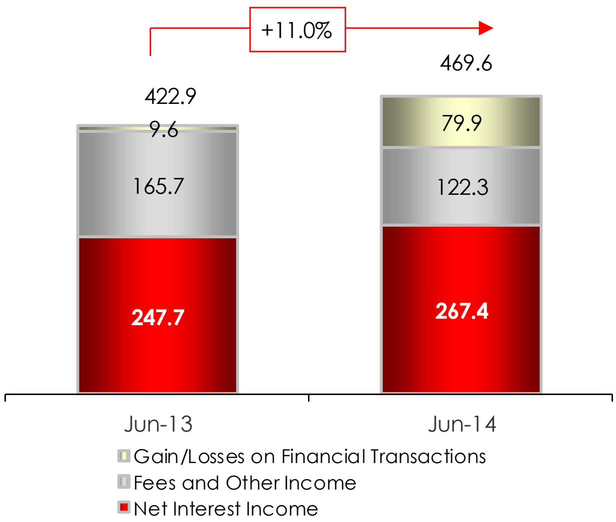
Net commissions and other results of the banking business amounted to 122.3 million euros, an homologous variation of -26.2%, as compared with the amount shown in June 2013, mainly due to the impact attributable to regulatory changes which limited administratively the capabilities to collect commissions, especially from the third quarter of 2013, as well as the conservative position adopted by the Bank with reference to the potential devaluation of the assets of Novimovest real estate investment fund, which was consolidated in the Bank's accounts in the second half of 2013. Commercial revenue stood at 389.7 million euros, a 5.7% homologous decrease.

The results of financial transactions stood at 79.9 million euros, an expressive increase in homologous terms, especially due to the recording of income obtained from the securities' portfolio, which was however cancelled by the setting up of voluntary provision. The development of revenue led resulted in operating income amounting to 469.6

million euros, 11.0% above the value shown at the end of the first half year of 2013.

OPERATING INCOME

Million euro



Operating expenses amounted to 244.0 million euros, recording a 3.2% increase compared to June 2013. This development is due to the impact of an extraordinary depreciation, amounting to 13.7 million euros, related to the change in the useful life of several software applications, from 5 to 3 years (a 29.7% increase in depreciation), which will result in a future reduction in depreciation costs. In turn, personnel expenses and general expenses recorded variations of -2.6% and +3.1%, respectively.

OPERATING COSTS AND EFFICIENCY (million euro)

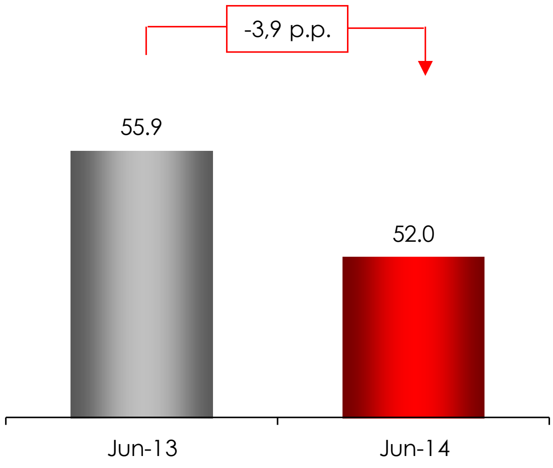
	Jun-14	Jun-13	Var.
Personnel Expenses	(135.4)	(139.1)	-2.6%
Other Administrative Expenses	(68.8)	(66.7)	+3.1%
Operating Costs	**(204.2)**	**(205.8)**	**-0.8%**
Depreciation	(39.7)	(30.6)	+29.7%
Total Operating Costs	**(244.0)**	**(236.4)**	**+3.2%**
Efficiency Ratio (excludes depreciation)	**43.5%**	**48.7%**	**-5.2 p.p.**
Efficiency Ratio (includes depreciation)	**52.0%**	**55.9%**	**-3.9 p.p.**

At the end of the first half of 2014, the efficiency ratio, which shows operating expenses as a proportion of operating income, stood at 52.0%, thus leading to a 3.9 p.p. improvement relative to June 2013, shown by variations of +11.0% in revenues and +3.2% in operating expenses.

Net operating income amounted to 225.6 million euros, above the 186.5 million euros recorded in the 2013 homologous period (+21.0%).

EFFICIENCY RATIO

%



Standing out in terms of productivity indicators is the favourable variation of credit per branch, an important feature in an environment of large reductions in credit granted and in branches viewed in the banking sector.

PRODUCTIVITY

	Jun-14	Jun-13	Var.
Loans[(1)] per Employee	5.1	5.2	-1.4%
Resources per Employee	4.7	4.8	-3.1%
Loans[(1)] per Branch[(2)]	44.6	44.5	+0.2%
Resources per Branch[(2)]	40.7	41.4	-1.5%

(1) Includes guarantees

(2) Includes branches, corporate centers and representative offices

Appropriations for impairment and net provisions amounted to 113.9 million euros, compared with 147.5 million euros recorded in the homologous period, a -22.7% variation. This evolution resulted from the slowing down of new inputs in non-performing loans, deriving from the implementation of a conservative credit granting policy and from an efficient methodology for the control and follow-up of overdue credit.

The results of associate companies recognized by the equity method, amounting to 6.9 million euros, grew by 7.1% compared to the value achieved in June 2013, incorporating the result of the shareholding in Banco Caixa Geral Totta de Angola, in Unicre-Instituição Financeira de Crédito, and in Partang, amongst other lesser participations.

At the end of June 2014, income before taxes and minority interests amounting to 118.6 million, showed an increase of 160.6%, relative to June 2013.

Banco Santander Totta recorded net income amounting to 81.3 million euros, at the end of the first half of 2014, as compared with 24.2 million euros recorded at end-June 2013, a homologous variation of +236.2%.

Accounts and Business Activity

At the end of June 2014, the volume of business amounted to 53.4 billion euros, a 4.4% decrease as compared to the value recorded in the first half of 2013.

Credit (including guarantees and sureties) decreased by 3.6%, arriving at 27.9 billion euros, although with a relatively stable company credit portfolio throughout 2014. Customer's resources stood at 25.5 billion euros, decreasing by 5.3%, and balance sheet resources reduced by 5.6% and those off balance sheet by 4.0%.

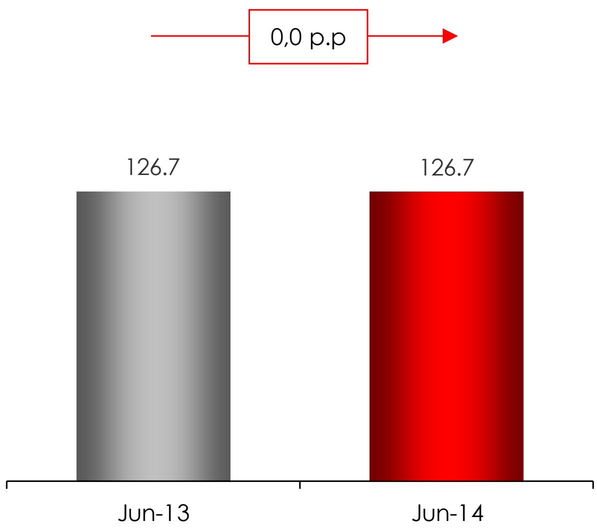
Business Volume (million euros)

	Jun-14	Jun-13	Var.
Business Volume	**53,412**	**55,889**	**-4.4%**
Total Gross Loans (includes guarantees)	27,905	28,953	-3.6%
Customers' Resources	25,507	26,936	-5.3%

The credit/deposits ratio stood at 126.7% in June 2014 (ratio measured in accordance with the definition set in the Memorandum of Understanding), and remaining stable with that shown in June 2013.

LOANS/DEPOSITS

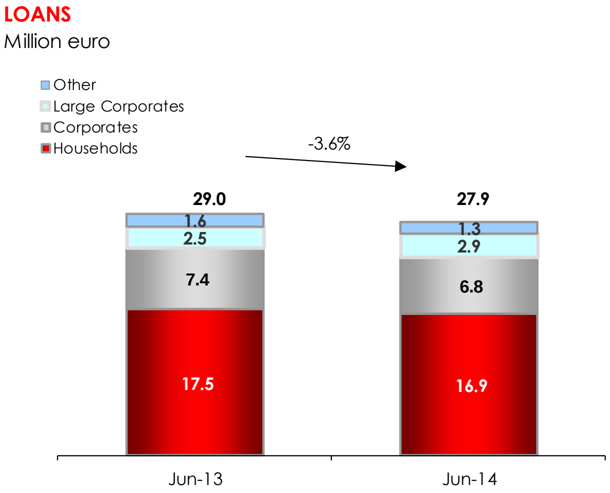
%



LOANS (million euros)			
	Jun-14	Jun-13	Var.
Total Gross Loans (includes guarantees)	**27,905**	**28,953**	**-3.6%**
Gross Loans	**26,824**	**27,788**	**-3.5%**
of which			
Loans to Individuals	16,897	17,481	-3.3%
of which			
Mortgage	15,004	15,536	-3.4%
Consumer	1,416	1,404	+0.8%
Loans to Corporates	9,676	9,887	-2.1%

The credit portfolio (including guarantees and sureties) amounted to 27.9 billion euros at the end of June 2014, a 3.6% decrease as compared to the homologous period, within an environment of heavy shrinkage in credit granted by the banking sector. Credit granted to companies amounted to 9.7 billion euros, keeping stable throughout 2014.

Credit granted to private customers amounted to 16.9 billion euros, a homologous 3.3% total decrease, which comprises a -3.4% variation in consumer loans and a +0.8% variation in consumer credit.



At the end of June 2014, the credit at risk ratio stood at 5.7%, higher than the 5.4% shown in the homologous period (+0.3 p.p.), but lower when compared to the 5.9% at which it stood at the end of the previous year (-0.2 p.p.), and is significantly lower than the average of the banking system, with a 74.5% provision coverage. Restructured credit represented 9.3% of total credit (homologous variation of +1.5 p.p.).

CREDIT RISK RATIOS			
	Jun-14	Jun-13	Var.
Non Performing Loans Ratio	4.2%	3.7%	+0.5 p.p.
Non Performing Loans Ratio (+90 days)	4.0%	3.6%	+0.4 p.p.
Non Performing Loans and Doubtful Loans Ratio	4.1%	3.6%	+0.5 p.p.
Credit at Risk Ratio	5.7%	5.4%	+0.3 p.p.
Restructured Loans/Total Loans	9.3%	7.8%	+1.5 p.p.
Restructured Loans not included in Credito at Risk/Total Loans	6.7%	-	-
Non Performing Loans Coverage Ratio	101.4%	100.4%	+1.0 p.p.
Non Performing Loans Coverage Ratio (+90 days)	105.2%	105.0%	+0.2 p.p.
NPL and Doubtful Loans Coverage Ratio	103.7%	103.4%	+0.3 p.p.
Credit at Risk Coverage Ratio	74.5%	69.9%	+4.6 p.p.

Total customers' resources at the end of June 2014 amounted to 25.5 billion euros, a 5.3% decrease relative to the value achieved in June 2013.

RESOURCES

	Jun-14	Jun-13	Var.
Customers' Resources	**25,507**	**26,936**	**-5.3%**
On-Balance Sheet Resources	20,362	21,576	-5.6%
Deposits	20,138	21,264	-5.3%
Securities issued	224	312	-28.2%
Off-Balance Sheet Resources	5,145	5,360	-4.0%
Investment Funds	1,348	1,278	+5.5%
Insurance and Other Resources	3,797	4,082	-7.0%

Balance sheet resources amounted to 20.4 billion euros, representing 79.8% of total resources captured from customers and decreasing by 5.6% in homologous terms, with deposits increasing by 0.5% in the private and business segment.

Off balance sheet resources amounted to 5.1 billion euros, a 4.0% decrease relative to June 2013.

Investment funds continued showing a recovery, growing by 5.5%, whilst capitalization insurance and other resources decreased by 7.0%, as compared to the value shown in the homologous period.

Solvency Ratios

At the end of June 2014, the Bank is showing solid capital ratios, with ratio CET I, in line with the CRD IV/CRR rules, for 2014, standing at 12.6%, greatly in excess of the 8% minimum requirement. CET I ratio, *fully implemented*, stood at 10.5%.

CAPITAL

	Jun-14	Jun-13 *(1)*	Var.
Common Equity Tier I	**2,103**	**1,941**	**+8.3%**
Tier I	2,468	2,262	+9.1%
Total Capital	2,468	2,255	+9.5%
Risk Weighed Assets (RWA)	**16,685**	**17,841**	**-6.5%**
CET I ratio	**12.6%**	**10.9%**	**+1.7 p.p.**
Tier I ratio	**14.8%**	**12.7%**	**+2.1 p.p.**
Total Capital Ratio	**14.8%**	**12.6%**	**+2.2 p.p.**

Private and Business

During the first half of 2014, the Bank was largely focused on resources, implementing a policy of capture and retention of value added products and also in the diversification of customer portfolios, namely in financial investments and investment funds. Also outstanding was the focus kept on new domiciling of salaries, on the underwriting of protection insurance (autonomous insurance) and on credit cards.

In the field of support to families and their projects, through the granting of personal credit, and of credit granted to micro and small and medium sized companies, productions achieved amounted to 235.7 million euros in personal credit and 725.5 million euros in credit to the Business and SME segments.

Due to the good results obtained in prior years, the campaign for the capture of salaries/pensions, based on the exemption of commissions on the main day-to-day services and in gift offerings, was maintained.

Also in the support for families through savings, the Bank continued to privilege these through the offer of programmed savings products, structured deposits and financial insurance.

Private Banking and Select

In the Private Banking area, the soundness of Banco Santander Totta, the consultancy model and the external recognition by the prestigious Euromaney magazine, which, for the third consecutive time, recognized the Santander Totta Private Banking as the "Best Private Banking in Portugal", contributed decisively towards the significant growth in the segment's business volume, through the capturing of new customers and the improvement in business profitability.

The Select label (new corporate denomination for the Premium segment) was launched in February, with specific products made available for this segment, amongst which stand out: personal credit allowing a discount in the interest rate in the case of salaries domiciled with the Bank; access to very competitive interest rates; "Crédito Liquidez Plus" ("Liquidity Credit Plus") for customers with financial applications, funds and several traditional savings products, such as "Select Programmed Plans" deposits, or the "New Select" deposit. On the launching date, the Select segment comprised 9% of the private customers of the Bank in Portugal.

Companies

In the Companies area, the first half of the year confirms the Bank's commitment to the support of entrepreneurial activity, investing in critical sectors of the Portuguese Economy, such as the exports sector, both in international business and in the support for internationalization, and in sectors of transactional goods that may benefit from the improvement in the rating of the Republic and in the prospect of the gradual recovery of investments by the economic stakeholders.

With the encouraging signals in the recovery of the Portuguese economy, Banco Santander Totta strengthened the Companies Commercial Network, opening, in the beginning of 2014, three new Company Commercial Departments (Paredes, São João da Madeira and Torres Vedras), investing in greater customer proximity.

The first half of the year was characterized by a greater pressure on price levels, reflecting the enlarged availability in the offer of banking services in the Companies segment. In this environment, the Companies Network kept to its line of action, investing in the growth of the credit portfolio, safeguarding the balanced management of volumes in the credit portfolio and in resources. In this particular issue, and throughout the first half year, the Companies Network achieved a credit production in excess of 2.4 billion euros.

Within the scope of the protocol subscribed with the European Investment Bank (EIB), the Bank made available a line of credit that allows access to credit in preferential conditions. This line is intended to support projects located in any State of the European Union, in several sectors of the economy (agriculture, industry, services), and preferably covering the SME and MIDCAPS market segments. At the end of June approximately 71% of the total contracted amount of the EIB line was already fulfilled.

In the SME Invest/Growth lines, Banco Santander Totta has an important standing with a 17% market share, and placed approximately twenty thousand operations until June, amounting to more than 1.9 billion euros. In the 2014 SME Growth line, which commenced being marketed in March, the Bank has equally positioned itself above its market share, obtaining a 15% franchise in the amount of financed operations presented in the Mutual Guarantee Societies. Santander Totta is the leader in the SME Extension line, with a 41% rate of adhesion.

In factoring and confirming, the Bank is also the market leader with an aggregate share of 25.2% (April 2014 data), which demonstrates the Bank's commitment in the effective support to company activity.

In the international business segment, the site *SantanderTrade.com* was launched at the end of 2013, a tool that provides access to external markets by customers searching for new business opportunities. With this site the Bank's ambition is to become the main partner of companies in the development of their international business. In short, the site offers an adequate and relevant volume of information in all sectors of trade, in more than 186 countries, this tool comprising more than 40 data bases, including governmental data.

Additionally, and aiming towards supporting the internationalization of Portuguese companies, the Bank has made available the International Desk unit, the objective of which is to aid, facilitate and establish trade contacts through the effective interconnection of the Company Network with its counterparts in the several international banks included in the Santander Group, enabling the use of its international dimension (mainly featuring Brazil, Mexico, Chile, Peru, Uruguay, Colombia, Angola and Spain) to increase the effectiveness of the international business of Portuguese companies.

Promoters and Brokers

With respect to External Promoters, the established strategy was materialized by the launching of several initiatives with the objective to reward and recognize the best performances in various business features, such as capturing customers, resources, personal credit and credit for the Business segment, thus setting up the best conditions for these partners to remain focused and identified with the Bank's main priorities.

In the Promoter Shop project, considering the Country's macroeconomic environment and the Bank's strategy relative to branch cover, it was decided to strengthen this network still further with new openings throughout the year.

As to Real Estate Brokers, the first half of 2014 was featured by the resurgence of growth dynamics in mortgage loans, very visible in the launching of "Home Solutions". A full analysis was carried out in the brokers' portfolio with active protocols, and meetings were held with the main real estate networks in order to once again steamline this type of partners.

Complementary Channels

The Self Banking activity was based upon a strategy to optimize the current ATM Network, namely the uninstalling of equipment with negative profitability. As a consequence market shares stood at 12% in number of ATM´s and at 13% relative to the number of transactions.

Regarding customer proximity, adjustment and increment of solutions for deposit automation was continued, with 560 items of equipment installed covering approximately 80% of the branch network.

Outstanding in the Internet channels is the availability of a new public page in NetBanco Private and in NetBanco Companies, with improved browsing and based on the most recent technology. Visual components were strengthened to simplify the pages and improve their usage. Standing out in NetBanco Companies is also the launching of the *Santander Trade* Site and the manual setting up of SEPA lot transfers, and, in NetBanco Private/Companies the adaptation of adjustments in SEPA related operational actions. In NetBanco Private the site was adapted to the Select label and to the availability of funds for this segment.

Improvements were recorded in the availability and performance of the websites as well as a growth in traffic, with the number of individual visitors increasing by 3%. The number of frequent users of Netbanco Private recorded a 3% growth in the first 5 months of 2014 and the rate of penetration increased by 6% in the same period. Equally recorded was an increase in the number of customers carrying out transactions.

In the first half of 2014, the Santander Totta Contact Centre was considered for the 6th consecutive year, the "Best Portuguese Contact Centre in the Financial Sector", a prize attributed by the Portuguese Association of Contact Centres.

A multichannel view was implemented, in order to ensure the experience of a customer of reference, and to increase effectiveness and profitability.

The Contact Centre has strengthened investment in the increase of its autonomy and in the swift resolution of all situations presented by the customers. All customers' requests even if without the scope of the Contact Centre, are followed up by the competent areas.

An increase in the use of *chat* as a means of contact by the customers is being confirmed, as compared to the homologous period.

Throughout 2014 the launching of new initiatives was featured in the *Facebook* pages. The number of fans of the Bank's official page has already exceeded 60,000.

International Business Activity

The international business activity of Banco Santander Totta, for customers residing abroad, recorded a positive evolution, in line with activity indicators that show greater customer binding and loyalty.

In close connection with the commercial network in Portugal, solutions directed towards the segment of customers residing abroad were made available, offering savings products in the more significant currencies, with a continued good growth rate of new customers.

Business volume recorded stability and, in spite of the aggressive offer of passive interest rates by some of the main competitors, it was possible to maintain and stabilize the resource portfolio, especially in the latter part of the half year.

In the area of community relationships, several events were carried out, namely in Paris, with participation in the Real Estate Exhibition, and in London, taking part in the 10th Annual Conference of the Luso-British Chamber of Commerce.

A Summer campaign was once again launched that intends, in a structured form, to welcome the Portuguese who reside abroad. The promotion of Bank services and support will enjoy greater visibility in national airports and means of communication, providing an enlarged range of savings products.

In parallel, and in order to support Portuguese who leave the Country to reside and work abroad, a supplement was developed, with the collaboration of the newspaper "Mundo Português" ("Portuguese World"), which illustrates the reality and main features of the main emigration destinations and where the Bank is represented.

Within the scope of the promotion and offer of services for the community abroad, and taking advantage of the world soccer championship, a competition was launched that aimed to streamline transfers to Portugal and which obtained a large adhesion, with a 23% increase in transfers to the Bank, as compared to the homologous period.

The London Branch has been showing stability in the volume of deposits and control of the credit portfolio, strongly supporting the branches in Portugal.

Global Banking & Markets

Corporate Finance, in the first half of the year, stood out as joint leader in several successfully concluded operations, with special reference to the participations in the placing syndicate of the Initial Public Offer of ESS – Espírito Santo Saúde and in the placing syndicate of the public sales offer of REN shares, within the scope of the 2nd stage in the company's privatization.

In the Credit Markets area the strengthening of the business was maintained, with companies taking advantage of the decreasing trend in credit spreads to take decisions on the extension of their indebtedness. Additionally, a positive evolution came about in the area of Project Finance with companies exploiting opportunities for the financing of new projects.

Bond and securitization markets experienced firm dynamics with both national and international investors regarding Portugal with great interest and searching for good investment opportunities. An improvement in market conditions occurred, allowing unrated medium sized companies to access the bond market, some for the first time.

The Structured Products area showed good performance at the beginning of 2014, with the marketing of passive products. Twelve structured products were issued in the first half of the year, of which 10 were issued in euros amounting to a total of 375 million euros and 2 issued in US Dollars, amounting to a total of 30.1 million US Dollars. The issues placed in this period are indexed to different assets transacted in several worldwide shareholder markets.

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

In the first half year, the Cash Equities activity was featured by a clearly better provision than in the homologous period of the previous year, which resulted not just in increased volumes but also with commissions generated in the shareholder market. The debt market continues attracting lower interest with investors. The still latent geopolitical crises in Europe continued conditioning the market sensitivity, with an increase in volatility which became more evident from May onwards.

Santander Totta International Custody recorded a 10% increase in volume of assets under custody in the last quarter and 15.6%, in the year, according to data made available by CMVM (Securities Market Regulator), which is construed as a 21.3% market share in the custody activity.

Outlook for the 2nd half of 2014

The Portuguese economy has been showing signs of moderate recovery but relevant macroeconomic risk factors still subsist which equally concern the financial system.

In the last few years which have been featured by a particularly adverse environment, Banco Santander Totta demonstrated its revenue generating capability, maintaining the soundness of its accounts and a comfortable liquidity situation.

The introduction of new rules in the banking sector, specifically with reference to capital requisites, liquidity and leveraging ratios, and also the new rulings relative to resolution mechanisms, have, and will continue having, a structural impact in the profitability of the financial institutions.

In this difficult and highly demanding context, the Bank will continue focusing its strategy in the support to revitalize the Portuguese economy and companies, maintaining a policy of strict control of the risks associated with the granting and follow up of credit.

Simultaneously, the Bank will pursue its commercial banking strategy based upon greater customer proximity, and present adequate solutions for each business segment with the objective of incrementing the levels of customer binding and to endeavour their considering Santander Totta as their prime bank. This strategy will be based on simplifying procedures, ensuring their greater efficiency; in the use of tools that allow improving information management; and streamlining risk management, with models better adjusted to each customer segment, keeping to a prudent and strict control of the accepted risks.

In spite of the branch network continuing as a fundamental channel in ensuring customer relations, the Bank will keep on streamlining the multichannel distribution model in order to provide customers with an improved and more accessible service.

Credit Risk

Main vectors of activity

In the first half of 2014 the activity of the Credit Risk area continued based on maintaining the principle of segmentation in the treatment of risks, diversifying their approach in line with the features of customers and products.

The strictness in the acceptance criteria and consequently the quality of the accepted risks in each of the segments, aiming to preserve the high degree of quality of the credit portfolio, continues to be the strategic vector of the operation.

Regarding portfolio risks, customer proximity was intensified in order to anticipate their credit requirements, to revise their lines of credit and possible problems in their reimbursement capabilities. This action was materialized in the maintenance of ratios of non-performing loans and of credit at risk significantly lower than the average for the sector. On another hand support levels were intensified in the capturing of new operations and new low risk customers, and improvements were implemented in the procedures in order to answer customers' requests with greater effectiveness and swiftness.

Concerning the function of following up portfolios and customers, focus was maintained in the supervision of segments with lower ratings and in sectors which are more affected by the macroeconomic environment. The permanent review of all portfolios allows concluding that these are analysed with adequate criteria and that the level of estimated impairments is equally adequate.

During the half year a very similar follow up was pursued over measures implemented in 2013 in the acceptance procedures of new credits aiming to improve the quality of the service rendered to customers whenever these present new business 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, 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.

In this sense acceptance strategies have been established, integrated in the Bank's decision systems, and behavioural systems used for the identification of preventive and renewal measures to offer customers.

Still concerning standardized risks, the Bank continued being selective in credit acceptances in terms of risk and profitability, making use of the automatic decision systems in force, specifically scorings and behavioural systems used in the Private and Business segments.

With the objective to strengthen commercial involvement and customer cross selling and simultaneously increase the effectiveness of capturing new customers, the "Spring Credit" campaign was kept in operation in the Business sector, in its features of activation, capturing and placing of secured current accounts in order to increase the growth potential of this portfolio.

The recoveries activity was strengthened and streamlined, namely through computerized developments that aim controlling the procedure from the entry into recovery, to relations with attorneys and executive action. Outstanding is the activity of massive management of recoveries, simultaneously following up special and judicial or pre-judicial cases, and a reinforced negotiation policy aiming towards payment endowments as an alternative to court actions.

With respect to solvency and credit control, focus was permanently kept on the knowledge and follow up of credit portfolios, aiming towards a strict control of the attached risk, endeavouring to provide adequate and timely management information, in order to allow measures being taken towards an orderly management of the Bank's risks.

Equally surveyed were the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purposes of establishing equity requirements, as well as their ever greater inclusion in management procedures.

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 accepted 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, alternatively complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Parameters of credit risk

The valuing of the 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 valuing of the customer, the quantitative risk analysis takes into account other features such as the term of the operation, the type of product and the existing guarantees. As such, not only the probability of default is taken into account but also the exposure at default (EAD) as well as the proportion of loss given default (LGD).

All these factors (PD, LGD and EAD) that constitute the main parameters of credit risk, allow with their grouping the establishing of the expected and non-expected loss. The expected loss (or probable loss) is considered as a further activity cost (thus reflecting the risk premium), with this cost being included in the price of the operations.

The computation of the unexpected loss, which is the basis of the measurement of the regulatory capital in line with the standards of the Basle capital agreement, is referred to an extremely high loss level, however not very probable, which, accounting to its nature, is not considered as recurrent and must thus be covered by equity funds.

In small and medium sized companies, information obtained from their accounts is used not only to attribute a rating, but also to obtain explanatory factors relative to the probability of default. In retail portfolios, PD is computed by viewing the entries in non-performing loans and correlating these with the scoring attributed to the operations. Excepted from this principle are portfolios which, derived from lesser internal default experience, such as financial institutions or Global Retail Banking, computing is carried out based upon alternative sources of information, such as market prices or assessments by experienced and recognizably competent agencies with a portfolio containing a sufficient number of entities (such portfolios are known as low default portfolios).

LGD estimates are based on the observation of the recovery procedures 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.

Measurement of EAD is based upon the use of committed lines at the time of default and in a normal situation, in order to identify the real consumption of the lines at the moment of default.

Estimated parameters are immediately attached to operations which are in normal situations, and are differentiated between the low default portfolios and the remainder.

Credit risk cycle

The risk management procedure consist in identifying, measuring, analysing, controlling, negotiating and deciding, in line with the risks accepted by the Bank.

This process is commenced in the business areas. Risks are analysed and decided upon in specific committees, which act through competences delegated by the Executive Committee on the Higher Credit Committee (CSC). CSC establishes the risk policies and procedures and the limits of the mandates.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic procedure which identifies the risk profile that the Bank is liable to accept, through the assessment of business proposals and the opinion of the Risks area.

A pre-classification model is used in the case of large corporate groups, based upon a measurement and follow up system of economic capital.

In risks included in a portfolio, the most basic level is that of the customer and when certain circumstances occur – generally a level of relative importance – the latter is the object of an individual limit, normally known as a pre-classification, through a more simplified system, and normally for those customers that comply with specific requisites (adequate knowledge, rating, etc.).

With reference to standardized risks, the procedure of planning and establishing limits is carried out through the joint preparation, by the Risks and Business areas, of programmes of credit management (PCM) where the expected results of the business in terms of risk and profitability are reflected, as well as the limits to which must be submitted the related activity and risk management.

Risk assessment, decision on operations, follow up and control

Risk assessment is a prior requisite to the authorization of any credit operation in Banco Santander Totta. This assessment consists of the analysis of the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its credit operations, its solvency and profitability. Additionally, an assessment and review is also carried out on the attributed rating, whenever an alert or event arises that may affect the customer/operation.

The decision procedure on operations has the objective to analyse and take the respective decision, considering the risk profile and the operation's relevant components, in order to establish a balance between its risk and profitability.

In order to maintain adequate control of the portfolio's credit quality, in addition to the actions developed by Internal Audit, a specific following up function has been established within the Risks area, staffed by its own teams and responsible officers. This function is also specialized in customer segmentation and is fundamentally based on a continuous observation procedure which allows the anticipated detection of incidences that may occur in the evolution of the risk, on the operation and on the customer, aiming to undertake, in anticipation, the necessary mitigating actions.

Recoveries

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

- Ensure the collection or the settlement of amounts in irregular situations, with preference for negotiated solutions, in order to regularize the customer's credit portfolio. Should the negotiated solution not prove possible, the Recoveries area will endeavour to recover the credits through the courts of law;
- Maintain and strengthen customer relations, cautioning its behaviour in line with the commitments that were contractually agreed with the Bank.

Recoveries activity is structured in line with the customers' commercial segmentation: Private, Business and Companies, with specific management models. The recoveries' management, thus segmented, also respects the distinct management stages: preventive management, management of irregulars and management of tardy payers and bankruptcies, which have specific models, strategies and circuits. All this activity is shared with the business areas.

Counterparty Risk

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

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

Control of such risks is carried out through an integrated system that allows recording the approved limits and provides information on their availability for different products and maturities. The same system also allows the transversal control of risk concentration for certain groups of customers and/or counterparties

Risks in derivative positions, known as Credit Risk Equivalent (CRE), 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.

During the first half of 2014, the present value of transactions on the indexing factors of interest rates (Euribor) generally recorded an increase, reflecting the movements of the medium and long terms market rates. With respect to the exposure to financial groups, a reduction was verified in the transactions carried out to cover the structural risk of interest rates with relatively low exposures being kept in line with the 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, Risk, 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, 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 factors linked to the balance sheet market risk, namely the risks originating directly from the movement of the income curve, given the structure of the indexing factors and existing re-appreciation.

Considering the uncertainty in the variation of interest rate levels for 2014, the policy followed was to keep sensitivity at the levels considered as adequate.

Exchange Rate Risk

The exchange rate risk of commercial activity is measured and controlled by the global exchange position, 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.

Liquidity management is carried out at the consolidated level. 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 June 2014 the Bank showed an asset situation in

the short term monetary market of approximately 599 million euros.

Throughout the first half of 2014, the Bank materialized two issues of mortgage bonds amounting to one billion euros (at 3 years) and 750 million euros (at 5 years). These issues recorded a heavy demand from a diversified number of investors, with spreads of 88bps and 93bps, respectively.

The ECB continued assuming itself as the counterparty to 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 June 2014, the Bank held 11.7 billion euros in eligible assets that constitute a very comfortable liquidity reserve. In turn, the net resources obtained with the Eurosystem attained 3.3 billion, an annual reduction of 2.3 billion euros and a quarterly reduction of 1.8 billion euros.

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.

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

- Negotiation: This heading includes the financial services provided 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, this heading includes the active management of the credit risk inherent to Santander Totta's accounts.
- Structural Risks:
  - Structural Exchange rate risk: Exchange rate risks resulting from the currencies in which investments are placed in consolidated or non-consolidated companies;
  - Structural variable income: comprised in this heading are investments in shareholdings in companies that do not consolidate, financial or non-financial, generating a risk of variable income.

Methodologies

Negotiation 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 differing financial variables and obtaining the respective impact on results when applying these to the portfolios. These scenarios may replicate the behaviour of financial variables relative to 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, insofar as it allows identifying the impact of the movements in the financial variables or the changes in the make-up of the portfolios.

Calibration and contrast measures (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, backtesting 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 the first half of 2014, quantified through VaR was that described in the following chart:

VaR was kept at reduced levels, varying between 9,000 and 42,000 euros.

Operational Risk

Definition and objectives

Santander Totta defines Operational Risk as "the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances". This is generally a risk differing from other types of risks, that is not related to products or business, but which 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 approach is thus to identify and eliminate risk centres, independently from losses having occurred or not. Its 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 in 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. These 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:

- Identifying 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 being framed in the business and support lines;
- Information on operational risk contributes towards improving processes and controls, reduce losses and revenue volatility.

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

Governance Practices and Internal Control Model

The structure of the Company's Governance as well as policies, procedures and offices of internal control have not sustained any changes relative to the information detailed in the 2013 Annual Report.

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 decisions of the Annual General Meeting, held on 15 May 2014, Banco Santander Totta, S.A., directly or through a subsidiary company, may acquire own shares as well as dispose of those acquired up to the limits and in the remaining conditions foreseen in the applicable legislation.

On 31 December 2013, the Bank held 249,427 own shares corresponding to 0.038% of its share capital. In the first half of 2014 the Bank did not acquire any own shares. However, the acquisition of shares held by shareholders without the Santander Group who may wish to sell them is foreseen.

Movements in Shares and Bonds held by Corporate Officers

In the terms and for the purposes of the provisions of Article No. 447 of the Companies' Act and of CMVM Ruling No. 5/2008, the movements in shares and bonds held by Corporate Officers in the first half of 2014 was the following:

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

Declaration referred under item c) of §1 of article no. 246 of the Securities' Act

Item c) of §1 of article no 246 of the Securities' Act establishes that each of the company's corporate officers issues a declaration with the text therein defined.
The members of the Board of Directors of Banco Santander Totta, S.A, herein nominally identified individually subscribed the declaration transcribed below:
"I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 246 of the Securities' Act that, as far as I know, the condensed notes to the accounts relative to the first half year of 2014, were prepared in line with applicable accounting standards, giving a true and appropriate image of the assets and liabilities and of the financial situation and results of Banco Santander Totta, S.A. and of the companies included in the consolidation perimeter, and that the interim report faithfully discloses the information required in the terms of §2 of article no. 246 of the Securities' Act."

The Board of Directors

António Basagoiti Garcia-Tuñon
Chairman

António José Sacadura Vieira Monteiro
Deputy Chairman

Carlos Manuel Amaral de Pinho
Member

João Batista Leite
Member

José Carlos Brito Sítima
Member

José Urgel Moura Leite Maia
Member

José Manuel Alves Elias da Costa
Member

Luís Filipe Ferreira Bento dos Santos
Member

Manuel António Amaral Franco Preto
Member

Pedro Aires Coruche Castro e Almeida
Member

The accounts of the first half year of 2014 were not the object of a limited review or of an opinion by the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2014 AND 31 DECEMBER 2013

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated balance sheets originally issued in Portuguese - Note 51)

		30-06-2014			31-12-2013
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	1.063.298	-	1.063.298	337.841
Balances due from other banks	6	247.263	-	247.263	552.921
Financial assets held for trading	7	2.216.725	-	2.216.725	1.949.115
Available-for-sale financial assets	8	6.838.512	61.679	6.776.833	4.382.253
Loans and advances to credit institutions	9	1.453.887	-	1.453.887	3.270.970
Loans and advances to customers	10	26.823.552	1.135.165	25.688.387	26.107.521
Hedging derivatives	11	193.377	-	193.377	199.427
Non-current assets held for sale	12	312.104	113.387	198.717	206.943
Investment property	13	438.800	-	438.800	467.949
Other tangible assets	14	821.290	513.522	307.768	318.662
Intangible assets	14	374.007	340.222	33.785	52.468
Investments in associated companies	15	155.288	1.060	154.228	147.730
Current tax assets	16	19.868	-	19.868	17.458
Deferred tax assets	16	482.090	-	482.090	540.675
Other assets	17	647.891	25.202	622.689	258.595
Total assets, net		42.087.952	2.190.237	39.897.715	38.810.528

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30-06-2014	31-12-2013
Liabilities			
Resources of central banks	18	4.243.056	6.241.410
Financial liabilities held for trading	7	1.881.329	1.619.768
Resources of other credit institutions	19	5.548.778	4.175.058
Resources of customers and other debts	20	20.137.756	20.707.001
Debt securities	21	4.083.917	2.534.161
Hedging derivatives	11	241.543	370.684
Provisions	22	86.158	62.039
Current tax liabilities	16	9.192	14.313
Deferred tax liabilities	16	94.879	58.524
Subordinated liabilities	23	4.307	4.307
Equity representative instruments	24	214.605	-
Other liabilities	25	613.439	292.900
Total liabilities		37.158.959	36.080.165
Shareholders' equity			
Share capital	26	656.723	656.723
Share premium account	26	193.390	193.390
Other equity instruments	26	135.000	135.000
Revaluation reserves	26	(381.522)	(573.189)
Other reserves and retained earnings	26	1.534.342	1.477.217
(Treasury shares)		(43.312)	(43.312)
Consolidated net income attributable to the shareholders' of BST	27	81.285	89.164
Shareholders' equity attributable to the shareholders' of BST		2.175.906	1.934.993
Minority interests	28	562.850	795.370
Total shareholders' equity		2.738.756	2.730.363
Total liabilities and shareholders' equity		39.897.715	38.810.528

The accompanying notes form an integral part of these consolidated balance sheets.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated income statements originally issued in Portuguese - Note 51)

	Notes	30-06-2014	30-06-2013
Interest and similar income	30	621.308	644.200
Interest and similar charges	31	(355.034)	(397.567)
Net interest income		266.274	246.633
Income from equity instruments	32	1.138	1.032
Income from services and commission	33	165.078	200.885
Charges with services and commission	34	(28.456)	(27.438)
Result of assets and liabilities at fair value through profit or loss	35	(111.731)	7.509
Result of available-for-sale financial assets	36	185.244	(827)
Result of foreign exchange revaluation	37	2.229	1.729
Result from the sale of other assets	38	4.148	1.146
Other operating results	39	(14.327)	(7.735)
Net income from banking activities		469.597	422.934
Staff costs	40	(135.427)	(139.093)
General administrative costs	41	(68.812)	(66.725)
Depreciation	14	(39.730)	(30.624)
Provisions, net of reversals	22	(28.030)	4.224
Loan impairment net of reversals and recoveries	22	(72.244)	(124.123)
Impairment of other financial assets net of reversals and recoveries	22	34	(4.988)
Impairment of other assets net of reversals and recoveries	22	(13.684)	(22.569)
Result from associates	42	6.943	6.484
Income before taxes and minority interests		118.647	45.520
Taxes			
Current	16	(19.750)	(11.564)
Deferred	16	(17.610)	(9.773)
Income after taxes and before minority interests		81.287	24.183
Minority interests	28	(2)	(2)
Consolidated net income attributable to the shareholders of BST	27	81.285	24.181
Average number of ordinary shares outstanding		641.880.542	642.021.170
Earnings per share (in Euros)		0,13	0,04

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

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of income and other comprehensive income originally issued in Portuguese - Note 51)

	30 June 2014		30 June 2013	
	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 period	81.285	2	24.181	2
Items that will not be reclassified subsequently to the income statement				
. Actuarial and financial deviations				
. Fair value	5.688	-	(18.230)	-
. Tax effect	(1.308)	-	5.286	-
Items that can be reclassified subsequently to the income statement				
. Exchange differences relating to foreign subsidiaries	1.603	2.540	1.344	2.378
. Revaluation reserves of associated companies valued at equity method				
. Fair value	-	-	588	-
. Tax effect	-	-	(170)	-
. Changes in fair value of financial assets available for sale				
. Fair value	270.642	-	129.474	-
. Tax effect	(79.845)	-	(37.548)	-
. Changes in fair value of cash flows hedging derivatives				
. Fair value	(7.386)	-	(38.287)	-
. Tax effect	2.178	-	11.105	-
Consolidated comprehensive income for the period	272.857	2.542	77.743	2.380

The accompanying notes form an integral part of these consolidated statements of income and other comprehensive income .

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated statements of changes in shareholders' equity originally issued in Portuguese - Note 51)

				Revaluation reserves										
	Share capital	Share premium account	Other equity instruments	Legal revaluation	Fair value	Foreign exchange fluctuation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Treasury shares	Net income for the period	Minority interests	Shareholder's equity
Balances as at 31 December 2012	**656.723**	**193.390**	**135.000**	**23.245**	**(1.001.064)**	**(5.857)**	**284.474**	**245.862**	**934.572**	**241.078**	**(42.560)**	**88.068**	**572.160**	**2.325.091**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	453	-	(3.908)	91.523	-	(88.068)	-	-
. Preference shares	-	-	-	-	-	138	-	-	(30.750)	-	-	-	(7)	(30.619)
Long-term incentives	-	-	-	-	-	-	-	-	(781)	-	-	-	-	(781)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	(291)	-	-	(291)
Other	-	-	-	-	-	-	-	-	(1)	-	-	-	2	1
Comprehensive income for the first semester of 2013	-	-	-	-	73.545	1.344	(21.327)	-	-	-	-	24.181	2.380	80.123
Balances as at 30 June 2013	**656.723**	**193.390**	**135.000**	**23.245**	**(927.519)**	**(4.375)**	**263.600**	**245.862**	**899.132**	**332.601**	**(42.851)**	**24.181**	**574.535**	**2.373.524**
Appropriation of net income														
. Preference shares	-	-	-	-	-	**(2)**	-	-	-	-	-	-	43	41
Long-term incentives	-	-	-	-	-	-	-	-	(18)	-	-	-	-	(18)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	(461)	-	-	(461)
Entries in the consolidation perimeter														-
. Fundo Novimovest	-	-	-	-	-	-	-	-	(358)	-	-	-	111.241	110.883
. Fundo Santander Multiobrigações	-	-	-	-	-	-	-	-	-	-	-	-	132.701	132.701
Other	-	-	-	-	-	-	-	-	(2)	-	-	-	(77)	(79)
Comprehensive income for the second semester of 2013	-	-	-	-	112.920	(5.831)	(35.227)	-	-	-	-	64.983	(23.073)	113.772
Balances as at 31 December 2013	**656.723**	**193.390**	**135.000**	**23.245**	**(814.599)**	**(10.208)**	**228.373**	**245.862**	**898.754**	**332.601**	**(43.312)**	**89.164**	**795.370**	**2.730.363**
Appropriation of net income														
. Transfer to reserves	-	-	-	-	-	-	95	245	46.381	41.241	-	(89.164)	-	(1.202)
. Preference shares	-	-	-	-	-	-	-	-	(30.150)	-	-	-	-	(30.150)
Long-term incentives	-	-	-	-	-	-	-	-	(446)	-	-	-	-	(446)
Minority interests reclassification														-
. Fundo Novimovest	-	-	-	-	-	-	-	-	-	-	-	-	(102.336)	(102.336)
. Fundo Santander Multiobrigações	-	-	-	-	-	-	-	-	-	-	-	-	(132.701)	(132.701)
Other	-	-	-	-	-	-	-	-	(145)	(1)	-	-	(25)	(171)
Comprehensive income for the first semester of 2014	-	-	-	-	268.944	1.603	(78.975)	-	-	-	-	81.285	2.542	275.399
Balances as at 30 June 2014	**656.723**	**193.390**	**135.000**	**23.245**	**(545.655)**	**(8.605)**	**149.493**	**246.107**	**914.394**	**373.841**	**(43.312)**	**81.285**	**562.850**	**2.738.756**

The accompanying notes form an integral part of these consolidated statements of changes in shareholder's equity.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2014 AND 2013

(Amounts expressed in thousands of Euros - tEuros)

(Translation of consolidated cash flow statements originally issued in Portuguese - Note 51)

	30-06-2014	30-06-2013
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commission received	697.429	788.395
Payment of interest and commission	(358.701)	(407.288)
Payments to staff and suppliers	(209.528)	(198.365)
Contributions to the Pension Fund	-	-
Foreign exchange and other operating results	(6.518)	(3.454)
Recovery of uncollectable loans	2.757	5.072
Operating results before changes in operating assets and liabilities	125.439	184.360
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	1.801.972	83.654
Financial assets held for trading	(263.362)	184.692
Loans and advances to customers	343.124	103.646
Assets and liabilities at fair value through profit and loss	(204.513)	(5.928)
Non-current assets held for sale	32.868	(65.205)
Other assets	(255.898)	4.808
	1.454.191	305.667
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(626.255)	2.276.635
Resources of customers and other debts	(571.684)	(190.568)
Financial liabilities held for trading	261.562	(204.762)
Other liabilities	218.605	(24.071)
	(717.772)	1.857.234
Net cash flow from operating activities before income tax	861.858	2.347.261
Income tax paid	(28.589)	(25.671)
Net cash flow from operating activities	833.269	2.321.590
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1.138	1.032
Purchase of available-for-sale financial assets	(3.674.486)	(1.311.378)
Sale of available-for-sale financial assets	1.744.870	126.294
Income from available-for-sale financial assets	67.298	73.026
Purchase of tangible and intangible assets	(14.721)	(14.502)
Sale of tangible assets	6.887	3.415
Net cash flow from investment activities	(1.869.014)	(1.122.113)
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	(1.202)	-
Issuance/(redemption) of debt securities	1.493.503	(1.293.448)
Interest paid on bonds issued and other	(36.711)	(32.701)
Interest paid on subordinated liabilities	(46)	(46)
Net cash flow from financing activities	1.455.544	(1.326.195)
Net Increase / (Decrease) in cash and cash equivalents	419.799	(126.718)
Cash and cash equivalents at the start of the period	890.762	737.688
Cash and cash equivalents at the end of the period	1.310.561	610.970

The accompanying notes form an integral part of these consolidated statements of cash flows.

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 the first semester of 2014 and the year of 2013 are detailed in Note 46.

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

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

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

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

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

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of presentation of the accounts

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

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

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

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

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

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

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

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

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

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

- IAS 36 – "Impairment of assets" (Recoverable amount disclosures for non-financial assets) (Amendment) - This amendment eliminates the need to disclose the recoverable amount of cash generating units containing goodwill or intangible assets with undefined useful life in periods 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.

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

- 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 assets or specific services.

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

- IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”. This amendment clarifies the methods accepted for depreciation and amortization of tangible and intangible assets.

- IFRS 11 – “Join Arrangements” - This amendment clarifies the accounting for acquisitions of interests in joint arrangements.

- IFRS 14 – “Regulatory Deferral Accounts” - The purpose of this standard is to specify the disclosure requirements applied to the balances arising from the supply of goods or services to customers at prices or rates that are subject to regulation.

- IFRS 15 – “Revenue from contracts with customers” - The purpose of this standard is to specify disclosure requirements related to revenue recognition.

These standards have not been endorsed by the European Union and so they were not adopted by the Bank in the semester ended June 30, 2014.

1.2. Consolidation principles and recording of associated companies

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

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

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

As part of its fund management activity, the Bank manages assets held by investment funds whose participating units are held by third parties. The financial statements of those investment funds are not included in the consolidation perimeter of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participating units, situations when they are consolidated by the full integration method. In accordance with the IFRS 10, the amount corresponding to the third party participations in the investment funds that were consolidated by the full integration method is presented as a liability under the caption “Equity representative instruments” (Note 24).

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

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

Goodwill is measured as the excess of the acquisition cost over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of 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.

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 recognized negative goodwill was recorded as an increase in shareholders’ equity, as permitted by IFRS 1.

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

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

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

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

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

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

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

1.3. Summary of the main accounting policies

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

a) Accruals basis

The Bank uses the accrual-based accounting principle for most of its financial statement captions. Therefore, expenses and income are recorded in the 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 it operates (functional currency), being expressed in Euros.

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

c) Loans and accounts receivable

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

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

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

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

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

On the other hand, the Bank periodically analyses the loans and advances that should have already been paid in full but 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 recognized for the full amount. In these cases, the Bank writes them off. Credits recovered subsequently are recognized in the income statement in the caption “Loan impairment net of reversals and recoveries”.

Impairment

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

On the other hand, concerning the segment of credit provided to corporate customers, 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 judgment.

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

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

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

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

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

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

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

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

Write off of principal and interest

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

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

Loan sales

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

Factoring

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

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

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

Non derecognized securitized credit

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

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

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

On June 30, 2014 and December 31, 2013, there are no derecognized securitized loans.

Finance leasing

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

i) *As lessee*

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

ii) *As lessor*

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

Guarantees given and irrevocable commitments

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

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

Income from services and commissions obtained in the execution of a significant act, for example a commission from syndicating 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 of financial instruments is recorded in the income statement using the effective interest rate method.

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

e) Financial instruments

Financial assets and liabilities are recognised on the balance sheet at the date of 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.

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 the 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 the one that, 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.

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

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

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

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

ii) Available-for-sale financial assets

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

Available-for-sale financial assets are stated at fair value, with the exception of equity instruments not listed on 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 reserves - Fair value” until they are disposed of or until impairment losses are recognised, moment when they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are directly recognised in the income statement.

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

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

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.

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.

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

The Bank considers the specific nature and features of the assets being valued in its periodic impairment tests. In terms of objective impairment criteria, the Bank considers a 24 month period to be adequate for the prolonged devaluation of financial instruments 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 financial difficulties of the issuer, the accumulated loss of the fair value reserve is reclassified from equity to the income statement. Impairment losses on fixed income securities can be reverted through profit or loss if there is an increase in the fair value of the security resulting from an event that occurs after the determination of the impairment. Impairment losses on equity instruments cannot be reverted and so any unrealised capital gains arising after recognition of an impairment loss are recorded in the fair value reserve. In the case of equity instruments for which impairment losses have been recognised, subsequent reductions in its fair value are always recognised in the income statement.

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

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 bonds are included in proportion to the respective accounts of debt issued (capital interest and commissions) and the differences between the amount settled and the disposal are recognised immediately in profit or loss or deferred during the maturity 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 "Available-for-sale financial assets" are measured at fair value.

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

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

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

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

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

  ii) Indicative quotes (bid prices) obtained from financial institutions that operate as market-makers;

  iii) Valuation models, which take into account market inputs that would be used to determine the price for the financial instrument, reflecting the market interest rates and volatility, as well as the liquidity and credit risk associated to the instrument.

Amortised cost

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

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

f) Valuation and registration of derivative financial instruments and hedge accounting

Derivative financial 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.

- 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 a result of the valuation of the hedged risk are reclassified to the income statement and the derivative is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognised as value adjustments to the hedged items are amortized through the income statement over the remaining period.

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

Cash flow hedges

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

In this sense, the Bank has entered into derivatives to hedge future cash flows of interest on its variable rate mortgage loan portfolio.

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

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

In addition, the gain or loss in the hedging instrument recognised in equity corresponds to the lower of the following amounts:

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

In this regard, and if applicable, the remaining 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 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:

	Years of useful life
Property for own use	50
Equipment	4 to 10

Non recoverable expenditure capitalized on leasehold buildings is amortised over a period adjusted to its expected useful life or the lease contract term, 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 its cost adjusted by legal revaluations based on evolution of the general price index. 40% of the increase in the depreciation charges resulting from such revaluations is not tax deductible, being the corresponding deferred tax liabilities recognised accordingly.

On the other hand, the tangible assets of the Bank are subject periodically to impairment tests. The branches are considered as cash flows generating units for this purpose with impairment losses being recognised whenever the recoverable amount of a property (through its use in the operations or through its sale) is lower than its carrying amount.

The criteria followed in the valuation of the properties normally uses a market comparison method and the amount of the valuation corresponds to the market value of the properties in their current condition.

h) Intangible assets

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

Intangible assets are amortised on a monthly basis over its estimated useful life, which corresponds to three years on average. For the new computer platform (Partenon), until December 31, 2013, the expected useful life corresponded to a maximum of five years. In the first half of 2014, the Bank has revised the estimated useful life of that platform and reduced it to three 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 its 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 appraisers. Changes in the fair value of investment properties are recognized directly in the income statement for the year.

Costs incurred with investment properties in use, such as maintenance, repairs, insurance and property taxes (municipal property tax) are recognized in the income statement for the year to which they relate. Improvements which are expected to generate additional future economic benefits are capitalized.

j) Non-current assets held for sale

The Bank accounts for property and other assets received in settlement of non-performing loans under this caption, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the caption “Other assets” (Note 17). These assets are recorded at the amount agreed under negotiation or court decision, deducted from the estimated sale costs or their forced sale value, if lower. On the other hand, property recovered following the termination of finance lease contracts is recorded as an asset by the outstanding principal amount on the date the contract is terminate.

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

In addition, the Bank’s property for own use which is in process of being sold is accounted for under this caption. These assets are transferred 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 valuations performed by independent real estate appraisers. Impairment losses are recognised whenever the appraised value (net of costs to sell) is lower than the book value.

According to IFRS 5 – “Non-current assets held for sale and discontinued operations”, the Bank does not recognize unrealized gains on these assets.

At last, the Bank’s Board of Directors considers that the valuation methods adopted for these assets are appropriate and reflect the market environment.

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 disbursed 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 22).

l) Employees' post-employment benefits

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

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

Past service liabilities as at December 31, 2010 have not changed as a result of the above-mentioned Decree-Law since the reduction of the pensionable amount attributable to the Bank will affect the services to be provided by the employees in the future as from January 1, 2011. Thus, the current service cost has been reduced as from this date only, though at the same time the Bank has started to pay the employer's contribution to the Social Security of 23.6% (the so called "*Taxa Social Única*"). On the other hand, the Bank maintains the responsibility of paying out the disability pensions and the survival pensions along with any healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

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

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^{th} month) and Christmas bonuses.

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

i) the update of pensions referred to above, in accordance to the Collective Labour Agreement for the banking sector;

ii) the employer's contributions to healthcare 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 corresponded to the value of the responsibilities assumed under the above mentioned Decree Law, which were determined considering the following assumptions:

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

The assets to be transferred should be comprised by cash and up to 50% in Portuguese government debt securities valued at their respective market value.

Under the terms of the aforementioned Decree-Law, the ownership transfer of the assets was performed by the Bank as follows:

i) Up to December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities;

ii) By June 30, 2012, the remaining amount to complete the definite present value of the liabilities transferred.

In this regard, and prior to the transfer to the Social Security, the Bank obtained actuarial studies that allow the calculation of 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 established in Decree Law nº 127/2011, of December 31, the Bank calculated the liabilities separately for serving and retired employees, having defined specific assumptions for each case (Note 44).

The difference between the amount of the liabilities to be transferred to the Social Security determined as per the above referred assumptions and the liabilities determined based on updated actuarial assumptions 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. In the first half of 2014, the ex-BSN Fund was settled after authorization from Instituto de Seguros de Portugal.

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

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were integrated in the ACT and in the BST’s defined benefit pension plan as from April 2011. Additionally, the seniority of the employees hired before July 1, 1997 has been recognised.

Application of IAS 19

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 the caption "Staff costs" in the income statement the following components:

- Current service cost;
- Net interest profit / cost with the pension plan;
- Early retirement cost corresponding to the increase in the past service liability due to early retirement; and
- Gains and losses resulting from changes in the conditions of the plan.

Net interest profit / cost with the pension plan is calculated by multiplying the Bank net asset / liability with pensions (liabilities less the fair value of plan assets) by the discount rate used in determining the liabilities with retirement pensions. Thus, the net interest profit / cost represents the interest cost associated with pension liabilities net of the theoretical return of the Fund's assets, both measured based on the discount rate used to calculate pension liabilities.

Gains and losses from remeasurement, namely: (i) gains and losses resulting from differences between actuarial assumptions 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 liabilities for retirement pensions less the fair value of the assets of the Pension Fund are recorded in the captions “Other assets” or “Other liabilities”, depending on whether there is 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 liabilities of serving employees. Notwithstanding this, it also established a transition period ranging from 5 to 7 years in respect of the increase in the liabilities as result of the adoption of IAS 19.

At June 30, 2014 and December 31, 2013, the rate of coverage of the full amount of the liability of BST for employee benefits, including SAMS, was 99.57% and 99.25%, respectively (Note 44).

m) Long service bonuses

In compliance with the ACT, the Bank assumed the commitment to pay bonuses to serving employees with fifteen, twenty-five and thirty years of good and effective service, corresponding, respectively, 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 based on the “Projected Unit Credit” method. The actuarial assumptions used (financial and demographic) are based on expectations, as of the balance sheet date, regarding salary increases and are based on mortality tables adapted to Bank’s population. The discount rate used is determined based on market rates for high quality corporate bonds with similar maturity to the liability.

Long service bonuses’ liabilities are recorded in the caption “Accrued costs - Relating to personnel – Long service bonuses” (Note 25).

n) Income tax

BST and the Group's companies established in Portugal are subject to the tax regime established in the Corporate Income Tax Code ("CIRC"). The 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 that year and on the two following years were subject to higher state surcharge rates. Companies with taxable income comprised between tEuros 1,500 and tEuros 10,000 were subject to a state surcharge rate of 3% and companies with taxable income exceeding tEuros 10,000 were subject to a rate of 5%.

Additionally, following the publication of Law nº 2/2014, of January 16, (CIRC amendment) the taxation of corporate income for the year 2014 became the one described below:

- Corporate income tax (IRC) rate of 23% on taxable income (25% in year 2013);
- Municipal surcharge at a rate 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 rates used by the Bank in the calculation and recognition of deferred taxes for the year 2013 and for the first half of 2014 were 23% for tax losses and 29.5% for temporary differences.

On the other hand, tax losses 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 income (70% from the year 2014), although the remaining ones continue to be deductible up to the end of the tax utilization period.

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

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

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

The rates applicable to the bases of incidence defined in a) and b) above are 0.07% and 0.0003%, respectively, as provided in the amendment made by the Dispatch nº 64/2014, of March 12 to the nº 5 of the Dispatch nº 121/2011, of March 30.

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

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

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

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders' equity, namely potential gains and losses on financial assets available for sale and on cash flow hedging derivatives, as well as actuarial gains and losses related to pension liabilities following the change of its 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" against an entry in the caption "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentive plans for stocks and stock options in force in Banco Santander S.A. is included in Note 47.

p) 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 recorded as equity instruments when:

- There is no contractual obligation of the Bank to reimburse (either in cash or in another financial asset) the preference shares acquired by the holder;
- The remission or early redemption of the preference shares may only be made at the Bank's option; and
- The dividend distributions made by the Bank to the holders of preference shares are discretionary.

On June 30, 2014 and December 31, 2013, the Bank classified as equity instruments the preference shares issued by Totta & Açores Financing and BST International Bank, Inc. - Puerto Rico.

The preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the caption "Minority interests".

r) Insurance brokerage services rendered

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

The Bank is not engage in the collection of insurance premiums on behalf of insurers, neither performs the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the activity of insurance mediation performed by the Bank besides the ones already disclosed.

s) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the captions “Cash and deposits at central banks” and “Balances due from other banks”.

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 and disability tables, pension growth and wages, amongst others.

The assumptions adopted correspond to the best estimate of the Bank’s Board of Directors regarding the future behaviour of the above referred variables.

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in 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 these 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 the collaterals received with the corresponding impact on the expected future cash flows. Impairment losses determined on a collective basis are estimated based on historical parameters for comparable types of operations, considering estimates of default and recoverability.

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

As described in Note 1.3. e), the unrealised capital losses resulting from the valuation of these assets are recognised under the revaluation reserve. Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses recorded on 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 category, unrealised capital losses are transferred from the 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 its rating.

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 recorded.

The Bank, as an entity subject to the Bank of Portugal supervision, must present separate (non-consolidated) financial statements in accordance with the Adjusted Accounting Standards as issued under Bank of Portugal Notice nº 1/2005, dated February 21, and which form the basis for determining the taxable income.

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

The above referred Decree Law amended some articles of the Corporate Income Tax Code and also revoked paragraph 2 of Article 57 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

In this regard, these new rules were observed to compute the taxable income for the six month periods ended in June 30, 2014 and 2013, in accordance with the Bank's interpretation.

Determination of the outcome of the legal proceedings in progress

The outcome of the legal proceedings in progress, including those mentioned in Note 49, as well as the need for provisioning are estimated based on the opinion of the lawyers / legal advisors of the Bank, which, however may not come to materialize.

3. SEGMENT REPORTING

In accordance with the requirements of IFRS 8, the disclosures 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 intermediation, 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 supported by the branches network as well as by specialised services and includes a variety of products, such as loans, project funding, export financing and real estate.

Asset management:

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

At the end of 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, including liquidity management, balance sheet hedging and Bank funding.

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

The income statement by segment on June 30, 2014 is made up as follows:

	30-06-2014					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	52,136	149,425	65,268	3,068	(3,623)	266,274
Income from equity instruments	-	-	-	-	1,138	1,138
Financial margin	**52,136**	**149,425**	**65,268**	**3,068**	**(2,485)**	**267,412**
Net commissions	26,536	105,619	11,981	(3,069)	(4,445)	136,622
Other results from banking activity	(29)	(1,015)	(111)	(6,200)	(6,972)	(14,327)
Commercial margin	**78,643**	**254,029**	**77,138**	**(6,201)**	**(13,902)**	**389,707**
Results from financial operations	3,243	728	110	4,381	71,428	79,890
Net income from banking activities	**81,886**	**254,757**	**77,248**	**(1,820)**	**57,526**	**469,597**
Operating costs	(7,573)	(160,906)	(29,711)	(6,049)	-	(204,239)
Depreciation and amortization	(1,538)	(30,345)	(7,810)	(37)	-	(39,730)
Net operating income	**72,775**	**63,506**	**39,727**	**(7,906)**	**57,526**	**225,628**
Impairment and provisions, net of reversals	543	(38,648)	(18,956)	(200)	(56,663)	(113,924)
Result from associates	-	-	5,848	-	1,095	6,943
Income before taxes	**73,318**	**24,858**	**26,619**	**(8,106)**	**1,958**	**118,647**
Taxes	(21,262)	(7,287)	(6,024)	(3,705)	918	(37,360)
Minority interests	-	-	-	-	(2)	(2)
Net income for the period	**52,056**	**17,571**	**20,595**	**(11,811)**	**2,874**	**81,285**

On June 30, 2014 the assets and liabilities under management of each business segment in accordance with the information used by the Bank's management for decision making, are as follows:

	30-06-2014					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Assets						
Loans and advances to customers						
Mortgage loans	-	15,005,115	-	-	-	15,005,115
Consumer credit	-	1,433,032	-	-	-	1,433,032
Other loans	2,751,115	2,468,121	4,031,004	-	-	9,250,240
Total allocated assets	2,751,115	18,906,268	4,031,004	-	-	25,688,387
Total non-allocated assets						14,209,328
Total assets						39,897,715
Liabilities						
Resources in the balance sheet						
Customers' accounts and other resources	658,923	16,364,158	1,783,748	-	1,330,927	20,137,756
Debt securities issued	-	224,026	120,933	-	3,738,958	4,083,917
	658,923	16,588,184	1,904,681	-	5,069,885	24,221,673
Guarantees and other sureties given	217,862	162,388	701,262	-	-	1,081,512

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

The income statement by segment on June 30, 2013 is made up as follows:

	30-06-2013					
	Global Banking & Markets	Retail banking	Commercial banking	Asset management	Corporate activities	Consolidated Total
Financial margin (narrow sense)	44,480	136,118	81,457	-	(15,422)	246,633
Income from equity instruments	-	-	-	-	1,032	1,032
Financial margin	**44,480**	**136,118**	**81,457**	**-**	**(14,390)**	**247,665**
Net commissions	38,357	119,389	11,367	3,443	891	173,447
Other results from banking activity	-	637	-	25	(8,397)	(7,735)
Commercial margin	**82,837**	**256,144**	**92,824**	**3,468**	**(21,896)**	**413,377**
Results from financial operations	8,069	172	400	-	916	9,557
Net income from banking activities	**90,906**	**256,316**	**93,224**	**3,468**	**(20,980)**	**422,934**
Operating costs	(8,175)	(172,416)	(22,964)	(2,263)	-	(205,818)
Depreciation and amortization	(1,197)	(27,664)	(1,672)	(91)	-	(30,624)
Net operating income	**81,534**	**56,236**	**68,588**	**1,114**	**(20,980)**	**186,492**
Impairment and provisions, net of reversals	(12,363)	(135,284)	(29,370)	(2)	29,563	(147,456)
Result from associates	-	-	5,956	-	528	6,484
Income before taxes	**69,171**	**(79,048)**	**45,174**	**1,112**	**9,111**	**45,520**
Taxes	(20,059)	23,343	(11,373)	(323)	(12,925)	(21,337)
Minority interests	-	-	-	-	(2)	(2)
Net income for the period	**49,112**	**(55,705)**	**33,801**	**789**	**(3,816)**	**24,181**

On 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:

	31-12-2013					
	Global Banking & Markets	Retail banking	Commercial banking	Asset Management	Corporate activities	Consolidated Total
Assets						
Loans and advances to customers						
Mortgage loans	-	15,277,265	-	-	-	15,277,265
Consumer credit	-	1,399,152	-	-	-	1,399,152
Other loans	2,758,628	2,632,642	4,039,834	-	-	9,431,104
Total allocated assets	2,758,628	19,309,059	4,039,834	-	-	26,107,521
Total non-allocated assets						12,703,007
Total assets						38,810,528
Liabilities						
Resources in the balance sheet						
Customers' accounts and other resources	763,842	16,448,582	2,084,356	-	1,410,221	20,707,001
Debt securities issued	-	289,272	101,557	-	2,143,332	2,534,161
	763,842	16,737,854	2,185,913	-	3,553,553	23,241,162
Guarantees and other sureties given	171,674	167,383	846,410	-	-	1,185,467
Investment funds	-	1,151,870	394,550	871,953	-	2,418,373

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

The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet as at June 30, 2014 and December 31, 2013, by geographical segments was as follows:

	30-06-2014							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	1,063,298	-	-	-	-	-	-	1,063,298
Balances due from other banks	246,768	133,210	-	5,264	6,528	145,002	(144,507)	247,263
Financial assets held for trading	2,216,725	-	-	-	-	-	-	2,216,725
Available-for-sale financial assets	6,776,833	883,460	-	-	-	883,460	(883,460)	6,776,833
Loans and advances to credit institutions	1,453,662	50,000	-	414,838	330,551	795,389	(795,164)	1,453,887
Loans and advances to customers	25,688,387	-	-	-	-	-	-	25,688,387
Hedging derivatives	193,377	-	-	-	-	-	-	193,377
Non-current assets held for sale	198,717	-	-	-	-	-	-	198,717
Investment properties	438,801	-	-	-	-	-	(1)	438,800
Other tangible assets	307,725	1	-	-	41	42	1	307,768
Intangible assets	33,785	-	-	-	-	-	-	33,785
Investments in associated companies	32,234	-	121,995	-	-	121,995	(1)	154,228
Current tax assets	18,922	13,563	-	-	-	13,563	(12,617)	19,868
Deferred tax assets	482,090	-	-	-	-	-	-	482,090
Other assets	514,879	102	-	1,161	2,104	3,367	104,443	622,689
Total Net Assets	39,666,203	1,080,336	121,995	421,263	339,224	1,962,818	(1,731,306)	39,897,715
Liabilities								
Resources of central banks	4,243,056	-	-	-	-	-	-	4,243,056
Financial liabilities held for trading	1,881,329	-	-	-	-	-	-	1,881,329
Resources of other credit institutions	5,548,778	700,890	-	14,723	-	715,613	(715,613)	5,548,778
Resources of customers and other debts	20,011,903	-	-	124,429	-	124,429	1,424	20,137,756
Debt securities	4,083,917	-	-	-	-	-	-	4,083,917
Hedging derivatives	241,543	-	-	-	-	-	-	241,543
Provisions	86,158	-	-	-	-	-	-	86,158
Current tax liabilities	8,742	450	-	-	-	450	-	9,192
Deferred tax liabilities	78,715	-	-	-	-	-	16,164	94,879
Subordinated liabilities	4,307	-	-	-	-	-	-	4,307
Equity representative instruments	214,605	-	-	-	-	-	-	214,605
Other liabilities	505,319	171	-	2,172	150	2,493	105,627	613,439
Total Liabilities	36,908,372	701,511	-	141,324	150	842,985	(592,398)	37,158,959
Shareholders' equity								
Shareholders' equity attributable to shareholders	2,757,147	378,825	121,995	16,356	39,683	556,859	(1,138,100)	2,175,906
Minority interests	684	-	-	263,583	299,391	562,974	(808)	562,850
Total shareholders' equity	2,757,831	378,825	121,995	279,939	339,074	1,119,833	(1,138,908)	2,738,756
Total liabilities and shareholders' equity	39,666,203	1,080,336	121,995	421,263	339,224	1,962,818	(1,731,306)	39,897,715

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

	31-12-2013							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Assets								
Cash and deposits at central banks	337,841	-	-	-	-	-	-	337,841
Balances due from other banks	552,432	1,566	-	5,479	438	7,483	(6,994)	552,921
Financial assets held for trading	1,949,115	-	-	-	-	-	-	1,949,115
Available-for-sale financial assets	4,382,253	1,186,994	-	-	-	1,186,994	(1,186,994)	4,382,253
Loans and advances to credit institutions	3,270,749	50,000	-	424,659	327,238	801,897	(801,676)	3,270,970
Loans and advances to customers	26,107,521	-	-	-	-	-	-	26,107,521
Hedging derivatives	199,427	-	-	-	-	-	-	199,427
Non-current assets held for sale	206,943	-	-	-	-	-	-	206,943
Investment properties	467,949	-	-	-	-	-	-	467,949
Other tangible assets	318,636	2	-	-	24	26	-	318,662
Intangible assets	52,468	-	-	-	-	-	-	52,468
Investments in associated companies	32,334	-	115,396	-	-	115,396	-	147,730
Current tax assets	17,458	-	-	-	-	-	-	17,458
Deferred tax assets	540,675	-	-	-	-	-	-	540,675
Other assets	257,890	5,500	-	1,175	694	7,369	(6,664)	258,595
Total Net Assets	38,693,691	1,244,062	115,396	431,313	328,394	2,119,165	(2,002,328)	38,810,528
Liabilities								
Resources of central banks	6,241,410	-	-	-	-	-	-	6,241,410
Financial liabilities held for trading	1,619,768	-	-	-	-	-	-	1,619,768
Resources of other credit institutions	4,175,058	704,921	-	6,676	-	711,597	(711,597)	4,175,058
Resources of customers and other debts	20,568,824	-	-	138,177	-	138,177	-	20,707,001
Debt securities	2,534,161	-	-	-	-	-	-	2,534,161
Hedging derivatives	370,684	-	-	-	-	-	-	370,684
Provisions	62,039	-	-	-	-	-	-	62,039
Current tax liabilities	13,475	-	-	-	-	-	838	14,313
Deferred tax liabilities	41,990	-	-	-	-	-	16,534	58,524
Subordinated liabilities	4,307	-	-	-	-	-	-	4,307
Other liabilities	290,702	140,767	-	1,935	178	142,880	(140,682)	292,900
Total Liabilities	35,922,418	845,688	-	146,788	178	992,654	(834,907)	36,080,165
Shareholders' equity								
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
Total shareholders' equity	2,771,273	398,374	115,396	284,525	328,216	1,126,511	(1,167,421)	2,730,363
Total liabilities and shareholders' equity	38,693,691	1,244,062	115,396	431,313	328,394	2,119,165	(2,002,328)	38,810,528

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

In the six month periods ended June 30, 2014 and 2013, the income statement by geographical segments was as follows:

	30-06-2014							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Interest and similar income	621,301	21,112	-	11,689	6,734	39,535	(39,528)	621,308
Interest and similar charges	(353,489)	(7,445)	-	(1,568)	-	(9,013)	7,468	(355,034)
Financial margin	267,812	13,667	-	10,121	6,734	30,522	(32,060)	266,274
Income from equity instruments	1,138	-	-	-	-	-	-	1,138
Income from services and commissions	165,078	5,250	-	-	556	5,806	(5,806)	165,078
Charges w ith services and commissions	(28,334)	(20)	-	-	(496)	(516)	394	(28,456)
Result of assets and liabilities at fair value through profit or loss	(111,731)	-	-	-	-	-	-	(111,731)
Result of available-for-sale financial assets	185,244	240	-	-	-	240	(240)	185,244
Result of foreign exchange revaluation	2,264	-	-	(35)	-	(35)	-	2,229
Result from sale of other assets	4,146	-	-	-	-	-	2	4,148
Other operating results	(14,287)	-	-	-	(29)	(29)	(11)	(14,327)
Net income from banking activities	471,330	19,137	-	10,086	6,765	35,988	(37,721)	469,597
Staff costs	(134,942)	(109)	-	(97)	(291)	(497)	12	(135,427)
General administrative costs	(68,482)	(193)	-	(48)	(116)	(357)	27	(68,812)
Depreciation	(39,719)	(1)	-	-	(11)	(12)	1	(39,730)
Provisions, net of reversals	(28,030)	-	-	-	-	-	-	(28,030)
Loan impairment net of reversals and recoveries	(72,244)	-	-	-	-	-	-	(72,244)
Impairment of other financial assets net of reversals and recoveries	35	-	-	-	-	-	(1)	34
Impairment of other assets net of reversals and recoveries	(13,684)	-	-	-	-	-	-	(13,684)
Result from associates	1,061	-	5,804	-	-	5,804	78	6,943
Income before taxes and minority interests	115,325	18,834	5,804	9,941	6,347	40,926	(37,604)	118,647
Current taxes	(17,785)	(2,356)	-	(2)	(6)	(2,364)	399	(19,750)
Deferred taxes	(17,981)	-	-	-	-	-	371	(17,610)
Income after taxes and before minority interests	79,559	16,478	5,804	9,939	6,341	38,562	(36,834)	81,287
Minority interests	-	-	-	-	-	-	2	2
Consolidated net income attributable to the shareholders of the Bank	79,559	16,478	5,804	9,939	6,341	38,562	(36,836)	81,285

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

	30-06-2013							
		International operations					Inter segment	
	Portugal	Ireland	Angola	Puerto Rico	Other	Total	balances	Consolidated
Interest and similar income	644,105	35,320	-	13,373	1	48,694	(48,599)	644,200
Interest and similar charges	(394,822)	(5,394)	-	(2,905)	-	(8,299)	5,554	(397,567)
Financial margin	249,283	29,926	-	10,468	1	40,395	(43,045)	246,633
Income from equity instruments	1,032	-	-	-	-	-	-	1,032
Income from services and commissions	200,885	114	-	-	-	114	(114)	200,885
Charges with services and commissions	(27,317)	(35)	-	-	(121)	(156)	35	(27,438)
Result of assets and liabilities at fair value through profit or loss	7,513	-	-	(10)	-	(10)	6	7,509
Result of available-for-sale financial assets	(827)	-	-	-	-	-	-	(827)
Result of foreign exchange revaluation	1,706	-	-	(38)	-	(38)	61	1,729
Result from sale of other assets	1,146	-	-	-	-	-	-	1,146
Other operating results	(7,691)	-	-	-	(42)	(42)	(2)	(7,735)
Net income from banking activities	425,730	30,005	-	10,420	(162)	40,263	(43,059)	422,934
Staff costs	(138,588)	(95)	-	(100)	(310)	(505)	-	(139,093)
General administrative costs	(66,383)	(164)	-	(54)	(123)	(341)	(1)	(66,725)
Depreciation	(30,624)	-	-	-	-	-	-	(30,624)
Provisions, net of reversals	4,224	-	-	-	-	-	-	4,224
Loan impairment net of reversals and recoveries	(124,123)	-	-	-	-	-	-	(124,123)
Impairment of other financial assets net of reversals and recoveries	(4,988)	-	-	-	-	-	-	(4,988)
Impairment of other assets net of reversals and recoveries	(22,569)	-	-	-	-	-	-	(22,569)
Result from associates	528	-	5,956	-	-	5,956	-	6,484
Income before taxes and minority interests	43,207	29,746	5,956	10,266	(595)	45,373	(43,060)	45,520
Current taxes	(7,357)	(4,207)	-	-	-	(4,207)	-	(11,564)
Deferred taxes	(10,260)	487	-	-	-	487	-	(9,773)
Income after taxes and before minority interests	25,590	26,026	5,956	10,266	(595)	41,653	(43,060)	24,183
Minority interests	2	-	-	-	-	-	(4)	(2)
Consolidated net income attributable to the shareholders of the Bank	25,592	26,026	5,956	10,266	(595)	41,653	(43,064)	24,181

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.

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

4. GROUP COMPANIES AND TRANSACTIONS OCURRED DURING THE PERIOD/YEAR

On June 30, 2014 and December 31, 2013, the subsidiaries and associated companies and their most significant financial data, extracted from their respective standalone financial statements, excluding conversion adjustments to the IAS/IFRS, may be summarised as follows:

	Direct participation (%)		Effective participation (%)		Total assets (net)		Shareholders' equity		Net income of the period/year	
Company	30-06-2014	31-12-2013	30-06-2014	31-12-2013	30-06-2014	31-12-2013	30-06-2014	31-12-2013	30-06-2014	31-12-2013
BANCO SANTANDER TOTTA, S.A.	-	-	100.00	100.00	41,251,207	40,260,305	1,763,296	1,471,117	78,069	2,449
BANCO CAIXA GERAL TOTTA DE ANGOLA, S.A. (3)	-	-	24.96	24.99	1,487,170	1,371,384	254,117	247,304	28,758	52,120
TOTTA & AÇORES FINANCING (1) (5)	100.00	100.00	100.00	100.00	305,608	311,787	305,608	311,787	6,180	12,360
SERFIN INTERNATIONAL BANK & TRUST	-	-	100.00	100.00	33,035	32,592	33,028	32,578	133	320
TOTTA & AÇORES, INC. - NEWARK	100.00	100.00	100.00	100.00	1,196	1,180	1,052	1,014	28	47
TOTTA IRELAND, PLC (4)	100.00	100.00	100.00	100.00	1,079,390	1,011,636	378,826	298,037	16,478	2,732
SANTOTTA-INTERNACIONAL, SGPS, S.A.	100.00	100.00	100.00	100.00	100,196	110,807	74,437	74,397	40	4,933
TOTTA URBE - Emp.Admin. e Construções, S.A. (2)	100.00	100.00	100.00	100.00	121,510	114,033	116,129	110,246	332	1,997
BENIM - Sociedade Imobiliária, S.A. (3)	-	-	25.78	25.81	n/a	n/a	n/a	n/a	n/a	n/a
SANTANDER - GESTÃO DE ACTIVOS, SGPS, S.A.	100.00	100.00	100.00	100.00	15,905	49,795	15,819	49,417	11	7,784
BST INTERNATIONAL BANK, INC. - PORTO RICO (1) (6)	100.00	100.00	100.00	100.00	421,263	431,322	279,938	284,486	11,577	20,457
TAXAGEST, SGPS, S.A.	99.00	99.00	99.90	99.00	55,849	55,731	55,843	55,724	119	761
PARTANG, SGPS, S.A. (3)	0.49	0.49	49.00	49.00	156,987	152,642	155,577	140,714	11,818	25,616
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A. (3)	21.50	21.50	21.50	21.50	313,780	315,889	89,528	89,696	5,232	9,785
HIPOTOTTA nº 1 PLC	-	-	-	-	185,565	194,678	(1,572)	(1,654)	82	(152)
HIPOTOTTA nº 4 PLC	-	-	-	-	1,114,946	1,147,748	(11,702)	(13,619)	1,916	(2,036)
HIPOTOTTA nº 5 PLC	-	-	-	-	951,864	972,764	(7,573)	(8,404)	831	(1,155)
LEASETOTTA nº 1 Ltd	-	-	-	-	383,236	428,640	(8,770)	(13,187)	2,090	3,434
HIPOTOTTA nº 1 FTC	-	-	-	-	169,082	179,215	168,363	178,077	-	(24)
HIPOTOTTA nº 4 FTC	-	-	-	-	1,071,181	1,107,500	1,070,025	1,104,994	405	(1,035)
HIPOTOTTA nº 5 FTC	-	-	-	-	928,728	953,003	923,438	947,977	308	(1,932)
LEASETOTTA nº 1 FTC	-	-	-	-	303,576	347,423	302,371	350,252	-	(1,599)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (8)	75.77	71.60	75.70	71.60	448,202	477,098	336,330	360,442	(17,784)	(28,670)
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (8)	64.54	64.32	64.54	64.32	388,336	374,590	375,409	371,951	4,692	8,824

n/a – not available

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

On June 30, 2014 and December 31, 2013, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation is as follows:

Company	Business	Headquarters	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 Island	Full
SERFIN INTERNATIONAL BANK & TRUST	Banking	Cayman Island	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 Island	Full
TOTTA URBE - Emp.Admin. 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
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) (8)	Holding company	Portugal	Equity method
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
LEASETOTTA nº 1 Ltd	Investment management	Ireland	Full
HIPOTOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
LEASETOTTA nº 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto (7)	Investment management	Portugal	Full
SANTANDER MULTIOBRIGAÇÕES - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável (7)	Investment management	Portugal	Full

(1) The shareholders' equity of these companies include 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 of the period/year" correspond to the net income generated in the period comprised between December 1, 2013 and June 30, 2014 and the period comprised between December 1, 2013 and December 31, 2013. In the period comprised between January 1 to June 30, 2014 and 2013, the net income of Totta Ireland, Plc. amounted to tEuros 13,746 and tEuros 29,436, 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) These companies were consolidated for the first time during the year 2013, since the Bank holds more than 50% of their participating units.

(8) The consolidation of this Company was performed using its financial statements as of May 31, 2014.

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

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Bank's consolidated financial statements include special purpose entities (SPE) created for securitization operations since the Bank retains the majority of the risks and benefits associated to their activity, namely the bonds issued by those entities with a higher degree of subordination (Note 45). These entities are referred to above as Leasetotta or Hipototta FTC (securitization loans funds) and Hipototta PLC or Leasetotta Ltd. (entities which subscribed the participating units issued by the securitization loans funds).

During the year 2013 the Bank increased its financial interest in Fundo de Investimento Imobiliário - Novimovest, managed by Santander Asset Management, SGFIM, S.A. ("SAM"), to a holding percentage higher than 50%. According to the accounting policy adopted by the Bank the Investment Funds are consolidated (by the full consolidation method) when control exists, i.e., when more than 50% of their participating units are held by it.

From July 1, 2013, the Bank started to consolidate that Fund.

For the above referred reasons, on 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 that year, their activity, the percentage of participation held by the Bank and the amount paid in their acquisition were as follows:

Entity	Activity	% of 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	Investment Fund	64.32%	239,249

Since the participating units in the Investment Funds referred to above were recorded at their fair value, determined based on the value of the participating units disclosed periodically by SAM in the Portuguese Securities Market Commission (CMVM) site, and given that all the subscriptions of participating units were based on that source of valuation, no goodwill was generated on those acquisitions. Moreover, all subscriptions of participating units in those Funds had cash in return.

On June 30, 2014 and December 31, 2013, the balance sheet of those Funds had the following breakdown:

	30-06-2014			31-12-2013		
	Novimovest	Multiobrigações	Total	Novimovest	Multiobrigações	Total
Securities portfolio	2,979	342,297	345,276	3,151	344,421	347,572
Real estate portfolio	420,609	-	420,609	449,758	-	449,758
Accounts receivables	23,614	10,334	33,948	23,257	-	23,257
Cash and banks	516	34,566	35,082	513	28,150	28,663
Accruals and deferrals	483	1,139	1,622	419	2,019	2,438
	448,201	388,336	836,537	477,098	374,590	851,688
Fund Capital	336,330	375,409	711,739	360,442	371,951	732,393
Adjustments and provisions	5,485	1,526	7,011	5,285	580	5,865
Accounts payable	101,867	11,343	113,210	104,260	1,718	105,978
Accruals and deferrals	4,519	58	4,577	7,111	341	7,452
	448,201	388,336	836,537	477,098	374,590	851,688

On June 30, 2014 and December 31, 2013, the consolidated net income includes a loss of tEuros 13,476 and tEuros 18,428 attributable, respectively to Novimovest Fund.

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

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:

	30-06-2014	31-12-2013
Cash	182,037	221,706
Demand deposits at Central Banks:		
European Central Bank	881,261	116,135
	1,063,298	337,841

In accordance with European Central Bank Regulation nº 2,818/98, dated December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves at the participating National Central Banks. The basis for determining the amount of the reserves consists in all deposits at central banks and financial and monetary entities outside the Euro Zone and all deposits of 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 reserves earn interest at the average of the rates for the principal refinancing operations of the European Central Bank System.

6. BALANCES DUE FROM OTHER BANKS

This caption is made up as follows:

	30-06-2014	31-12-2013
Balances due from domestic banks		
Cheques for collection	59,644	54,077
Demand deposits	682	756
Balances due from foreign banks		
Demand deposits	185,768	496,556
Cheques for collection	1,169	1,532
	247,263	552,921

On June 30, 2014 and December 31, 2013, sub captions "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following days.

On June 30, 2014 and December 31, 2013, the caption "Balances due from foreign banks – Demand deposits" included a deposit in the amount of tEuros 67,831 and tEuros 165,375, respectively, which is being mobilized as the fulfilment of certain obligations towards third parties occur.

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

7. FINANCIAL ASSETS / LIABILITIES HELD FOR TRADING

This caption is made up as follows:

	30-06-2014	31-12-2013
Financial assets held for trading		
Derivatives with positive fair value	1,875,808	1,599,893
Securities – Debt instruments	337,938	346,070
Securities - Participating units	2,979	3,152
	2,216,725	1,949,115
Financial liabilities held for trading		
Derivatives with negative fair value	(1,881,329)	(1,619,768)
Net balance of the fair value of derivative financial instruments	(5,521)	(19,875)

On June 30, 2014 and December 31, 2013, the captions of derivative financial instruments are made up as follows:

	30-06-2014			31-12-2013		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	14	14	-	1,250	1,311	(61)
Swaps						
Currency swaps	5,453	3,428	2,025	1,119	7,400	(6,281)
Interest rate swaps	1,468,389	1,476,687	(8,298)	1,203,389	1,217,597	(14,208)
Equity swaps	103,889	103,195	694	76,883	76,233	650
Options	119,171	119,172	(1)	137,907	137,912	(5)
Caps & Floors	178,892	178,833	59	179,345	179,315	30
	1,875,808	1,881,329	(5,521)	1,599,893	1,619,768	(19,875)

On December 31, 2013, the captions of assets and liabilities of derivative financial instruments are net of the amounts of approximately tEuros 132,500 and tEuros 112,800, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments".

On June 30, 2014 and December 31, 2013, the majority of the trading derivative financial instruments were hedged "back-to-back" with Banco Santander, S.A..

On June 30, 2014 and December 31, 2013, the caption "Securities - Debt instruments" is made up as follows:

Description	30-06-2014	31-12-2013
Issued by residents		
Portuguese public debt	18,391	76,613
Others	34,615	23,583
Issued by non residents		
Public foreign issuers	42,555	7,667
Others	242,377	238,207
Total	**337,938**	**346,070**

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

On June 30, 2014 and December 31, 2013, the caption "Securities – Participating units" corresponds to the Real Estate Investment Fund Maxirent.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	30-06-2014							
	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 26)	(Note 22)	
Debt instruments								
Issued by residents								
Treasury Bonds	4,591,232	87,902	113,582	53,228	(38,184)	15,044	(124)	4,807,636
Other Portuguese Government entities	477,502	1,048	-	12,664	(600)	12,064	-	490,614
Other residents								
Acquired in securitization operations	83,080	78	-	-	(8,698)	(8,698)	-	74,460
Unsubordinated debt	657,819	6,453	-	30,196	(7,136)	23,060	(231)	687,101
Subordinated debt	134,865	29	-	-	(2,947)	(2,947)	(7,966)	123,981
Issued by non-residents								
Foreign government entities	307,321	2,121	45,451	16	(4,831)	(4,815)	-	350,078
Other non-residents								
Subordinated debt	118,262	1,874	-	6,561	-	6,561	-	126,697
Equity instruments								
Issued by residents								
Valued at fair value	152,127	-	-	464	(3,866)	(3,402)	(45,935)	102,790
Valued at cost	19,677	-	-	-	-	-	(6,677)	13,000
Issued by non-residents								
Valued at fair value	16	-	-	-	-	-	-	16
Valued at cost	1,206	-	-	-	-	-	(746)	460
	6,543,107	99,505	159,033	103,129	(66,262)	36,867	(61,679)	6,776,833

	31-12-2013							
	Acquisition cost	Interest receivable	Value adjustments resulting from hedging operations	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 26)	(Note 22)	
Debt instruments								
Issued by residents								
Treasury Bonds	2,130,470	29,161	105,608	106	(136,469)	(136,363)	(231)	2,128,645
Other Portuguese Government entities	479,002	1,119	-	13,155	(1,456)	11,699	-	491,820
Other residents								
Acquired in securitization operations	86,505	87	-	-	(23,349)	(23,349)	-	63,243
Unsubordinated debt	416,584	8,013	-	7,662	(11,220)	(3,558)	(231)	420,808
Subordinated debt	128,233	36	-	-	(7,256)	(7,256)	(11,193)	109,820
Issued by non-residents								
Foreign government entities	1,007,249	23,108	120,005	109	(75,105)	(74,996)	-	1,075,366
Equity instruments								
Issued by residents								
Valued at fair value	121,633	-	-	374	(326)	48	(42,655)	79,026
Valued at cost	19,732	-	-	-	-	-	(6,683)	13,049
Issued by non-residents								
Valued at fair value	16	-	-	-	-	-	-	16
Valued at cost	1,205	-	-	-	-	-	(745)	460
	4,390,629	61,524	225,613	21,406	(255,181)	(233,775)	(61,738)	4,382,253

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

On June 30, 2014 and December 31, 2013, the captions Treasury Bonds and Foreign government entities include capital gains of tEuros 159,033 and tEuros 225,613, respectively, relating to value adjustments resulting from hedging interest rate risk operations. These securities have the following characteristics:

	30-06-2014							
			Gains/losses					
	Acquisition	Interest	in hedging	Gains/(losses) recorded in reserves				Book
Description	cost	receivable	operations	Gains	Losses	Total	Impairment	value
Treasury bonds - Portugal								
. Maturing in one year	648,109	16,541	4,644	992	-	992	-	670,286
. Maturing betw een three and five years	130,000	288	19,472	-	(5,017)	(5,017)	-	144,743
. Maturing betw een five and ten years	3,812,637	71,069	89,466	52,236	(33,167)	19,069	-	3,992,241
Other	486	4	-	-	-	-	(124)	366
	4,591,232	87,902	113,582	53,228	(38,184)	15,044	(124)	4,807,636
Treasury bonds - Spain								
. Maturing betw een five and ten years	300,000	2,040	45,451	-	(4,831)	(4,831)	-	342,660
Other	7,321	81	-	16	-	16	-	7,418
	307,321	2,121	45,451	16	(4,831)	(4,815)	-	350,078
	4,898,553	90,023	159,033	53,244	(43,015)	10,229	(124)	5,157,714

	31-12-2013							
			Gains/losses					
	Acquisition	Interest	in hedging	Gains/(losses) recorded in reserves				Book
Description	cost	receivable	operations	Gains	Losses	Total	Impairment	value
Treasury bonds - Portugal								
. Maturing in one year	649,159	4,981	12,388	-	(7,573)	(7,573)	-	658,955
. Maturing betw een three and five years	517,531	6,447	-	-	(4,195)	(4,195)	-	519,783
. Maturing betw een five and ten years	675,000	17,728	93,220	-	(124,701)	(124,701)	-	661,247
Treasury bills - Portugal	288,293	-	-	106	-	106	-	288,399
Other	487	5	-	-	-	-	(231)	261
	2,130,470	29,161	105,608	106	(136,469)	(136,363)	(231)	2,128,645
Treasury bonds - Spain								
. Maturing betw een five and ten years	1,000,000	23,028	120,005	-	(75,105)	(75,105)	-	1,067,928
Treasury bills - Portugal								
Other	7,249	80	-	109	-	109	-	7,438
	1,007,249	23,108	120,005	109	(75,105)	(74,996)	-	1,075,366
	3,137,719	52,269	225,613	215	(211,574)	(211,359)	(231)	3,204,011

On June 30, 2014 and December 31, 2013, the Bank held in its portfolio Treasury Bonds of Portugal and Spain amounting to tEuros 3,742,885 and tEuros 2,667,438 respectively, used as collateral in financing operations (Note 19).

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

On June 30, 2014 and December 31, 2013, the caption “Debt instruments – Issued by residents - Other residents” includes, amongst others, the following securities:

	30-06-2014					31-12-2013				
Description	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value	Acquisition cost	Interest receivable	Fair value reserve	Impairment	Book value
Acquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	83,030	78	(8,678)	-	74,430	86,455	87	(23,329)	-	63,213
Other	50	-	(20)	-	30	50	-	(20)	-	30
	83,080	78	(8,698)	-	74,460	86,505	87	(23,349)	-	63,243
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	252,353	4,209	18,650	-	275,212	199,820	7,144	6,521	-	213,485
BANCO COMERCIAL PORTUGUES 22/06/2017	106,450	117	3,345	-	109,912	-	-	-	-	-
GALP ENERGIA 2013/2017	99,339	456	3,406	-	103,201	99,226	446	1,141	-	100,813
CGD 3% 2014/2019	49,960	686	3,188	-	53,834	-	-	-	-	-
SONAE DISTRIBUICAO SET 2007/2015	35,000	103	(1,090)	-	34,013	35,000	98	(2,295)	-	32,803
GALP ENERGIA SGPS SA-4.125-25/01	23,970	412	913	-	25,295	-	-	-	-	-
OBRIGAÇÕES ZON MULTIMÉDIA 2014	24,300	45	24	-	24,369	24,300	50	(294)	-	24,056
IBERWIND II P- CONSULTORIA SENIOR A	29,072	28	(4,920)	-	24,180	29,956	32	(5,845)	-	24,143
EDIA 2010/2030	19,250	228	292	-	19,770	19,250	227	(1,413)	-	18,064
Other	18,125	169	(748)	(231)	17,315	9,032	16	(1,373)	(231)	7,444
	657,819	6,453	23,060	(231)	687,101	416,584	8,013	(3,558)	(231)	420,808
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	117,970	26	-	(7,966)	110,030	111,360	32	-	(11,193)	100,199
TOTTA SEGUROS - OBRIG. SUB. 2002	14,000	1	(1,916)	-	12,085	14,000	2	(5,150)	-	8,852
Other	2,895	3	(1,031)	-	1,867	2,873	2	(2,106)	-	769
	134,865	29	(2,947)	(7,966)	123,981	128,233	36	(7,256)	(11,193)	109,820

In the last quarter of 2012, the Bank acquired to Santander Totta Seguros – Companhia de Seguros de Vida, S.A. subordinated bonds issued by Caixa Geral de Depósitos, S.A. by an amount that was tEuros 15,674 above its fair value. Following this operation, impairment losses of the same amount were recorded. During the first half of 2014 and during the year 2013, the Bank reversed impairment losses of tEuros 3,227 and tEuros 4,481, respectively, on that security due to its valuation.

On June 30, 2014 and December 31, 2013, the caption "Equity instruments" includes the following securities:

	30-06-2014				31-12-2013			
Description	Acquisition cost	Fair value reserve	Impairment	Book value	Acquisition cost	Fair value reserve	Impairment	Book value
Valued at fair value								
FUNDO SOLUÇÃO ARRENDAMENTO	28,915	(954)	-	27,961	24,915	(319)	-	24,596
FUNDO RECUPERAÇÃO FCR	31,707	-	(6,209)	25,498	28,491	-	(3,850)	24,641
LUSIMOVEST - F.I. IMOBILIÁRIO	26,379	-	(2,763)	23,616	26,379	-	(1,998)	24,381
BANCO BPI, SA	21,502	(2,886)	-	18,616	-	-	-	-
GARVAL - SOC.DE GARANTIA MUTUA S.A.	1,641	73	-	1,714	1,759	51	-	1,810
Other	8,603	365	(3,567)	5,401	6,690	316	(3,392)	3,614
Securities with 100% impairment losses	33,396	-	(33,396)	-	33,415	-	(33,415)	-
	152,143	(3,402)	(45,935)	102,806	121,649	48	(42,655)	79,042
Valued at historical cost								
SIBS - SOC.INTERBANCÁRIA DE SERVIÇOS S.A.	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3,749	-	(531)	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (ex-AENOR) (Supplementary capital contributions) (ex-AENOR)	3,749	-	(531)	3,218	3,749	-	(531)	3,218
Other	4,898	-	(1,335)	3,563	4,951	-	(1,339)	3,612
Securities with 100% impairment losses	5,026	-	(5,026)	-	5,027	-	(5,027)	-
	20,883	-	(7,423)	13,460	20,937	-	(7,428)	13,509

In the first half of 2014 and in the year 2013, the Bank subscribed capital calls of Fundo Recuperação, FCR in the amounts of tEuros 3,216 and tEuros 3,477, respectively. On June 30, 2014 and December 31, 2013, the Bank held in its portfolio 31,698 and 28,484 participating units corresponding up to 4.12% of the capital of that Fund.

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

On June 30, 2014 and December 31, 2013, the Bank held 5,859,611 and 5,020,942 of participating units of the "Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado" in the amount of tEuros 27,961 and tEuros 24,596, respectively, which were subscribed through a cash payment of tEuros 2 and the remaining through the delivery of land and buildings.

In the first half of 2014 the Bank acquired to Santander Totta Seguros – Companhia de Seguros de Vida, S.A. shares of Banco BPI, S.A. in the amount of tEuros 21,502, which on June 30, 2014 amounted to tEuros 18,616.

On June 30, 2014 and December 31, 2013, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets present the following percentages against their cost of acquisition:

	30-06-2014				
	Acquisition cost	Interest receivable	Gains/(losses) on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	1,116,710	3,623	154,389	(61,345)	1,213,377
. Between 25% and 50%	2,945	3	-	(1,051)	1,897
	1,119,655	3,626	154,389	(62,396)	1,215,274
Equity Instruments					
. Between 0% and 25%	51,027	-	-	(3,866)	47,161
	1,170,682	3,626	154,389	(66,262)	1,262,435

	31-12-2013				
	Acquisition cost	Interest receivable	Gains/(losses) on hedging operations	Negative reserve	Book Value
Debt Instruments					
. Between 0% and 25%	2,968,000	52,608	225,613	(224,250)	3,021,971
. Between 25% and 50%	100,505	88	-	(28,500)	72,093
. Over 50%	2,873	3	-	(2,105)	771
	3,071,378	52,699	225,613	(254,855)	3,094,835
Equity Instruments					
. Between 0% and 25%	24,988	-	-	(326)	24,662
	3,096,366	52,699	225,613	(255,181)	3,119,497

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

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This caption is made up as follows:

	30-06-2014	31-12-2013
Loans and advances to the European Central Bank	-	1,600,000
Loans and advances to other Portuguese banks		
Deposits	200,000	200,407
Loans	24,215	36,522
Interest receivable	3,657	3,523
	227,872	240,452
Loans and advances to other foreign banks		
Deposits	860,942	1,158,953
Other applications	178,016	68,797
Very short term loans and advances	171,997	172,463
Interest receivable	15,060	30,305
	1,226,015	1,430,518
	1,453,887	3,270,970

On June 30, 2014 and December 31, 2013, the caption "Loans and advances to other foreign banks - Other applications" includes margin accounts of tEuros 103,364 and tEuros 172,446, respectively.

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

10. LOANS AND ADVANCES TO CUSTOMERS

This caption is made up as follows:

	30-06-2014	31-12-2013
Unsecuritised credit		
Domestic loans		
To corporate clients		
Loans	3,803,123	3,898,652
Current account loans	909,761	1,011,146
Factoring	1,005,582	995,271
Finance leasing	472,768	460,387
Overdrafts	144,040	105,260
Discount and credit securities	146,356	144,180
Other credits	20,145	20,309
To individuals		
Mortgage loans	12,350,075	12,554,234
Consumer credit and other loans	1,718,022	1,722,630
Foreign loans		
To corporate clients		
Loans	153,672	132,935
Factoring	56,892	57,974
Current account loans	9,934	11,615
Finance leasing	1,776	2,282
Overdrafts	53	440
Other credits	3,004	3,231
Discount and credit securities	206	128
To individuals		
Mortgage loans	346,550	361,067
Consumer credit and other loans	30,041	32,147
	21,172,000	21,513,888
Loans represented by securities		
Non-subordinated securities		
Commercial paper	2,049,557	2,003,612
Non-derecognised securitised assets (Note 45)		
Companies		
Finance leasing		
. Leasetotta nº 1	293,792	335,458
To individuals		
Loans		
. Mortgage loans		
. Hipototta nº 1	167,867	177,830
. Hipototta nº 4	1,068,089	1,103,384
. Hipototta nº 5	921,451	945,687
Finance leasing		
. Leasetotta nº 1	138	206
	2,451,337	2,562,565

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

	30-06-2014	31-12-2013
Overdue loans and interest		
Up to 90 days	40,021	61,292
More than 90 days	1,017,527	948,738
Non-derecognised securitised assets	61,812	63,934
	1,119,360	1,073,964
	26,792,254	27,154,029
Interest receivable		
Unsecuritised credit	44,515	47,101
Loans represented by securities	6,182	4,791
Non-derecognised securitised assets	3,111	3,165
Deferred expenses	72,644	77,414
Commissions associated with amortised cost (net)	(99,537)	(105,303)
Value adjustments of hedged assets	4,383	4,200
	31,298	31,368
	26,823,552	27,185,397
Impairment of loans and advances to customers (Note 22)	(1,135,165)	(1,077,876)
	25,688,387	26,107,521

During the year 2013, 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 amounting to tEuros 2,321.

On June 30, 2014 and December 31, 2013, the caption “Domestic loans - To individuals – Mortgage loans” includes loans allocated to the autonomous pool associated to the covered bonds issued by the Bank totalling tEuros 8,265,621 and tEuros 8,245,739, respectively (Note 21).

Changes in impairment of loans and advances to customers during the first half of 2014 and 2013 are presented in Note 22.

On June 30, 2014 and December 31, 2013, overdue loans and interest are made up as follows:

	30-06-2014	31-12-2013
Up to three months	40,021	61,292
Between three and six months	44,305	32,115
Between six months and one year	152,016	163,839
Between one year and three years	621,324	627,701
More than three years	261,694	189,017
	1,119,360	1,073,964

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

On June 30, 2014 and December 31, 2013, overdue loans and performing loans, with and without evidence of impairment, considering the segmentation used for the calculation of impairment losses by the Bank, are as follows:

	30-06-2014		
	Overdue loans	Performing loans	Total loans
Loans granted to companies			
.Without objective evidence of impairment	-	8,765,698	8,765,698
.With objective evidence of impairment	592,180	461,320	1,053,500
	592,180	9,227,018	9,819,198
Mortgage loans			
.Without objective evidence of impairment	-	13,915,751	13,915,751
.With objective evidence of impairment	336,218	780,948	1,117,166
	336,218	14,696,699	15,032,917
Consumer credit			
.Without objective evidence of impairment	-	1,053,107	1,053,107
.With objective evidence of impairment	42,286	50,594	92,880
	42,286	1,103,701	1,145,987
Loans granted through credit cards			
.Without objective evidence of impairment	-	249,991	249,991
.With objective evidence of impairment	36,855	4,175	41,030
	36,855	254,166	291,021
Other loans to individuals			
.Without objective evidence of impairment	-	332,061	332,061
.With objective evidence of impairment	111,822	59,249	171,070
	111,822	391,310	503,131
	1,119,360	25,672,894	26,792,254

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

	31-12-2013		
	Overdue loans	Performing loans	Total loans
Loans granted to companies			
.Without objective evidence of impairment	-	9,015,937	9,015,937
.With objective evidence of impairment	562,922	324,947	887,869
	562,922	9,340,884	9,903,806
Mortgage loans			
.Without objective evidence of impairment	-	14,314,279	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

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

11. HEDGING DERIVATIVES

This caption is made up as follows:

	30-06-2014			31-12-2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	53,692	176,666	(122,974)	46,101	272,356	(226,255)
Equity swaps	50,462	28,435	22,027	51,381	37,484	13,897
AutoCallable options	112	687	(575)	-	49,951	(49,951)
Cash flow hedges						
Interest rate swaps	89,111	35,755	53,356	101,945	10,893	91,052
	193,377	241,543	(48,166)	199,427	370,684	(171,257)

On June 30, 2014 and December 31, 2013, the breakdown of the derivative financial instruments was as follows:

	30-06-2014								
		Notional amounts						Notional amounts	
Type of financial Instruments	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	-	63,363	54,522	8,166	-	-	126,051	61,590	64,461
. Sold		(63,363)	(54,509)	(8,142)	-	-	(126,014)	(63,271)	(62,743)
Currency swaps									
. Purchased	2,025	1,515,709	-	-	-	-	1,515,709	109,874	1,405,835
. Sold		(1,513,496)	-	-	-	-	(1,513,496)	(1,403,670)	(109,826)
Interest rate swaps									
Cross urrency swaps									
. Purchased	-	-	-	-	56,912	40,435	97,347	97,347	-
. Sold		-	-	-	(56,912)	(40,435)	(97,347)	-	(97,347)
Other	(8,296)	73,399	164,449	748,829	1,096,057	3,537,349	5,620,083	5,600,753	19,330
Equity swaps	694	53,080	2,925	255,095	557,251	1,111,794	1,980,145	1,980,145	-
Currency options									
. Purchased	(1)	23,974	15,239	5,408	-	-	44,621	-	44,621
. Sold		23,974	15,239	5,408	-	-	44,621	-	44,621
Equity options									
. Purchased	-	-	-	-	332,195	-	332,195	332,195	-
. Sold		-	-	-	332,195	-	332,195	332,195	-
Caps	57	1,997	162	6,702	724,517	1,173,733	1,907,111	1,907,111	-
Floors	-	-	-	-	655,208	470,356	1,125,564	1,125,564	-
	(5,521)	178,637	198,027	1,021,466	3,697,423	6,293,232	11,388,785	10,079,833	1,308,952
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	49,065	10,870	880,110	33,508	155,250	201,224	1,280,962	1,280,962	-
. Available-for-sale financial assets	(172,039)	-	400,000	-	-	930,000	1,330,000	1,330,000	-
AutoCallable options	(575)	1,140	-	-	21,253	-	22,393	22,393	-
Equity swaps	22,027	194,682	389,175	694,099	2,193,306	309	3,471,571	3,303,981	167,590
Cash flow hedges									
Interest rate swaps									
. Cash flow	53,356	-	-	200,000	1,400,000	1,300,000	2,900,000	2,900,000	-
	(48,166)	206,692	1,669,285	927,607	3,769,809	2,431,533	9,004,926	8,837,336	167,590

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

	31-12-2013								
		Notional amounts							
	Book	Up to 3	Between 3 and	Between 6 and	Between 1	Over		Notional amounts	
Type of financial Instruments	Value	months	6 months	12 months	and 3 years	3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
. Purchased	(61)	30,337	58,904	7,202	81	-	96,524	45,471	51,053
. Sold		(30,306)	(58,916)	(7,214)	(81)	-	(96,517)	(42,220)	(54,297)
Currency swaps									
. Purchased	(6,281)	1,212,071	-	-	-	-	1,212,071	-	1,212,071
. Sold		(1,218,426)	-	-	-	-	(1,218,426)	(1,218,426)	-
Interest rate swaps									
Cross urrency swaps									
. Purchased	-	-	-	-	19,848	85,295	105,143	105,143	-
. Sold		-	-	-	(19,848)	(85,295)	(105,143)	-	(105,143)
Other	(14,208)	196,193	373,775	443,024	1,910,362	3,420,108	6,343,462	6,305,502	37,960
Equity swaps	650	60,402	39,107	58,837	818,959	1,137,609	2,114,914	2,114,914	-
FRA's	-	20,000	-	-	-	-	20,000	20,000	-
Currency options									
. Purchased	(5)	13,489	11,956	10,333	-	-	35,778	-	35,778
. Sold		13,489	11,956	10,333	-	-	35,778	-	35,778
Equity options									
. Purchased	-	-	23,079	-	346,590	-	369,669	369,669	-
. Sold		-	23,079	-	346,590	-	369,669	369,669	-
Caps	30	33,214	41,834	2,804	78,768	1,251,253	1,407,873	1,407,873	-
Floors	-	-	53,171	-	6,611	491,948	551,730	523,559	28,171
	(19,875)	330,463	577,945	525,319	3,507,880	6,300,918	11,242,525	10,001,154	1,241,371
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
. Liabilities and loans	41,625	48,320	46,510	891,120	191,241	212,566	1,389,757	1,389,757	-
. Available-for-sale financial assets	(267,880)	-	-	400,000	-	1,675,000	2,075,000	2,075,000	-
AutoCallable options	(49,951)	62,160	153,520	1,140	21,253	-	238,073	238,073	-
Equity swaps	13,897	185,571	207,162	586,121	2,426,063	34,303	3,439,220	3,270,182	169,038
Cash flow hedges									
Interest rate swaps									
. Cash flow	91,052	1,000,000	-	-	1,375,000	1,525,000	3,900,000	3,900,000	-
FRA's	-	2,200,000	-	-	-	-	2,200,000	2,200,000	-
	(171,257)	3,496,051	407,192	1,878,381	4,013,557	3,446,869	13,242,050	13,073,012	169,038

The Bank carries out derivative transactions in the scope of its activity, managing its own positions based on expectations for the market's evolution, satisfying customer's needs, or covering positions of a structural nature (hedging).

The Bank trades derivatives, namely exchange rates contracts, interest rate contracts or a combination of both. These transactions are carried out over-the-counter (OTC).

The negotiation of derivatives on over the counter (OTC) markets is based, usually, on a standard bilateral contract, which encompasses all the derivative transactions between the parties. In the case of professional relationships, an ISDA Master Agreement - International Swaps and Derivatives Association. In the case of customer relationships, a specific agreement of the Bank.

In these type of contracts the compensation of liabilities in the event of default is ruled (the scope of such compensation is provided in the contract and is regulated by Portuguese law and, for contracts executed with foreign counterparties or under foreign law by the law applicable in the relevant jurisdiction).

The derivative contract may also include an agreement of collateralization of the credit risk that arises from the transactions covered by it. 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.

(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.

12. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	30-06-2014	31-12-2013
Property received as settlement of defaulting loans	257,875	268,035
Own property for sale	32,241	28,706
Participating units	18,663	18,663
Equipment	3,225	4,021
Other properties	100	100
	-----------	----------
	312,104	319,525
	----------	----------
Impairment (Note 23)	(113.387)	(112,582)
	-----------	----------
	198,717	206,943
	======	======

The changes occurred under the caption "Non-current assets held for sale" during the first half of 2014 and during the year 2013 were as follows:

	30-06-2014										
	December 31 2013								June 30 2014		
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Note 14)	Impairment (Note 22) Increases	Impairment (Note 22) Reversals	Impairment (Note 22) Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	268,035	(87,677)	46,383	(56,543)	-	(10,697)	2,516	9,410	257,875	(86,448)	171,427
. Own property for sale	28,806	(17,978)	39	(653)	4,149	(3,351)	360	603	32,341	(20,366)	11,975
Equipment	4,021	(2,927)	1,045	(1,841)	-	(1,089)	681	762	3,225	(2,573)	652
Participating units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663
	319,525	(112,582)	47,467	(59,037)	4,149	(15,137)	3,557	10,775	312,104	(113,387)	198,717

	31-12-2013										
	December 31 2012								December 31 2013		
	Gross amount	Accumulated impairment	Increases	Sales	Transfers (Notes 9 and 15)	Impairment (Note 23) Increases	Impairment (Note 23) Reversals	Impairment (Note 23) Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
. Received as settlement of defaulting loans	245,155	(71,078)	158,002	(135,122)	-	(55,840)	18,718	20,523	268,035	(87,677)	180,358
. Own property for sale	31,528	(15,413)	114	(9,820)	6,984	(6,765)	50	4,150	28,806	(17,978)	10,828
Equipment	5,559	(3,574)	5,477	(7,015)	-	(3,914)	3,376	1,185	4,021	(2,927)	1,094
Participating units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663
	300,905	(94,065)	163,593	(151,957)	6,984	(66,519)	22,144	25,858	319,525	(112,582)	206,943

The Bank’s intention is to immediately sell all properties received as settlement of defaulting loans. These properties are classified as non-current assets held for sale and are recorded upon their initial recognition at the lowest of their fair value less expected selling costs and the accounting value of the loans recovered. Subsequently, these assets are measured at the lowest of its initial recognition value and its fair value less costs to sell and they are not depreciated. The unrealized losses on these assets, thus determined, are recognized in the income statement.

(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 the 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 build another one with identical functionality, less the amount of functional, physical and economical depreciation/obsolescence verified.

The valuations of the properties mentioned above are performed by specialized independent entities, which are accredited in the Portuguese Securities Market Commission (CMVM).

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 year 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 to occur in the short term.

13. INVESTMENT PROPERTIES

This caption is made up as follows:

	30-06-2014	31-12-2013
Properties held by Fundo Imobiliário Novimovest	420,609	449,758
Hotel	18,191	18,191
	-----------	-----------
	438,800	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, whose main assets are properties for rental.

On June 30, 2014 and December 31, 2013, the properties held by Fundo Imobiliário Novimovest have the following characteristics:

	30-06-2014	31-12-2013
Land		
Urbanized	38,651	47,809
Non-urbanized	9,378	9,457
Finished constructions		
Rented	287,292	307,213
Not rented	85,288	85.279
	-----------	-----------
	420,609	449,758
	======	======

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

On the other hand, during the first half of 2014 and during the year 2013, the properties held by Fundo Imobiliário Novimovest generated, amongst others, the following revenues and charges:

	30-06-2014	31-12-2013
Rents	10,154	22,744
Taxes	(2,022)	(4,762)
Condominium expenses	(494)	(1,369)
Maintenance and repair expenses	(609)	(945)
Insurances	(141)	(316)
	6,888	15,352

Finally, during the first half of 2013, the Bank received as settlement for a non performing loan a hotel valuated at that date in tEuros 18,660. 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 the caption "Investment properties" during the first half of 2014 and during the year 2013 were as follows:

	30-06-2014					
	Balances on December 31, 2013	Increases	Changes in the consolidation perimeter	Fair value valuation	Sales	Balances on June 30, 2014
Properties held by Fundo Imobiliário Novimovest	449,758	-	-	(20,338)	(8,811)	420,609
Hotel	18,191	-	-	-	-	18,191
	467,949	-	-	(20,338)	(8,811)	438,800

	31-12-2013					
	Balances on January 1, 2013	Increases	Changes in the consolidation perimeter	Fair value valuation	Sales	Balances on December 31 2013
Properties held by Fundo Imobiliário Novimovest	-	-	523,886	(25,978)	(48,150)	449,758
Hotel	-	18,660	-	(469)	-	18,191
	-	18,660	523,886	(26,447)	(48,150)	467,949

The impact of the fair value valuation of the investment properties is recorded in the income statement caption "Other operating income - Unrealized gains/losses 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 12.

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

On June 30, 2014 and 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:

	30-06-2014			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Investment properties	-	-	438,800	438,800

	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 on June 30, 2014 and December 31, 2013, a summary of their main characteristics, the valuation techniques adopted and the relevant inputs used in the estimation of their fair value are presented below:

Property description	Status	Amount	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	22,110	Comparative market method / Residual value method	Yield Land price and construction and sale costs by square meter
Galerias Saldanha Residence				
Shoping center in Lisbon	Rented	29,347	Income method / Comparative market method	Rent value by square meter Yield
Hotel in Cascais	Rented	18,191	Income method / Depreciated replacement cost method	Yield Vacancy rate
Warehouse in Perafita				
Warehouse in Matosinhos	Rented	16,855	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, Carnaxide				
Offices in Oeiras	Rented	12,021	Income method / Cost method	Yield Rent value by square meter
Golf courses "Vila Sol" - G1 and G2				
Golf courses in Loulé	Rented	11,738	Income method / Cost method	Yield Rent value by square meter
Logistics parks SPC - warehouses 1 and 4				
Warehouses in Vila Franca de Xira	Rented	10,211	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
		174,422		

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

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				
Shoping 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
				Vacancy 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, Carnaxide				
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
		187,278		

If an increase in the rent value per square meter occurs or an increase in the vacancy 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 the investment properties will decrease.

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

14. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these captions for the semesters ended on June 30, 2014 and 2013, are as follows:

	30-06-2014															
	31-12-2013				Write-offs and sales		Transfers		Transfers: From/to assets held for sale (Note 12)		Amortization		30-06-2014			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	of the period	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																
Property																
. Property for own use	404,845	132,012	3,843	311	456	85	-	-	(6,148)	(2,009)	3,717	-	398,552	133,635	3,843	261,074
. Leasehold expenditure	129,254	110,979	-	187	4,537	4,537	5	-	-	-	2,797	-	124,909	109,239	-	15,670
. Other property	312	6	20	-	-	-	-	-	-	-	1	-	312	7	20	285
Tangible assets in progress																
. Property for own use	537	-	-	(30)	-	-	-	-	-	-	-	-	507	-	-	507
. Leasehold expenditure	5	-	-	-	-	-	(5)	-	-	-	-	-	-	-	-	-
	534,953	242,997	3,863	468	4,993	4,622	-	-	(6,148)	(2,009)	6,515	-	524,280	242,881	3,863	277,536
Equipment																
. Furniture and fixtures	22,257	19,528	-	133	100	100	-	-	-	-	534	-	22,290	19,962	-	2,328
. Machinery and tools	3,745	3,652	-	8	9	9	-	-	-	-	18	-	3,744	3,661	-	83
. Computer hardware	125,098	115,542	-	1,912	1,959	1,959	-	-	-	-	2,032	-	125,051	115,615	-	9,436
. Indoor facilities	91,840	83,017	-	1,442	395	392	-	-	(22)	(12)	1,044	-	92,865	83,657	-	9,208
. Vehicles	19,135	13,131	-	1,060	1,163	1,135	-	-	-	-	921	-	19,032	12,917	-	6,115
. Security equipment	27,016	26,506	-	34	454	454	-	-	-	-	136	-	26,596	26,188	-	408
. Other equipment	5,730	4,414	-	94	211	194	2	-	-	-	277	-	5,615	4,497	-	1,118
. Tangible assets in progress	2	-	-	-	-	-	(2)	-	-	-	-	-	-	-	-	-
	294,823	265,790	-	4,683	4,291	4,243	-	-	(22)	(12)	4,962	-	295,193	266,497	-	28,696
Other tangible assets																
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	-	-	1,536
. Work of Art	1,536	-	-	-	-	-	-	-	-	-	-	-	1,536	281	-	1,536
	1,817	281	-	-	-	-	-	-	-	-	-	-	1,817	281	-	3,072
	831,593	509,068	3,863	5,151	9,284	8,865	-	-	(6,170)	(2,021)	11,477	-	821,290	509,659	3,863	309,304
Intangible assets																
Software purchased	361,034	308,566	-	9,455	63	61	-	-	-	-	28,253	-	370,426	336,758	-	33,668
Goodwill	-	-	-	117	-	-	-	-	-	-	-	-	117	-	-	117
Other	3,464	3,464	-	-	-	-	-	-	-	-	-	-	3,464	3,464	-	-
	364,498	312,030	-	9,572	63	61	-	-	-	-	28,253	-	374,007	340,222	-	33,785

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

	30-06-2013																
							Transfers										
							From/to assets held for sale (Note 12)										
	31-12-2012				Write-offs and sales							Exchange diferences		30-06-2013			
	Gross amount	Accumulated depreciation	Impairment (Note 22)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Amortization of the period	Impairment (Note 22)	Reversal of Impairment (Note 22)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 22)	Net amount
Tangible assets																	
Property																	
. Property for own use	408,502	126,731	3,875	720	346	346	(3,264)	(396)	3,738	15	(47)	-	-	405,612	129,727	3,843	272,042
. Leasehold expenditure	134,256	110,170	-	528	1,814	1,814	-	-	3,628	-	-	2	2	132,972	111,986	-	20,986
. Other property	306	4	20	-	-	-	-	-	1	-	-	-	-	306	5	20	281
Tangible assets in progress																	
. Property for own use	131	-	-	293	-	-	-	-	-	-	-	-	-	424	-	-	424
. Leasehold expenditure	1	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
	543,196	236,905	3,895	1,541	2,160	2,160	(3,264)	(396)	7,367	15	(47)	2	2	539,315	241,718	3,863	293,734
Equipment																	
. Furniture and fixtures	23,219	19,287	-	25	165	165	-	-	690	-	-	-	-	23,079	19,812	-	3,267
. Machinery and tools	3,966	3,854	-	4	32	32	-	-	23	-	-	-	-	3,938	3,845	-	93
. Computer hardware	124,725	113,064	-	410	463	440	-	-	2,436	-	-	-	-	124,672	115,060	-	9,612
. Indoor facilities	92,346	84,120	-	1,338	2,287	2,287	(3)	(1)	1,285	-	-	-	-	91,394	83,117	-	8,277
. Security equipment	17,708	11,970	-	489	581	502	-	-	1,582	-	-	-	-	17,616	13,050	-	4,566
. Other equipment	27,593	26,904	-	40	233	233	-	-	179	-	-	-	-	27,400	26,850	-	550
. Tangible assets in progress	5,801	4,008	-	72	68	68	-	-	318	-	-	-	-	5,805	4,258	-	1,547
	295,358	263,207	-	2,378	3,829	3,727	(3)	(1)	6,513	-	-	-	-	293,904	265,992	-	27,912
Other tangible assets																	
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Work of Art	1,537	-	-	-	-	-	-	-	-	-	-	-	-	1,537	-	-	1,537
	1,818	281	-	-	-	-	-	-	-	-	-	-	-	1,818	281	-	1,537
	840,372	500,393	3,895	3,919	5,989	5,887	(3,267)	(397)	13,880	15	(47)	2	2	835,037	507,991	3,863	323,183
Intangible assets																	
Software purchased	342,991	277,149	-	10,583	754	754	-	-	16,744	-	-	-	-	352,820	293,139	-	59,681
Goodwill	3,585	3,585	-	-	-	-	-	-	-	-	-	-	-	3,585	3,585	-	-
Other	29	29	-	-	-	-	-	-	-	-	-	-	-	29	29	-	-
	346,605	280,763	-	10,583	754	754	-	-	16,744	-	-	-	-	356,434	296,753	-	59,681

The caption “Software purchased” on June 30, 2014 and 2013 includes software acquired from Santander Tecnologia y Operaciones A.E.I.E., a European economic interest group owned by Santander Group, amounting to, net of depreciation, tEuros 32,092 and tEuros 57,929, respectively.

During the six month period ended on June 30, 2014, the Bank revised the expected useful life of its Parthenon IT platform from 5 to 3 years. As a result of that review, the amortizations of the period of the caption "Software purchased" increased tEuros 11,200.

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

15. INVESTMENTS IN ASSOCIATED COMPANIES

On June 30, 2014 and December 31, 2013, this caption was made up as follows:

	30-06-2014		31-12-2013	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
Partang, SGPS, S.A.	49.00	121,995	49.00	115,396
Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	21.50	31,229	21.50	31,265
Benim - Sociedade Imobiliária, S.A.	25.81	2,064	25.81	2,129
		155,288		148,790
Impairment of investments in associates (Note 22)				
Benim – Sociedade Imobiliária, S.A. (Benim)		(1,060)		(1,060)
		154,228		147,730

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

Under the terms of the agreement entered into between BST and CGD, on July 5, 2010 CGD exercised its purchase option over 1% of Partang's share capital. Following this operation, the Bank 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 share capital increase of Partang (July 2, 2009). CGD on July 2, 2014 did not exercise its call option.

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

On June 30, 2014 and December 31, 2013, Partang owns 51% of Banco Caixa Geral Totta de Angola, S.A..

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

The summary of the financial data from the main associated company of the Bank in May 31, 2014 (latest financial statements available) and in December 31, 2013, is as follows:

	Partang	
	31-05-2014	31-12-2013
Balance sheet		
Current assets	107	10,558
Non current assets	156,880	142,084
	156,987	152,642
Current liabilities	105	10,555
Non current liabilities	1,305	1,373
	1,410	11,928
Shareholders equity excluding net income	143,759	115,098
Net income for the period/year	11,818	25,616
Statement of income		
Operating income	11,818	25,643
Income before tax	11,818	25,643
Net income for the period/year	11,818	25,616

16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

On June 30, 2014 and December 31, 2013, these captions were made up as follows:

	30-06-2014	31-12-2013
Current tax assets:		
. Corporate income tax receivable	16,436	16,973
. Other	3,432	485
	---------	---------
	19,868	17,458
	=====	=====
Current tax liabilities:		
. Corporate income tax payable	4,386	3,361
. Tax on rental income (Fundo Novimovest)	2,022	4,762
. Corporate income tax payable from previous year	2,784	6,190
	-------	---------
	9,192	14,313
	====	=====
Deferred tax assets		
. Relating to temporary differences	447,883	500,144
. Tax losses carried forward	34,207	40,531
	-----------	-----------
	482,090	540,675
	======	======
Deferred tax liabilities		
. Relating to temporary differences	91,229	54,759
. Relating to tax credits	3,650	3,765
	---------	----------
	92,879	58,524
	=====	=====

On June 30, 2014 and December 31, 2013, the caption "Current tax assets – Corporate income tax receivable" includes tEuros 9,807 paid by the Bank concerning some corrections made by the Tax Authorities to its tax declarations in previous years. Since the Bank does not agree with the fundamentals of such corrections it appealed.

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

On June 30, 2014 and 2013, income tax for the period was made up as follows:

	30-06-2014	30-06-2013
Current tax		
. Of the period	(3,874)	(5,409)
. Special contribution to the banking sector	(13,922)	(10,802)
. Consortiums ("ACE's")	(946)	(799)
. Other	(1,008)	5,466
	(19,750)	(11,564)
Deferred tax		
. Increases and reversals of temporary differences	(11,286)	(16,087)
. (Expense)/Income for tax credits	(6,324)	6,134
	(17,610)	(9,773)
	(37,600)	(21,337)

Changes in deferred tax assets and liabilities for the semesters ending on June 30, 2014 and 2013 were as follows:

	30-06-2014				
	Balances on 31-12-2013	Comprehensive Income	Income statement	Other	Balances on 30-06-2014
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	241,282	-	(277)	-	241,005
Liabilities relating to potential capital losses	(1,999)	-	-	-	(1,999)
Revaluation of tangible assets	(3,765)	-	116	-	(3,649)
Pensions:					
Early retirement pensions	24,244	-	(6,659)	-	17,585
Retirement pensions	139,771	-	(8,321)	-	131,450
Transfer of pension liabilities to the Social Security	4,921	-	(308)	-	4,613
Long service bonuses	8,423	-	64	-	8,487
Securitization operations:					
. Premium/discount on debt issued	(251)	-	17	-	(234)
. Recognition of accrual of interest from notes with greater subordination	(8,573)	-	(133)	-	(8,706)
. Results on intra-Group securities purchases	(18,417)	-	(627)	-	(19,044)
Tax losses carried forward	40,531	-	(6,324)	-	34,207
Valuations temporarily not accepted for tax purposes:					
Tangible and intangible assets	(1,518)	-	3,206	-	1,688
Cash flow hedges	(13,092)	2,178	-	-	(10,914)
Available-for-sale financial assets	68,641	(79,845)	-	337	(10,867)
Deferred commissions	-	-	1,417	-	1,417
Capital gains	(1,767)	-	-	-	(1,767)
Application of the equity method in the valuation of investments in associated companies	(457)	-	18	-	(439)
Long-term incentives	2,495	-	201	-	2,696
Investments in subsidiaries, associates and joint ventures	1,685	-	-	-	1,685
Other	(3)	-	-	-	(3)
	482,151	(77,667)	(17,610)	337	387,211
Deferred tax asset	540,675				482,090
Deferred tax liability	(58,524)				(94,879)
	482,151				387,211

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

	30-06-2013			
	Balances on 31-12-2012	Comprehensive income	Income statement	Balances on 30-06-2013
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	235,044	-	5,352	240,396
Liabilities relating to potential capital losses	(5,754)	-	(45)	(5,799)
Revaluation of tangible assets	(3,861)	-	70	(3,791)
Pensions:				
Early retirement pensions	27,316	-	(4,293)	23,023
Retirement pensions	162,482	-	(14,635)	147,847
Transfer of pension liabilities to the Social Security	5,442	-	(302)	5,140
Long service bonuses	7,871	-	69	7,940
Securitization operations:				
. Premium/discount on debt issued	(284)	-	18	(266)
. Recognition of accrual of interest from notes with greater subordination	(8,851)	-	998	(7,853)
. Results on intra-Group securities purchases	(18,033)	-	59	(17,974)
Tax losses carried forward	27,369	-	6,314	33,683
Valuations temporarily not accepted for tax purposes:				
Tangible and intangible assets	22	-	(1,401)	(1,379)
Cash flow hedges	(28,852)	11,105	-	(17,747)
Available-for-sale financial assets	148,587	(37,548)	-	111,040
Deferred commissions	3,261	-	(1,902)	1,359
Capital gains	(1,815)	-	19	(1,796)
Application of the equity method in the valuation of investments in associated companies	(463)	-	-	(463)
Long-term incentives	3,568	-	(94)	3,474
Investments in subsidiaries, associates and joint ventures	3,226	-	-	3,226
	556,275	(26,443)	(9,773)	520,060
Deferred tax asset	631,578			579,680
Deferred tax liability	(75,303)			59,620
	556,275			520,060

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% and the deferred taxes associated with temporary differences at a rate of 29.5%.

The dividends distributed to the Bank by its subsidiaries and associated companies located in Portugal or in a European Union member state, are not taxed in result of the arrangements laid down in Article 46 of the Corporate Income Tax Code, which provides for the elimination of double taxation on distributed profits.

Tax authorities may review the Bank’s tax situation during a period of four years, except in the cases 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 the use of that right.

The Bank was subject to tax inspections up to the year 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 Tax, the Bank was also subject to an additional assessment. The corrections made to the tax base related to several matters, including, amongst others, adjustments to early retirement and utilization of provisions for overdue loans. Some of these corrections are only temporary.

As regards the additional tax assessments received, the Bank has paid them. However, the Bank has challenged the majority of those additional tax assessments.

The Bank records in the liability caption “Provisions” the amount considered to be necessary to cover the risks arising from the additional tax assessments received as well as from contingencies relating to the years not yet reviewed by the Tax Authorities (Note 22).

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

17. OTHER ASSETS

This caption is made up as follows:

	30-06-2014	31-12-2013
Other available funds	317	315
Debtors and other applications		
Debtors resulting from operations with futures	9,740	12,548
VAT recoverable	2,588	1,905
Debtors for loan interest subsidies	4,977	4,617
Other debtors	51,538	56,481
Debtors and other applications - overdue capital	6,661	6,441
Debtors - unrealised capital	38	38
Shareholders’ loans:		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestínsua - Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2,443	2,443
Gold, other precious metals, coins and medals	2,529	2,503
Promises and other assets received as settlement of defaulting loans	79,035	72,477
Income receivable	58,469	66,441
Other income receivable - securitization	4,910	4,991
Deferred costs on participations in consortiums		
NORTREM - Aluguer Material Ferroviário ACE	1,917	2,093
TREM II - Aluguer Material Circulante ACE	108	216
Deferred costs	8,618	6,891
Over-the-counter transactions pending settlement	305,075	-
Other	108,438	40.803
	647,891	281,693
Impairment losses (Note 22):		
Shareholders’ loans	(2,384)	(2,222)
Assets received as settlement of defaulting loans	(16,690)	(14,933)
Debtors and other applications	(6,128)	(5,943)
	(25,202)	(23,098)
	622,689	258,595

The caption “Debtors and other applications - Debtors resulting from operations with futures” corresponds to the current accounts maintained by the Bank in international financial institutions related to the trading of futures. Customer’s futures margin accounts are recorded under the caption “Creditors and other resources - Creditors resulting from operations with futures” (Note 25).

The balance of the caption “Debtors and other applications - Other debtors” on June 30, 2014 and December 31, 2013, includes the amount of the credit rights held over Lusimovest Fund totalling tEuros 24,500 related to redemptions settled on account of that Fund. Additionally, on June 30, 2014 and December 31, 2013, that caption included tEuros 16,600 and tEuros 16,488 related to accounts receivable by Novimovest Fund from the sale of properties.

On June 30, 2014 and December 31, 2013, the caption "Debtors and other applications - Debtors and other applications - Overdue capital" includes tEuros 5,215 and tEuros 5,017, respectively, related to overdue rents from properties leased by Novimovest Fund. For those rents, the Fund recognized impairment losses in the same amount.

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

On June 30, 2014 and December 31, 2013, the caption “Income receivable” includes mainly commissions receivable from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. associated with the sale of its insurance products (tEuros 54,227 and tEuros 56,843, respectively, on June 30, 2014 and December 31, 2013).

On June 30, 2014 and December 31, 2013, the caption “Other income receivable - securitization” corresponds to the amount receivable arising from the swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles. The amount payable related to these transactions is recorded under the caption “Other liabilities – Accrued costs – relating to swap agreements” (Note 25).

On June 30, 2014, the caption "Over the counter transactions pending settlement" refers essentially to the sale of securities, namely Portuguese and Spanish Treasury Bonds, which have been settled in the first days of July 2014.

On June 30, 2014 and December 31, 2013, the caption "Other” includes transactions pending settlement in accordance with the following detail:

	30-06-2014		31-12-2013	
	Other assets	Other liabilities (Note 25)	Other assets	Other liabilities (Note 25)
Interest receivable from swap contracts established with state owned entreprises	107,194	-	45,022	-
Cheques, values in transit and other transactions to be settled	1,244	(71,421)	25,748	(900)
Compensation system of direct debits	-	2,036	26,317	-
Amounts receivable/(payable) to group companies	-	(6,232)	14,365	-
Confirming contracts	-	(14)	9,957	-
Transfers within SEPA	-	(77,918)	(45,870)	-
Balances to be settled in ATM's	-	(39,016)	(34,736)	-
Other	-	(2,700)	-	-
	108,438	(195,265)	40,803	(900)

18. RESOURCES OF CENTRAL BANKS

This caption is made up as follows:

	30-06-2014	31-12-2013
Resources of the European Central Bank		
Demand Deposits	4,200,000	6,200,000
Interest payable	43,048	41,394
Resources of other Central Banks		
Demand deposits	8	16
	4,243,056	6,241,410

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

19. RESOURCES OF OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	30-06-2014	31-12-2013
Resources of domestic credit institutions		
Deposits	276,480	136,765
Interest payable	230	39
	276,710	136,804
Resources of foreign credit institutions		
Sale operations with repurchase agreement	4,197,503	3,082,444
Deposits	778,347	711,980
Very short term resources	49,523	41,261
Other resources	246,590	202,242
Interest payable	105	327
	5,272,068	4,038,254
	5,548,778	4,175,058

On June 30, 2014 and December 31, 2013, the caption "Resources of foreign credit institutions – Sale operations with repurchase agreement", is made up as follows, by type of underlying asset:

	30-06-2014			
Assets	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	3,166,666	1,525	(710)	3,167,481
Treasury Bonds - Spain	575,346	79	(21)	575,404
Bonds issued by BST Group in securitization operations	402,261	232	(115)	402,378
Covered bonds issued by BST	52,029	394	(183)	52,240
	4,196,302	2,230	(1,029)	4,197,503

	31-12-2013			
Assets	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1,595,639	891	(270)	1,596,260
Treasury Bonds - Spain	1,070,943	426	(191)	1,071,178
Bonds issued by BST Group in securitization operations	362,758	287	(84)	362,961
Covered bonds issued by BST	52,029	395	(379)	52,045
	3,081,369	1,999	(924)	3,082,444

On June 30, 2014 and 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).

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

20. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This caption is made up as follows:

	30-06-2014	31-12-2013
Term deposits	12,220,853	13,062,376
Demand deposits	4,679,696	4,595,022
Structured deposits	2,983,138	2,766,498
Savings deposits	30,897	36,599
Advance notice deposits	19,700	18,267
	19,934,284	20,478,762
Interest payable	157,130	156,382
Cheques and orders payable	46,950	75,843
Value adjustments of hedging operations	(608)	(3.986)
	203,472	228,239
	20,137,756	20,707,001

21. DEBT SECURITIES

This caption is made up as follows:

	30-06-2014	31-12-2013
Bonds in circulation		
Covered bonds		
Issued	7,130,000	7,132,300
Repurchased	(4,511,050)	(6,255,750)
Interest payable and other deferred costs and income	18,501	5,365
Bonds issued in securitization operations		
Issued	2,591,055	2,714,309
Repurchased	(1,473,680)	(1,538,636)
Interest payable and other deferred costs and income	(1,325)	(1,496)
Cash bonds		
Issued	537,032	614,557
Repurchased	(255,541)	(255,543)
Interest payable and other deferred costs and income	9,988	11,023
	4,044,980	2,426,129
Other		
EMTN Program	32,300	141,830
Repurchased	(1,250)	(2,940)
Interest payable and other deferred costs and income	3	4
	31,053	138,894
Value adjustments of hedging operations	7,884	(30,862)
	4,083,917	2,534,161

(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 over the cover pool which constitutes a guarantee of the debt to which the bondholders have access in case of insolvency of the issuer.

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

Between May 2008 and June 2014, BST made thirteen issues of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". On June 30, 2014 and December 31, 2013, the covered bonds had an autonomous pool of assets comprised by:

	30-06-2014	31-12-2013
Loans and advances to customers (Note 10)	8,265,621	8,245,739
Interest on loans	9,101	8,649
Commissions	(36,570)	(36,575)
Deferred expenses	9,787	11,222
	8,247,939	8,229,035
Hedging derivatives	25,541	11,642
	8,273,480	8,240,677

Changes in the debt issued by the Bank during the first half of 2014 and during the year 2013 were as follows:

	Bonds in circulation		EMTN Programme	
	Issued	Repurchased	Issued	Repurchased
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)
. Issues made	2,501,178	-	-	-
. Issues repaid	(2,581,003)	2,500,000	(109,530)	-
. Issues repurchased	-	(755,298)	-	1,690
Balances on June 30, 2014	7,667,032	(4,766,591)	32,300	(1,250)

On June 30, 2014 and December 31, 2013, the Bank had the following bonds issued under its Euro Medium Term Notes Programme:

	30-06-2014	31-12-2013
Bonds with remuneration indexed to baskets of shares		
. Maturity between one and three years	-	109,530
Bonds with remuneration indexed to Euribor		
. Maturity between three and five years	32,300	32,300
	32,300	141,830

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

Changes in bonds issued in securitization operations during the first half of 2014 and during the year 2013 were as follows:

	Bonds	
	Issued	Repurchased
Balances on December 31, 2012	4,270,551	(3,004,781)
Redemptions	(1,556,242)	1,479,075
Repurchases:		
- Hipototta No. 4 - Class A	-	(9,803)
- Hipototta No. 5 - Class A2	-	(3,127)
	-	(12,930)
Balances on December 31, 2013	2,714,309	(1,538,636)
Redemptions	(123,254)	86,416
Repurchases:		
- Hipototta No. 4 - Class A	-	(9,123)
- Hipototta No. 5 - Class A2	-	(12,337)
	-	(21,460)
Balances on June 30, 2014	2,591,055	(1,473,680)

During the first semesters of 2014 and 2013, the Bank repurchased bonds issued in securitization operations having recorded capital gains of tEuros 3,067 and tEuros 650, respectively (Note 38).

22. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment in the semesters ended on June 30, 2014 and 2013 were as follows:

	30-06-2014				
	31-12-2013	Increases	Reversals	Utilizations	30-06-2014
Provision for tax contingencies	4,474	-	(207)	-	4,267
Provision for pensions and other charges	25,478	444	-	(2,332)	23,590
Impairment and provisions for guarantees and other sureties given	9,124	4,319	(3,613)	-	9,830
Other provisions	22,963	40,412	(13,325)	(1,579)	48,471
	62,039	45,175	(17,145)	(3,911)	86,158

	30-06-2013				
	31-12-2012	Increases	Reversals	Utilizations	30-06-2013
Provision for tax contingencies	5,246	835	(702)	-	5,379
Provision for pensions and other charges	31,846	491	-	(5,341)	26,996
Impairment and provisions for guarantees and other sureties given	14,893	2,864	(1,989)	-	15,768
Other provisions	20,286	2,079	(7,802)	(972)	13,591
	72,271	6,269	(10,493)	(6,313)	61,734

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

	30-06-2014					
	31-12-2013	Impairment losses	Reversal of impairment losses	Utilizations	30-06 2014	Impairment recovery
Impairment of loans and advances to customers (Note 10):						
Domestic loans	287,036	84,316	(112,123)	-	259,229	-
Foreign loans	1,657	294	(179)	-	1,772	-
Non-derecognized securitized loans	14,669	142	(856)	-	13,955	-
Other securitized loans and receivables	12,296	-	(4,580)	-	7,716	-
Impairment of overdue loans and interest (Note 10):						
Domestic loans	694,768	142,633	(36,686)	(17,390)	783,325	(2,757)
Foreign loans	20,803	2,244	(1,876)	(12)	21,159	-
Non-derecognized securitized loans	46,647	5,488	(5,621)	(310)	46,204	-
Other securitized loans and receivables	-	1,805	-	-	1,805	-
	1,077,876	236,922	(161,921)	(17,712)	1,135,165	(2,757)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets (Note 8)	61,738	3,372	(3,406)	(25)	61,679	-
Impairment of investments in associated companies (Note 15)	1,060	-	-	-	1,060	-
	62,798	3,372	(3,406)	(25)	62,739	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 12)	112,582	15,137	(3,557)	(10,775)	113,387	-
Tangible assets (Note 14)	3,863	-	-	-	3,863	-
Other assets (Note 17)	23,098	12,067	(9,963)	-	25,202	-
	139,543	27,204	(13,520)	(10,775)	142,452	-
	1,280,217	267,498	(178,847)	(28,512)	1,340,356	(2,757)

	30-06-2013					
	31-12-2012	Impairment losses	Reversal of impairment losses	Utilizations	30-06-2013	Impairment recovery
Impairment of loans and advances to customers						
Domestic loans	319,663	65,694	(72,974)	-	312,383	-
Foreign loans	2,120	-	(173)	-	1,947	-
Non-derecognized securitized loans	22,742	133	(7,342)	-	15,533	-
Other securitized loans and receivables	3,460	1,294	-	-	4,754	-
Impairment of overdue loans and interest						
Domestic loans	543,351	184,151	(35,632)	(49,108)	642,762	(5,070)
Foreign loans	17,269	4,384	(1,422)	(110)	20,121	(2)
Non-derecognized securitized loans	54,480	9,580	(16,468)	(698)	46,894	-
Other securitized loans and receivables	2,577	-	(2,030)	-	547	-
	965,662	265,236	(136,041)	(49,916)	1,044,941	(5,072)
Impairment of other financial assets:						
Impairment of available-for-sale financial assets	58,983	10,886	(5,898)	-	63,971	-
Impairment of investments in associated companies (Note 15)	660	-	-	-	660	-
	59,643	10,886	(5,898)	-	64,631	-
Impairment of non-financial assets:						
Non-current assets held for sale (Note 12)	94,065	44,029	(16,519)	(8,945)	112,630	-
Tangible assets (Note 14)	3,895	15	(47)	-	3,863	-
Other assets	25,842	4,251	(9,160)	-	20,933	-
	123,802	48,295	(25,726)	(8,945)	137,426	-
	1,149,107	324,417	(167,665)	(58,861)	1,246,998	(5,072)

On June 30, 2014 and December 31, 2013, the provision for pensions and other charges is made up as follows:

	30-06-2014	31-12-2013
Restructuring plans	7,548	9,880
Supplementary pension plan of the Board of Directors (Note 46)	16,042	15,598
	---------	----------
	23,590	25,478
	=====	=====

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

On June 30, 2014 and December 31, 2013, the caption “Other provisions” includes:

- Provisions for legal proceedings arising from the filing of actions by customers and by Bank employees in the amounts of tEuros 8,593 and tEuros 4,094, respectively. The Legal Department of the Bank estimates the expected loss for each process based on its evolution as reported by the responsible lawyer for it; and

- Other provisions in the amounts of tEuros 39,878 and tEuros 18,869, respectively. On June 30, 2014 and December 31, 2013, these provisions were aimed essentially to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

23. SUBORDINATED LIABILITIES

This caption is made up as follows:

	30-06-2014	31-12-2013
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
	-------------	----------
	288,540	288,540
Repurchased securities	(284,265)	(284,265)
Interest payable	32	32
	--------	-------
	4,307	4,307
	====	====

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

24. EQUITY REPRESENTATIVE INSTRUMENTS

This caption is made up as follows:

	30-06-2014
Participating units in Fundo Novimovest not held by the Bank	81,483
Participating units in Fundo Multiobrigações not held by the Bank	133,122

	214,605
	======

On December 31, 2013, the amounts related to the participation units in Novimovest and Multiobrigações Funds not held by the Group arise to tEuros 102,336 and tEuros 132,701, respectively, and were recorded in the caption "Minority interests" (Note 28). As a result of the adoption in 2014 of IFRS 10 - "Consolidated Financial Statements" and the clarification regarding the nature of liability of the participating units held by third parties in Investment Funds subject to full consolidation, the above referred amounts have been reclassified to this caption.

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

25. OTHER LIABILITIES

This caption is made up as follows:

	30-06-2014	31-12-2013
Creditors and other resources		
Creditors resulting from operations with futures (Note 17)	9,736	12,548
Other resources		
Secured account resources	46,002	38,474
Collateral account resources	2,167	3,250
Other resources	1,545	1,438
Public sector		
VAT payable	1,353	3,047
Withholding taxes	22,647	17,622
Social Security contributions	3,965	3,883
Other	365	84
Collections on behalf of third parties	162	162
Contributions to other health systems	1,522	1,534
Other creditors		
Creditors under factoring contracts	29,974	45,443
Creditors for the supply of goods	9,798	9,196
Other creditors	15,793	15,483
Accrued costs:		
Relating to personnel		
Long service bonuses	28,770	28,552
Vacation and vacation subsidy	23,510	31,211
Other variable remuneration	20,124	24,593
Other personnel costs	7,177	381
General administrative costs	28,254	25,007
Relating to swap agreements (Note 17)	5,186	5,185
Other	5,177	5,146
Liabilities with pensions (Note 44):		
Total liabilities	886,407	882,308
Fair value of the Pension Fund's assets	(878,869)	(871,649)
Other deferred income	1,650	1,873
Amounts to be settled with banks and customers		
Over-the-counter transactions pending settlement	138,876	-
Liability operations to be settled	6,883	7,229
Other	195,265	900
	613,439	292,900

On June 30, 2014 and December 31, 2013, the amounts to be settled with banks and customers correspond essentially to inter-bank electronic transfers that are cleared in the first days of the following period.

On June 30, 2014, the amount under the caption "Over-the-counter transactions pending settlement" refers to the purchase of securities, namely Portuguese Treasury Bonds, which have been settled in the first days of July 2014.

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

26. SHAREHOLDERS' EQUITY

On June 30, 2014 and December 31, 2013, the Bank's share capital was represented by 656,723,284 shares, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	641,269,620	97.65	641,270
Taxagest, SGPS, S.A. (own shares)	14,593,315	2.22	14,593
Own shares	249,427	0.04	249
Other	610,922	0.09	611
	656,723,284	100.00	656,723

During the year 2013, the Bank proceeded with the acquisition of 124,258 treasury shares by the amount of tEuros 752. During the first half of 2014, there were no acquisitions of own shares.

Within the terms of Dispatch nº 408/99, of June 4, published in the Diário da República – I Série B, nº 129, the share premium, amounting to tEuros 193,390, cannot be used to pay out dividends or to purchase 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 first half of 2014 the Bank paid dividends in the amount of tEuros 1,202 (net of the dividends allocated to own shares).

During the year 2013, the Bank did not pay dividends.

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

On June 30, 2014 and December 31, 2013, the revaluation reserves were made up as follows:

	30-06-2014	31-12-2013
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	36,867	(233,775)
Available-for-sale financial assets of companies consolidated under the equity method	3,317	3,317
Cash flow hedging instruments	36,996	44,382
Actuarial gains and losses (Note 44)		
Pension Fund - BST	(615,842)	(621,069)
Pension Fund of the London branch of BST	(5,615)	(6,076)
Actuarial gains and losses of companies consolidated under the equity method	(1,378)	(1,378)
Foreign exchange differences in consolidation	(8,605)	(10,208)
Legal revaluation reserves as at the transition date to the IFRS	23,245	23,245
	(531,015)	(801,562)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets	(10,862)	69,983
Available-for-sale financial assets of companies consolidated under the equity method	(788)	(788)
Cash flow hedging instruments	(10,914)	(13,092)
Tax impact of actuarial gains and losses	175,555	176,863
Tax impact from the change in accounting policies of companies consolidated under the equity method	400	400
Relating to the revaluation of tangible assets	(3,766)	(3,861)
Relating to the revaluation of tangible assets of companies consolidated under the equity method	(132)	(132)
	149,493	228,373
	(381,522)	(573,189)

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 February 11, the Bank revalued its tangible fixed assets which resulted in an increase in the respective value, net of accumulated depreciation, of approximately tEuros 23,245, which was recognised in revaluation reserves. The net amount resulting from the revaluation may only be used for capital increases or to offset losses through the use (amortization) or sale of the assets it relates to.

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

On June 30, 2014 and December 31, 2013, the caption "Other reserves and retained earnings" was made up as follows:

	30-06-2014	31-12-2013
Legal reserve	246,107	245,862
Other reserves		
Reserves of consolidated companies	157,338	149,216
Reserves of companies consolidated under the equity method	89,738	81,660
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	59	619
	914,394	898,754
Retained earnings	373,841	332,601
	1,534,342	1,477,217

Legal reserve

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

This reserve may only be used to offset accumulated losses or to increase share capital.

Merger reserve

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

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

27. CONSOLIDATED NET INCOME FOR THE PERIOD

Consolidated net income for the first semesters of 2014 and 2013 may be summarised as follows:

	30-06-2014		30-06-2013	
	Net income for the period	Contribution to the consolidated net income	Net income for the period	Contribution to the consolidated net income
Net income of BST (individual basis)	78,069	78,069	(1,338)	(1,338)
Net income of the other Group companies:				
Totta Ireland, Plc.(1)	16,478	16,478	29,436	29,436
Novimovest - Fundo de Investimento Imobiliário Aberto	(17,784)	(13,476)	-	-
BST International Bank, Inc.	9,939	9,939	10,312	10,312
Banco Caixa Geral Totta de Angola, S.A. (BCGTA)	23,226	5,804	22,752	5,686
Totta & Açores, Financing, Ltd (TAF)	6,180	6,180	6,180	6,180
Partang, SGPS, S.A.	11,818	5,791	11,661	5,714
Santander Multiobrigações Fundo	4,692	3,028	-	-
Unicre, S.A.	5,232	1,125	5,386	1,158
Totta Urbe. S.A.	332	332	278	278
Serfin International Bank & Trust (SIBT)	133	133	170	170
Taxagest, S.A.	119	118	190	188
Santotta - Internacional, SGPS, S.A.	40	40	(27)	(27)
Totta & Açores, Inc. - Newark	28	28	30	30
Santander Gestão de Activos, SGPS, S.A.	11	11	832	832
Santander Asset Management, SGFIM, S.A.	-	-	1,040	1,040
Santander Pensões, S.A.	-	-	397	397
	60,444	35,531	88,637	61,394
Elimination of dividends:				
Totta Ireland, Plc.		(24,600)		(34,500)
Banco Caixa Geral Totta Angola, S.A.		(7,543)		-
Unicre, S.A.		(1,161)		(985)
Santander Gestão de Activos, SGPS, S.A.		(7,763)		-
Santander Pensões, S.A.		-		(760)
		(41,067)		(36,245)
Elimination of the equity method application by Partang in the participation held in BCGTA		429		(6,133)
Gains on the repurchase by the Group of bonds issued in securitization operations (Note 38)		3,067		650
Adjustments related with securitization operations		6,933		7,395
Other		(1,677)		(1,542)
Consolidated net income for the period		81,285		24,181

(1) As this subsidiary closes its financial year on November 30, the amount reflected corresponds to the net income generated in the period comprised between December 1 and June 30, deducted from the net income of the month of December 2013 and 2012, which amounted to tEuros 2,732 and tEuros 4,040, respectively.

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 period.

	30-06-2014	30-06-2013
Consolidated net profit attributable to shareholders of BST	81,285	24,181
Weighted average number of common shares issued	656,723,284	656,723,284
Weighted average number of treasury shares	14,842,742	14,702,114
Weighted average number of ordinary shares outstanding	641,880,542	642,021,170
Basic earnings per share attributable to shareholders of BST (in Euros)	0.13	0.04

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

28. MINORITY INTERESTS

Third parties participations in Group's companies, during the first half of 2014 and during the year 2013, have the following detail by entity:

	Balance Sheet		Income Statement	
	30-06-2014	31-12-2013	30-06-2014	30-06-2013
Preference shares of BST International Bank, Inc.	263,582	261,040	-	-
Preference shares of TAF	300,000	300,000	-	-
Santander Multiobrigações Fund	-	132,701	-	-
Novimovest Fund	-	102,353	-	-
Dividends received in advance	(1,414)	(1,407)	-	-
Taxagest	554	554	-	-
Other	129	129	(2)	(2)
	562,850	795,370	(2)	(2)

On June 30, 2014, the amounts related to the participation units of Multiobrigações and Novimovest Funds not held by the Bank arise to tEuros 133,122 and tEuros 81,483, respectively, and were recorded in the caption "Equity representative instruments" (Note 24).

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 Puerto Rico guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56% payable if and when declared by BST Puerto Rico's directors, at the beginning of January of each year. BST Puerto Rico may redeem the preference shares, in full or in part, from June 30, 2016 at 100,000 USD per share plus the amount of the dividend accrued monthly since the last payment made.

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

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

- The Issuer 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.

On June 30, 2014 and December 31, 2013, the main financial data of BST International Bank, Inc. (BST Puerto Rico) and Totta & Açores Financing (TAF), were as follows:

	30-06-2014		31-12-2013	
	BST Puerto Rico (*)	TAF	BST Puerto Rico (*)	TAF
Balance sheet				
Cash and deposits at central banks	-	5,608	-	11,787
Balances due from other banks	573,776	297,750	593,203	297,750
Other assets	1,586	2,250	1,634	2,250
	575,362	305,608	594,837	311,787
Resources of other credit institutions	20,109	-	9,207	-
Resources of customers and other debts	170,883	-	190,623	-
Other liabilities	2,031	-	2,672	-
	193,023	-	202,502	-
Shareholders' equity (excluding net income)	368,719	299,427	365,179	299,427
Net income for the period/year	13,260	6,180	27,156	12,360
	575,362	305,608	594,837	311,787
Statement of income				
Net interest income	13,870	6,555	27,499	13,110
Operating income	13,821	6,668	27,565	13,335
Income before tax	13,620	6,180	27,156	12,360
Net income for the period/year	13,620	6,180	27,156	12,360

(*) Amounts expressed in thousands of United States Dollars.

29. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	30-06-2014	31-12-2013
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,081,512	1,185,467
Documentary credits	252,736	199,314
Assets pledged as guarantee		
Regarding loans of securities	531,880	526,722
Regarding Bank of Portugal	142,841	142,677
Regarding Deposit Guarantee Fund	74,750	71,645
Regarding Investor Indemnity System	5,555	4,980
Other contingent liabilities	6	6
	2,089,280	2,130,811
Commitments		
Credit lines		
Revocable	4,114,257	4,207,922
Irrevocable	767,160	652,278
Deposit Guarantee Fund	54,092	54,092
Investor Indemnity System	3,640	3,178
Other irrevocable commitments	11,870	11,447
Other revocable commitments	215	215
	4,951,234	4,929,132
Liabilities for services rendered		
Deposit and custodial services	59,549,698	51,992,816
Amounts received for collection	113,448	142,214
Assets managed by the Bank		
Other values	7	13
	59,663,153	52,135,043

(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 through the delivery of 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 in the year to which they relate.

In 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, in the amount of tEuros 3,918. In that year, the Bank also accepted an irrevocable commitment to the Deposit Guarantee Fund to pay the remaining 10% of the annual contribution if and when required to do so. The total accumulated unpaid amount of this commitment as at June 30, 2014 and 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 the first half of 2014 and during the year of 2013, the Bank paid the full amount of the annual contribution amounting to tEuros 4,222 and tEuros 4,642, respectively.

Investor Indemnity System (SII)

The liability towards the Investor Indemnity System is not recorded as a cost but is covered by the acceptance of an irrevocable commitment to pay that liability, if required to do so, being part (50%) of the commitment guaranteed by a pledge of Portuguese Treasury Bonds. On June 30, 2014 and December 31, 2013, this liability arise to tEuros 3,640 and tEuros 3,178, respectively.

30. INTEREST AND SIMILAR INCOME

This caption is made up as follows:

	30-06-2014	30-06-2013
Interest on cash and deposits		
In Central Banks		
In the European Central Bank	167	588
In credit institutions	7	9
Interest on applications		
In domestic credit institutions		
In the European Central Bank	1	-
In other credit institutions	2,541	2,503
In foreign credit institutions	18,296	28,170
Interest on loans and advances to customers		
Domestic loans	285,151	300,811
Foreign loans	7,964	8,333
Other loans and receivables (commercial paper)	33,365	31,223
Income from commissions associated to amortised cost	16,433	18,199
Interest from securitized assets not derecognised	17,642	24,181
Interest on overdue credit	3,360	4,647
Interest and similar income on other financial assets		
Available-for-sale financial assets	105,276	73,285
Financial assets at fair value through profit or loss	316	2,266
Hedging derivatives	108,283	124,456
Financial assets held for trading	4,919	-
Other interest and similar income		
Swap agreements	16,716	25,079
Other	871	450
	621,308	644,200

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

31. INTEREST AND SIMILAR CHARGES

This caption is made up as follows:

	30-06-2014	30-06-2013
Interest on customers' deposits		
Public sector	1,077	5,638
Emigrants	6,906	9,667
Other-residents	152,300	178,074
Non-residents	9,802	15,608
	170,085	208,987
Interest on other customers' resources	1,686	-
Interest on resources of Central Banks		
European Central Bank	10,557	12,030
Interest on resources of credit institutions		
Domestic	964	517
Foreign	20,094	13,601
Interest on debt securities issued		
Bonds	24,060	27,388
Other	139	295
Interest on hedging derivatives	109,172	107,598
Interest and commissions on other subordinated liabilities	46	46
Other interest and similar charges		
Swap agreements	18,152	26,978
Others	79	127
	184,949	188,580
	355,034	397,567

32. INCOME FROM EQUITY INSTRUMENTS

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

	30-06-2014	30-06-2013
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	1,090	881
Others	48	151
	1,138	1,032

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

33. INCOME FROM SERVICES AND COMMISSIONS

This caption is made up as follows:

	30-06-2014	30-06-2013
On guarantees given		
Guarantees and sureties	7,882	8,317
Documentary credits	2,017	1,657
On commitments to third parties		
Revocable	1,845	2,504
Irrevocable	972	1,429
On services rendered		
Card transactions	29,123	33,969
Credit operations	16,069	25,669
Real estate and mutual fund management	8,491	14,383
Annuities	7,783	7,129
Funds for collection and management	4,601	6,411
Other	4,550	3,785
On operations carried out on behalf of third parties		
On securities	15,536	24,401
Other	156	209
Other commission received		
Insurance companies	45,840	46,503
Demand deposits	13,004	11,964
Cheques	3,910	6,261
Other	3,299	6,294
	165,078	200,885

34. CHARGES WITH SERVICES AND COMMISSIONS

This caption is made up as follows:

	30-06-2014	30-06-2013
On guarantees received		
Guarantees and sureties	909	264
On commitments assumed by third parties		
Revocable commitments	-	76
On banking services rendered by third parties		
Credit operations	6,966	6,793
Funds for collection and management	1,250	1,770
Customer transactions	13,143	14,502
Other	4,279	2,353
On operations carried out by third parties		
Securities	1,243	848
Other	516	648
Other commission paid	150	184
	28,456	27,438

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

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

This caption is made up as follows:

	30-06-2014	30-06-2013
Financial assets held for trading:		
Equity instruments	(167)	2,509
Debt instruments	4.415	-
Derivative instruments:		
. FRA's	-	(19)
. Swaps:		
Currency swaps	(46)	(176)
Interest rate swaps	(112,608)	4,675
Equity swaps	131	1,765
Other	(4,000)	(46)
. Options:		
Foreign exchange rate contracts	85	245
Interest rate contracts	-	74
Equity contracts	(56)	145
Other	39	-
. Futures:		
Equity contracts	3	-
. Interest rate guarantee contracts	326	14
Financial assets and liabilities at fair value through profit or loss	-	(1,068)
	-----------	---------
	(111,878)	8,118
	-----------	---------
Hedging derivatives:		
Swaps		
. Interest rate swaps	63,102	51,167
. Equity swaps	(225)	(32,066)
. "Auto-callable" options	2,173	(1,966)
Value adjustments of hedged assets and liabilities	(64.903)	(17.744)
	----------	----------
	147	(609)
	-----------	--------
	(111,731)	7,509
	======	====

On June 30, 2014, the balance of the caption “Financial assets held for trading - Derivative instruments: Swaps: Interest rate swaps” includes tEuros 115,376 related to the cancellation of the positive valuation of some hedge items as a consequence of the sale of a group of securities (Note 36) for which hedge accounting had been applied.

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

36. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	30-06-2014			30-06-2013		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	88,415	-	88,415	571	-	571
Issued by non-residents						
Foreign public issuers	96,733	-	96,733	-	-	-
Equity instruments						
Value at fair value	58	-	58	-	-	-
Valued at historical cost	39	(1)	38	-	-	-
Other	-	-	-	-	(1,398)	(1,398)
	185,245	(1)	185,244	571	(1,398)	(827)

37. RESULT OF FOREIGN EXCHANGE REVALUATION

This caption is made up as follows:

	30-06-2014	30-06-2013
Gains on the revaluation of the foreign exchange position	18,699	20,601
Losses on the revaluation of the foreign exchange position	(16,470)	(18,872)
	-------	-------
	2,229	1,729
	====	====

38. RESULT FROM THE SALE OF OTHER ASSETS

This caption is made up as follows:

	30-06-2014	30-06-2013
Gains on tangible assets	2,100	1,290
Gains on the repurchase of bonds issued under mortgage securitization operations (Note 21)	3,067	650
Gains on non-current assets held for sale	1,575	932
Gains on the sale of loans and advances to customers	-	1,647
Other	63	-
	-------	--------
	6,805	4,519
	-------	--------
Losses on tangible assets	(152)	(1,052)
Losses on non-current assets held for sale	(780)	(2,304)
Other	(1,725)	(17)
	--------	---------
	(2,657)	(3,373)
	--------	---------
	4,148	1,146
	====	====

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

39. OTHER OPERATING RESULTS

This caption is made up as follows:

	30-06-2014	30-06-2013
Other operating income		
Rents received	10,354	177
Income from sundry services rendered	2,065	3,367
Reimbursement of expenses	1,368	1,354
Unrealized gains on investment properties (Note 13)	6,088	-
Other	12,773	8,792
	32,648	13,690
Other operating expenses		
Unrealized losses on investment properties (Note 13)	(26,426)	-
Other operating expenses	(13,211)	(15,447)
Subscriptions and donations	(2,660)	(1,845)
Contributions to the Deposit Guarantee Fund	(2,181)	(2,412)
Contributions to the Resolution Fund	(1,264)	(276)
Other taxation		
Direct	(592)	(977)
Indirect	(641)	(468)
	(46,975)	(21,425)
	(14,327)	(7,735)

In the semester ended on June 30, 2014, the caption “Rents received” includes the amount of tEuros 10,054 related to the income earned by Novimovest Fund.

The Decree-Law nº 24/2013, of February 19, established the system of contributions for banks to the new Resolution Fund created with the purpose of prevention, mitigation and containment of systemic risk. According to the Notice nº 1/2013 and the Instructions nº 6/2013 and 7/2013 of the Bank of Portugal, the Bank should pay an initial and a regular contribution to the Resolution Fund.

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

40. STAFF COSTS

	30-06-2014	30-06-2013
Remuneration		
Management and supervisory boards (Note 46)	3,500	2,725
Employees	91,429	92,745
Stock option plans (Note 47)	460	1,196
Other variable remuneration	11,055	13,773
	106,444	110,439
Mandatory social charges		
Charges on remuneration	25,076	24,984
Charges with pensions and other benefits (Note 44)	995	635
Reduction of liabilities with death subsidy (Note 44)	-	(416)
Other mandatory social charges	385	768
	26,456	25,971
Other staff costs		
Staff transfers	320	263
Supplementary retirement plan (Note 44)	291	291
Other	1,916	2,129
	2,527	2,683
	135,427	139,093

During the first semesters of 2014 and 2013, the Bank did not record any cost with early retirements as it used part of the provisions recorded for that purpose (Note 22).

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

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

41. GENERAL ADMINISTRATIVE COSTS

This caption is made up as follows:

	30-06-2014	30-06-2013
Specialised services	20,526	19,769
Maintenance of software and hardware	18,048	18,091
Communications	5,947	6,621
Rent and leases	5,086	5,193
Advertising and publishing	5,242	4,834
External supplies		
Water, electricity and fuel	3,796	3,764
Current consumable material	985	975
Other	98	127
Travel, lodging and representation expenses	2,135	2,245
Maintenance and repairs	1,858	1,246
Transportation	1,108	1,111
Staff training	736	888
Insurance	570	378
Other	2,677	1,483
	---------	----------
	68,812	66,725
	=====	=====

42. RESULTS FROM ASSOCIATES

This caption is made up as follows:

	30-06-2014	30-06-2013
Partang, SGPS, S.A.	5,882	5,956
Unicre - Instituição Financeira de Crédito, S.A.	1,125	528
Benim - Sociedade Imobiliária, S.A.	(64)	-
	-------	--------
	6,943	6,484
	====	====

Partang SGPS, S.A. is held by the Bank in 49% and holds 51% of the share capital of Banco Caixa Geral Totta Angola, S.A..

43. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered refers mainly to the commissions charged to Santander Totta Seguros - Companhia de Seguros de Vida S.A. for the commercialization of their products (Note 17) and is made up as follows:

	30-06-2014			30-06-2013		
	Life Insurance	Non-Life Insurance	Total (Note 33)	Life Insurance	Non-Life Insurance	Total (Note 33)
Santander Totta Seguros	39,870	89	39,959	39,870	107	39,977
Other	-	5,881	5,881	-	6,526	6,526
	---------	---------	---------	---------	--------	-----------
	39,870	5,970	45,840	39,870	6,633	46,503
	=====	=====	=====	=====	=====	======

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

On June 30, 2014 and December 31, 2013, the caption “Other assets – Income receivable” (Note 17) includes commission’s receivable from insurance companies, as follows:

	30-06-2014	30-06-2013
Santander Totta Seguros	54,227	56,843
Other	925	1,197
	---------	----------
	55,152	58,040
	=====	=====

These amounts refer essentially to the commissions earned on insurance premiums sold during the first two quarters of 2014 and during the last quarter of 2013 and during the last three quarters of 2013, respectively.

44. EMPLOYEES’ POST EMPLOYMENT BENEFITS

For the purpose of determining BST’s past service liability relating to the servicing and retired employees, actuarial studies were carried out by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability and the corresponding current service cost were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy on June 30, 2014 and in the four previous years, as well as the respective coverage, are as follows:

	30-06-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010
Estimated past service liability					
- Pensions					
. Current employees	289,099	282,028	251,252	210,669	275,580
. Pensioners	23,859	22,891	21,002	18,455	36,406
. Retired and early retired staff	393,504	399,434	388,656	387,608	855,952
	706,462	704,353	660,910	616,732	1,167,938
- Healthcare benefits (SAMS)	138,505	137,970	129,267	117,422	127,822
- Death subsidy	4,676	4,562	4,331	16,973	18,184
	849,643	846,885	794,508	751,127	1,313,944
Coverage of the liability					
- Net assets of the Fund	845,969	840,543	784,937	758,244	1,312,888
Amount overfunded / (underfunded)	(3,674)	(6,342)	(9,571)	7,117	(1,056)
Actuarial and financial deviations generated in the period/year					
- Changes in assumptions	-	42,565	73,518	(103,831)	-
- Experience adjustments					
. Other actuarial (gains) / losses	5,984	(1,775)	(25,383)	(23,708)	(29,458)
. Financial (gains) / losses	(11,211)	(3,115)	(15,796)	339,627	103,392
	(5,227)	(4,890)	(41,179)	315,919	73,934
	(5,227)	37,675	32,339	212,088	73,934

The increase in the responsibilities in the year 2013 was mainly explained by the decrease in the discount rate used to calculate the responsibilities for past services.

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

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

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

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

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

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

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

	Serving Employee's	Retired Employee's
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

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

The main assumptions used by the Bank for determining its liabilities with pensions on June 30, 2014 and December 31, 2013, were as follows:

Mortality table	TV 88/90
Pension fund return rate	4.00%
Actuarial technical rate (discount rate)	
- Serving employees	4.30%
- Retired employees	3.54%
Salary growth rate for 2015 and 2016 (2014 and 2015)	0.50%
Salary growth rate after 2016 (2015)	2.35%
Pension growth rate for 2015 and 2016 (2014 and 2015)	0.00%
Pension growth rate after 2016 (2015)	1.35%
Inflation rate	1.75%

On June 30, 2014 and December 31, 2013, the discount rates used of 4.30% for serving employees and 3.54% for retired employees correspond to an average rate of 4%, more specifically, the use of different rates for different populations leads to the same liability amount that would be determined if a rate of 4% had been used for the entire population.

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

To determine the amount of the Social Security pension which, under the terms of the ACT of the banking sector should reduce the pension to be provided under that ACT, the following assumptions were used on June 30, 2014 and December 31, 2013:

Salary growth rate to calculate the deductible pension:	
. For 2015 and 2016 (2014 and 2015)	0.50%
. After 2016 (2015)	2.35%
Inflation (nº 1 of Article 27)	1.75%
Inflation (nº 2 of Article 27)	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

On the other hand, Decree-Law nº 167-E/2013, of December 31, changed the retirement age for the general Social Security regime for the years 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 was determined based on the market rates of low risk corporate bonds for similar maturities to the ones related to the settlement of the liabilities.

The economic environment 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 of the debt of the companies with the best ratings and have limited the available basket of these bonds. In order to maintain the representativeness of the discount rate taking into consideration the universe of the Euro Zone, on June 30, 2014 and December 31, 2013, the Bank incorporated in the determination of the discount rate information regarding interest rates that is possible to obtain on bonds denominated in Euros, including public debt, which it had considered to be of high quality in terms of credit risk.

Changes in the Bank's past service liability for the semester ended on June 30, 2014 and the year ended on December 31, 2013, may be detailed as follows, with regard to the Bank's pension plan:

	30-06-2014	31-12-2013
Liabilities at the beginning of the period	846,885	794,508
Current service cost	892	1,054
Interest cost	15,471	32,880
Actuarial (gains)/losses	5,984	40,790
Early retirement	1,667	14,028
Amounts paid	(22,437)	(38,285)
Contributions of employees	1,181	2,326
Reduction of liabilities with death subsidy (Note 40)	-	(416)
	-----------	-----------
Liabilities at the end of the period	849,643	846,885
	======	======

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

The cost of the semester/year relating to pensions includes current service cost and interest cost, deducted from the estimated return from the assets of the Fund. In the semesters ended on June 30, 2014 and 2013, pension's costs are made up as follows (Note 40):

	30-06-2014	30-06-2013
Current service cost	892	526
Interest cost	15,471	16,225
Return on assets calculated with the discount rate	(15,471)	(16,225)
	---------	---------
Defined benefits plan	892	526
Defined contribution plan	22	23
London Branch plan	81	86
	-----	-----
	995	635
	===	===

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.

Changes occurred in actuarial gains and losses during the first semester of 2014 and in the year of 2013 were as follows:

Balance on December 31, 2012	583,394

Actuarial losses on pensions generated in 2013	32,728
Actuarial gains on pensions generated in 2013	(2,653)
Actuarial losses on healthcare benefits and death subsidy in 2013	8,062
Financial gains on healthcare benefits and death subsidy in 2013	(462)

Balance on December 31, 2013 (Note 26)	621,069

Actuarial losses on pensions generated in 2014	5,605
Financial gains on pensions generated in 2014	(9,337)
Actuarial losses on healthcare benefits and death subsidy in 2014	379
Financial gains on healthcare benefits and death subsidy in 2014	(1,874)

Balance on June 30, 2014 (Note 26)	615,842)
	======

The effective salary growth in the first semester of 2014 and in the year of 2013 for the purpose of the contributions to the Social Security relating to the employees of the former Totta was 1.64% and 1.63% respectively.

There was no effective increase in the pensions and in the salary table during the first semester of 2014 and during the year of 2013.

In 2014, BST estimates to make a contribution of tEuros 2,916 to its defined benefit plan.

The average duration of BST's pension liability with employees is 17 years, including serving and retired ones.

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

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. On June 30, 2014 and December 31, 2013, the number of participants in the Fund was as follows:

	30-06-2014	31-12-2013
Serving employees [1]	5,384	5,409
Pensioners	1,015	996
Retired and early retired staff	5,308	5,339
	11,707	11,744

(1) Of whom 185 and 181 employees are included in the new defined contribution plan, on June 30, 2014 and December 31, 2013, respectively.

The main demographic changes occurred in the first semester of 2014 and in the year of 2013 were as follows:

	Assets			
	Defined Contribution Plan	Defined Benefit Plan	Retired and early retired staff	Pensioners
Total number on 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 on December 31, 2013	181	5,228	5,339	996
Exits:				
. Serving Employees	(5)	(20)	-	-
. By death	-	-	(43)	(14)
Transfers	-	(9)	9	-
Entries	9	-	3	33
Total number on June 30, 2014	185	5,199	5,308	1,015

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

Changes occurred in BST's Pension Fund during the first semester of 2014 and during the year of 2013 were as follows:

Net assets on December 31, 2012	784,937
Contributions made by the Bank (cash)	56,000
Contributions made by the employees	2,326
Net return of the Fund:	
Return on assets calculated with the discount rate	32,449
Fund performance above the discount rate	3,116
Pensions paid	(38,285)
Net assets on December 31, 2013	840,543
Contributions made by the employees	1,181
Net return of the Fund:	
Return on assets calculated with the discount rate	15,471
Fund performance above the discount rate	11,211
Pensions paid	(22,437)
Net assets on June 30, 2014	845,969

The return rates of the Pension Fund in the first semester of 2014 and in the year of 2013 were 6.35% and 4.66%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity through a diverse set of investments, including shares, bonds, other debt instruments, participations in collective investment institutions, bank deposits and other assets of a monetary nature, as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, having the manager of the Fund the choice 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:

Classes of assets	Limits
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%

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

On June 30, 2014 and December 31, 2013, BST's Pension Fund breakdown was as follows:

	30-06-2014	31-12-2013
Debt instruments		
. Rating BBB	103,307	83,939
. Rating BB	162,563	164,839
. Rating B	20,490	22,161
. Without rating attributed either to the issue or the issuer	97.858	36,372
Securities Investment Funds	194,567	207,011
Real estate Investment Funds	154,150	141,059
Deposits	12,195	75,556
Real Estate:		
. Retail buildings	63,048	63,316
. Land	860	860
Equity instruments:		
. Portuguese listed companies	7,713	2,582
. Portuguese unlisted companies	152	152
. Foreign listed companies	41.943	44,316
Derivative financial instruments		
. Listed options	(515)	(1,765)
Others	(12,362)	145
	----------	-----------
	845,969	840,543
	======	======

On June 30, 2014 and December 31, 2013, the methodology adopted by the Management Company of BST's Pension Fund for calculating the fair value of the above referred assets and liabilities, as defined in IFRS 13 (Note 48), was as follows:

	30-06-2014				31-12-2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	302,554	28,829	52,835	384,218	246,197	16,206	44,908	307,311
Investment funds	141,164	14,709	192,844	348,717	138,865	16,004	193,201	348,070
Equity instruments	49,656	-	152	49,808	46,898	-	152	47,050
Derivative financial instruments	(515)	-	-	(515)	(1,765)	-	-	(1,765)
Real estate	-	-	63,908	63,908	-	-	64,176	64,176
	492,859	43,538	309,739	846,136	430,195	32,210	302,437	764,842

On June 30, 2014 and December 31, 2013, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	30-06-2014	31-12-2013
Leased property	21,650	21,918
Securities (including participating units in Funds managed by the Group)	161,016	160,279
	-----------	-----------
	182,666	182,197
	======	======

In 2010 a life insurance policy was taken out with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from the new supplementary retirement plan for the Bank's executives. The initial contribution to the new plan amounted to tEuros 4,430. In 2013, the premium paid by the Bank amounted to tEuros 583 and the accrued amount on June 30, 2014 arise to tEuros 291.

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

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disablement.

For all the situations, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of death of the beneficiary, that amount will be further increased by 6,000 Euros.

On June 30, 2014 and December 31, 2013, 111 employees integrated that plan.

Defined benefit pension plan – London branch

On June 30, 2014 and December 31, 2013, the main assumptions used in the calculation of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London branch were the following:

	30-06-2014	31-12-2013
Mortality table	AMC00/AFC00	AMC00/AFC00
Actuarial technical rate (discount rate)	4.30%	4.60%
Salary growth rate	3.60%	3.70%
Pension growth rate	2.10%	2.10%
Inflation rate	2.60%	2.70%

On June 30, 2014 and December 31, 2013, the liabilities with the defined benefit pension plan of the London branch and its coverage were as follows:

	30-06-2014	31-12-2013
Estimated liabilities for past services	36,764	35,037
Net assets of the Pension Fund	32,900	30,720
	--------	--------
Non-financed amount – London branch	(3,864)	(4,317)
	====	====

In relation to the specific pension plan of the London branch, the changes in the past service liabilities in the semester ended on June 30, 2014 and in the year ended on December 31, 2013, were as follows:

Liabilities on December 31, 2012	35,303

Current service cost	174
Interest cost	1,513
Actuarial losses	(353)
Amounts paid	(855)
Foreign exchange fluctuations	(745)

Liabilities on December 31, 2013	35,037

Current service cost	81
Interest cost	813
Actuarial gains	(170)
Amounts paid	(405)
Foreign exchange fluctuations	1,408

Liabilities on June 30, 2014	36,764
	=====

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

Changes in the Pension Fund of the London branch in the semester ended on June 30, 2014 and in the year ended on December 31, 2013, were as follows:

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
Net return of the Fund	1,278
Contribution by the Bank	73
Pensions paid	(405)
Foreign exchange fluctuations	1,234
Net assets on June 30, 2014	32,900

The costs with the defined benefit plan of the London's branch Pension Fund in the first semesters of 2014 and 2013 were as follows:

	30-06-2014	30-06-2013
Current service cost	81	86
Interest cost	813	702
Estimated return of assets calculated with the discount rate	(813)	(702)
	81	86

The changes and the detail of the actuarial gains and losses of the London's branch Pension Fund were as follows:

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
Actuarial losses on pensions in 2014	(170)
Financial losses on pensions in 2014	(465)
Foreign exchange fluctuations	174
Balance on June 30, 2014 (Note 26)	5,615

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

On June 30, 2014 and December 31, 2013, the London branch's Pension Fund portfolio included the following assets:

	30-06-2014	31-12-2013
Debt instruments	26,916	25,218
Equity instruments	5,723	5,413
Deposits	261	89
Fund's net asset value	32,900	30,720

On June 30, 2014 and December 31, 2013, the balances associated with the pension plans can be detailed as follows:

	30-06-2014	31-12-2013
Insufficient funding (BST)	(3,674)	(6,342)
Insufficient funding (London branch)	(3,864)	(4,317)
Total (Note 25)	(7,538)	(10,659)

The liabilities with defined benefit pension plans exposes the Bank to the following risks:

– Investment risk – the discounted value of the liabilities is calculated based on a discount rate determined by reference to bonds denominated in Euros with high quality in terms of credit risk; if the profitability of the Pension Fund is lower than the discount rate, it will create a shortfall in the funding of the liabilities.

– Interest rate risk – a decrease in the bonds interest rate will increase pension liabilities; however, it will be partially offset by an increase in the profitability of the Pension Fund.

– Longevity risk – the discounted value of the liabilities is calculated considering the best estimate of the expected mortality of the participants before and after the date of retirement. An increase in life expectancy of plan participants will increase pension liabilities.

– Salary risk – the discounted value of the liabilities is calculated based in an assumption of the estimated future salaries of the participants. Thus, an increase in participant's salaries will increase pension liabilities.

On June 30, 2014 and December 31, 2013, the amount of liabilities associated with health care (SAMS) resulting from a 1% change in the contribution rate can be presented as follows:

	30-06-2014			31-12-2013		
	Number of beneficiaries	Contribution rate -1%	contribution rate + 1%	Number of beneficiaries	Contribution rate -1%	contribution rate + 1%
Serving employees (Defined benefit plan)	5,199	34,916	47,612	5,228	31,130	43,814
Serving employees (Defined contribution plan)	185	142	194	181	104	142
Pensioners	1,015	4,756	6,486	996	4,784	6,524
Retired and early retired staff	5,308	77,732	105,998	5,339	79,725	108,717
	11,707	117,546	160,290	11,744	115,744	159,196

45. SECURITIZATION OPERATIONS

Description of the operations

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

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

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

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

In July 2010, BST 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 its 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.

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

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 do not hold any 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 deliver all the amounts received from BST and from the Portuguese Treasury (“Direcção Geral do Tesouro”) to the Hipototta PLC/Ltd Funds and to Leasetotta nº 1 Limited, segregating the instalments between principal and interest.

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 June 30, 2014, the bonds issued and still outstanding are as follows:

Hipotttta nº 1 PLC

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody's	Redemption Date	Early Redemption Date	Remuneration Up to early redemption date	Remuneration 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%
	1,100,000	180,274						
Class D	17,600	11,000			November of 2034	August of 2012	Residual income of the securitized portfolio	
	1,117,600	191,274						

Hipottta nº 4 PLC

Issued debt	Amount Initial	Amount Current	Rating Fitch	Redemption date	Early redemption rate	Remuneration Up to early redemption date	Remuneration 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%
	2,800,000	1,118,159					
Class D	14,000	14,000		December of 2048	December of 2014	Residual income of the securitized portfolio	
	2,814,000	1,132,159					

Hipottta nº 5 PLC

Issued debt	Amount Initial	Amount Current	Rating S&P	Rating Moody's	Redemption date	Early redemption date	Remuneration Up to early redemption date	Remuneration 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%
	2,000,000	954,992						
Class F	10,000	9,951	CCC-	Ca	February of 2060	February of 2014	Residual income of the securitized portfolio	
	2,010,000	964,943						

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

Leasetotta nº 1 Ltd

Issued debt	Amount Initial	Amount Current	Rating DBRS	Redemption date	Remnuneration
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%
	1,300,000	360,933			
Class C	65,000	65,000		January of 2042	Residual income of the securitized portfolio
	1,365,000	425,933			

The bonds issued by Hipototta nº 1 PLC and Hipototta nº 4 PLC bear interest quarterly on March 30, June 30, September 30 and December 31 of each year. The bonds issued by Hipototta PLC nº 5 and Hipototta nº 7 Ltd bear interest quarterly on February 28, May 30, August 31 and November 30 of each year. The bonds issued by LeaseTotta nº 1 Ltd bear interest quarterly on January 30, April 30, July 31 and October 31 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 their outstanding amount 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.

The Class D bonds of Hipototta nº 1 and Hipototta nº 4, the Class F bonds for Hipottota 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 over the amount of the portfolios (custodian fee and service fee, both charged by BST, and management fee, charged by the Funds);
- Interest on the other classes of notes; and
- Impairment losses.

When the securitization operations were 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 rate 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, which correspondend to facilities / credit lines in case of need for liquidity by Hipotottas. At the same time, there were also signed "Swap Agreements" between the Santander Group and the first issued Hipotottas and between BST and the remaining securitization vehicles to cover the interest rate risk.

46. RELATED PARTIES DISCLOSURES

The related parties of the Bank with which it had balances or transactions during the first semester of 2014 were as follows:

Name of the related entity	Head of office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman Islands
Serfin International Bank & Trust	Cayman Islands
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal

Name of the related entity	Head of office
Entities under direct or indirect common control by the Group	
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
Union de Créditos Inmobiliários, S.A.	Spain
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Santander Global Facilities	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	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 Tecnologia y Operaciones AEIE	Spain
Santander Investment, S.A.	Spain
Santander Investment Securities, Inc.	USA
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	México
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., SGIIC	Spain
Retama Real Estate, S.L.	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Santander AM Holding, S.L.	Spain
Santander Consumer Bank A.S.	Norway
Santander Investment, S.A.	Spain
Santander BackofficesGlobalesEspec. S.A.	Spain
Santander Gestão de Activos SGFIM, S.A.	Portugal
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander International Debt, S.A.	Spain
Santander Issuances, S.A.	Spain

The related parties' of the Bank with which it had balances and transactions during the year of 2013 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman islands
Serfin International Bank & Trust	Cayman islands
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Santander - Gestão de Activos, SGPS, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Santander Asset Management, SGFIM, S.A.	
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 7 Ltd	Ireland
LEASETOTTA NO. 1 Ltd	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
HIPOTOTTA NO. 7 FTC	Portugal
LEASETOTTA NO.1 FTC	Portugal

Nome da entidade relacionada	Sede
Empresas que directa ou indirectamente se encontram sobre controlo comum pelo Grupo	
Open Bank Santander Consumer S.A.	Espanha
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
Banco Santander de Puerto Rico	Porto Rico
Banco Santander Consumer Portugal, S.A.	Portugal
Santander Bank & Trust Ltd.	Espanha
Banco Santander Brasil, S.A.	Brasil
Produban Servicios Informaticos Generales, S.L.	Espanha
Portal Universia Portugal - Prestação de Serviços de Informática, S.A.	Portugal
Ingeniería de Software Bancário, S.L.	Espanha
Ibérica de Compras Corporativas	Espanha
Union de Créditos Inmobiliários, S.A.	Espanha
Capital Grupo Santander, S.A. S.G.E.C.R.	Espanha
Santander Global Facilities	Espanha
Geoban, S.A.	Espanha
Gesban Servicios Administrativos Globais	Espanha
Banco Banif, S.A.	Espanha
All Funds Bank, S.A.	Espanha
Santander Consumer, EFC, S.A.	Espanha
Santander Back-Office Globales Mayorista	Espanha
Santander Consumer Finance S.A.	Espanha
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Espanha
Santander Tecnologia y Operaciones AEIE	Espanha
Santander de Titulizacion SGFT	Espanha
Santander Investment, S.A.	Espanha
Santander Investment Securities, Inc.	EUA
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	México
Konecta Portugal, Lda.	Portugal
Santander UK PLC	Reino Unido
Sovereign Bank	EUA
Banco Santander (Suisse), S.A.	Suíça
Santander Asset Management, S.A., SGIIC	Espanha
Retama Real Estate, SL	Espanha
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal

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

On June 30, 2014 and December 31, 2013, the balances with related parties were as follows:

	30-06-2014		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	18,221	-	1,106
Financial assets held for trading	306,927	-	29,939
Available-for-sale financial assets	-	-	12,484
Loans and advances to credit institutions	1,052,877	13,169	213,742
Loans and advances to customers	-	36,467	4,414
Hedging derivatives	188,811	-	-
Investments in associated companies	-	154,228	-
Other assets	14,660	-	57,734
Liabilities:			
Financial liabilities held for trading	1,611,272	-	50,670
Resources of other credit institutions	606,603	215,578	44,523
Resources of customers and other debts	86,331	98	1,317,379
Debt securities	192,411	-	80,692
Hedging derivatives	241,125	-	-
Subordinated liabilities	-	-	4,307
Other liabilities	10,409	-	6,578
Costs:			
Interest and similar charges	114,181	209	28,962
Charges with services and comissions	110	-	3,016
Result of assets and liabilities at fair value through profit or loss	858,111	-	24,671
Result of foreign exchange valuation	39	-	-
General administrative costs	-	-	19,895
Income:			
Interest and similar income	118,680	37	3,518
Result of assets and liabilities at fair value through profit or loss	568,197	-	20,428
Result of foreign exchange revaluation	-	-	101
Income from services and comissions	99	-	49,469
Results from associates	-	6,943	-
Other operating results	-	-	104
Off balance sheet items:			
Guarantees provided and other contingent liabilities	18,251	-	38,741
Guarantees received	52	-	16,000
Commitments to third parties	17,960	7,239	133,359
Currency operations and derivatives	18,342,296	-	654,143
Responsibilities for services rendered	4,964,941	60,629	2,862,506

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

	31-12-2013		
	Entities that directly or indirectly control the Group	Entities that are siginificantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	8,674	-	1,780
Financial assets held for trading	262,686	25,416	27,450
Available-for-sale financial assets	-	-	9,251
Loans and advances to credit institutions	1,256,990	1,686	218,579
Loans and advances to customers	-	35,717	13,151
Hedging derivatives	174,964	-	-
Investments in associated companies	-	147,730	-
Other assets	17,536	5,047	64,722
Liabilities:			
Financial liabilities held for trading	1,552,750	-	53,544
Resources of other credit institutions	574,924	154,986	7,099
Resources of customers and other debts	132,692	10,801	1,402,466
Debt securities	125,496	-	80,985
Hedging derivatives	370,487	-	-
Subordinated liabilities	-	-	4,307
Other liabilities	5,329	-	1,586
Costs:			
Interest and similar charges	228,345	551	69,893
Charges w ith services and comissions	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	-
Income:			
Interest and similar income	268,873	145	5,856
Result of assets and liabilities at fair value through profit or loss	1,181,389	-	45,839
Result of foreign exchange revaluation	642	-	-
Income from services and comissions	161	-	86,660
Results from associates	-	14,069	-
Other results	-	-	12,588
Other operating results	-	-	203
Off balance sheet items:			
Guarantees provided and other contingent liabilities	11,642	-	96,969
Guarantees received	710	-	1,400
Commitments to third parties	19,669	6,058	48,386
Currency operations and derivatives	20,678,434	23,078	819,796
Responsibilities for services rendered	2,761,815	32,487	2,741,556

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

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

On June 30, 2014 and December 31, 2013, the loans and advances to members of management and supervisory boards, considered key management personnel of the Bank, amounted to tEuros 947 and tEuros 1,009, respectively. Fixed and variable remuneration at these dates amounted to tEuros 3,500 and tEuros 2,725, 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 dates ended on June 30, 2014 and 2013, is presented below:

	30-06-2014	30-06-2013
Fifth cycle – PI13 - assigned in 2010 exercisable in July 2013	0	54
Sixth cycle – PI14 - assigned in 2011 exercisable in July 2014	6	6
	---	----
	6	60
	==	==

The cycles of the share plans linked to objectives of the members of the Board of Directors ended on the dates indicated below and shares were attributed at the following amount per share:

Cycle	Maturity date	Number of shares attributed	Value per share
First	July 6, 2009	97,676	8.49 Euros
Second	July 8, 2010	136,719	8.77 Euros
Third	July 11, 2011	133,727	7.51 Euros
Fourth	July 9, 2012	35,850	4.88 Euros
Fifth	July 31, 2013	-	n.a.

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. l).

In the Shareholders' General Meeting held on May 30, 2007, the BST's shareholders approved the "Regulation for supplementary attribution of retirement pensions for age or disability" for the executive members of the Board of Directors of the former Totta that are executive members of the BST's Board of Directors (Executive Committee) which 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.

On June 30, 2014 and December 31, 2013, the liabilities with this plan amounted to tEuros 16,042 and tEuros 15,598, respectively, and were covered by a provision of the same amount recorded in the caption "Provision for pensions and other charges" (Note 22).

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

With regard to employment termination benefits, in accordance with the Commercial Company's Law ("Código das Sociedades Comerciais"), whenever the term of a member of the management or supervisory board is early terminated by BST, it will pay the member the future remuneration that he/she would be entitled to up to the end of its term.

47. LONG-TERM INCENTIVE PLANS

The "Share Plan Linked to the Santander Group's Objectives" was approved in a Shareholders' General Meeting of Banco Santander, S.A.. This plan is divided into cycles, and so far six cycles have been approved. BST is also included in this plan.

Each beneficiary of the plan has the right to receive a maximum number of Banco Santander, S.A.'s shares. The final number allocated is determined by multiplying the maximum number of shares initially allocated by the sum of coefficients indexed to the evolution of Banco Santander, S.A. in comparison with other entities included in a predefined group. That comparison is performed taking in consideration two parameters: total shareholders' return and increase in earnings per share for the first three cycles and for the remaining 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), the accounting 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 worldwide Plan.

On June 30, 2014 and 2013, the total cost of the "Share Plan Linked to the Santander Group's Objectives" for all the employees of the Bank covered by it was as follows:

	30-06-2014	30-06-2013
Fifth cycle – PI13 - assigned in 2010 and exercisable in July 2013	-	736
Sixth cycle – PI14 - assigned in 2011 and exercisable in July 2014	460	460
	-----	--------
	460	1,196
	===	====

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

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
Plans in place on December 31, 2012					
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 [(a)]	(2,600)	-	Jul/2014	(1)	-
Plans in place on December 31, 2013					
PI14	606,758	4.5254	Jul/2014	308	2011
Plans in place on June 30, 2014					
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.

For the "Share Plan Linked to the Santander Group's Objectives" in force on June 30, 2014 (6th 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.

	PI14
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.

(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 June 30, 2014 and December 31, 2013, financial instruments had the following book value:

	30-06-2014				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	881,261	182,037	-	1,063,298
Balances due from other banks	-	186,450	60,813	-	247,263
Financial assets held for trading	2,216,725	-	-	-	2,216,725
Available-for-sale financial assets	6,817,629	-	20,883	(61,679)	6,776,833
Loans and advances to banks	-	1,453,887	-	-	1,453,887
Loans and advances to customers	40,450	26,783,102	-	(1,135,165)	25,688,387
Hedging derivatives	193,377	-	-	-	193,377
	9,268,181	29,304,700	263,733	(1,196,844)	37,639,770
Liabilities					
Resources of central banks	-	4,243,056	-	-	4,243,056
Financial liabilities held for trading	1,881,329	-	-	-	1,881,329
Resources of other credit institutions	-	5,548,778	-	-	5,548,778
Resources of customers and other debts	3,787,588	16,303,218	46,950	-	20,137,756
Debt securities	1,192,037	2,891,880	-	-	4,083,917
Hedging derivatives	241,543	-	-	-	241,543
Subordinated liabilities	-	4,307	-	-	4,307
	7,102,497	28,991,239	46,950	-	36,140,686

	31-12-2013				
	Valued at fair value	Valued at amortised cost	Valued at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	116,135	221,706	-	337,841
Balances due from other banks	-	497,312	55,609	-	552,921
Financial assets held for trading	1,949,115	-	-	-	1,949,115
Available-for-sale financial assets	4,423,054	-	20,937	(61,738)	4,382,253
Loans and advances to 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
	6,614,116	31,027,294	298,252	(1,139,614)	36,800,048
Liabilities					
Resources of central banks	-	6,241,410	-	-	6,241,410
Financial liabilities held for trading	1,619,768	-	-	-	1,619,768
Resources of other credit institutions	-	4,175,058	-	-	4,175,058
Resources of customers and other debts	3,621,415	17,009,744	75,842	-	20,707,001
Debt securities	1,326,599	1,207,562	-	-	2,534,161
Hedging derivatives	370,684	-	-	-	370,684
Subordinated liabilities	-	4,307	-	-	4,307
	6,938,466	28,638,081	75,842	-	35,652,389

During the first semester of 2014 and during the year of 2013 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustment.

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

INCOME STATEMENT

In the semesters ended on June 30, 2014 and 2013, the net gains and losses on financial instruments were as follows:

	30-06-2014					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,400,956	(1,507,915)	(106,959)	-	-	-
Available-for-sale financial assets	228,485	(3,373)	225,112	270,642	-	270,642
Balances in central banks and other credit institutions	21,012	-	21,012	-	-	-
Loans and advance to customers	681,372	(377,362)	304,010	-	-	-
Hedging derivatives	192,029	(127,870)	64,159	-	(7,386)	(7,386)
Resources in central banks and other credit institutions	-	(31,615)	(31,615)	-	-	-
Resources of customers and other debts	21,983	(175,107)	(153,124)	-	-	-
Debt securities	56,761	(73,074)	(16,313)	-	-	-
Subordinated liabilites	-	(82)	(82)	-	-	-
	2,602,598	(2,296,398)	306,200	270,642	(7,386)	263,256
Guarantees given	10,234	(986)	9,248			
Credit lines	6,094	(3,333)	2,761			

	30-06-2013					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,044,161	(1,034,974)	9,187	-	-	-
Financial assets at fair value through profit or loss	2,601	(1,403)	1,198	-	-	-
Available-for-sale financial assets	6,562	(8,541)	(1,979)	129,474	-	129,474
Balances in central banks and other credit institutions	31,270	-	31,270	-	-	-
Loans and advance to customers	632,624	(351,176)	281,448	-	-	-
Hedging derivatives	251,019	(217,025)	33,994	-	(38,287)	(38,287)
Resources in central banks and other credit institutions	-	(26,148)	(26,148)	-	-	-
Resources of customers and other debts	55,843	(209,052)	(153,209)	-	-	-
Debt securities	25,616	(28,118)	(2,502)	-	-	-
Subordinated liabilities	-	(84)	(84)	-	-	-
	2,049,696	(1,876,521)	173,175	129,474	(38,287)	91,187
Guarantees given	10,099	2,265	12,364			
Credit lines	5,797	(758)	5,039			

The above referred amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which on June 30, 2014 and June 30, 2013 corresponded to net gains of tEuros 2,229 and tEuros 1,729, respectively (Note 37).

In the first semesters of 2014 and 2013, the income and costs with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, are as follows:

	30-06-2014			30-06-2013		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	167	-	167	588	-	588
Balances due from other banks	8	-	8	9	-	9
Available-for-sale financial assets	105,276	-	105,276	73,285	-	73,285
Loans and advances to credit institutions	20,837	-	20,837	30,673	-	30,673
Loans and advances to customers	366,629	(32)	366,597	390,225	(77)	390,148
	492,917	(32)	492,885	494,780	(77)	494,703
Liabilities						
Resources of central banks	-	(10,557)	(10,557)	-	(12,030)	(12,030)
Resources of other credit institutions	-	(21,058)	(21,058)	-	(14,118)	(14,118)
Resources of customers and other debts	5,070	(171,772)	(166,702)	4,297	(208,987)	(204,690)
Debt securities	-	(24,211)	(24,211)	-	(27,694)	(27,694)
Subordinated liabilities	-	(82)	(82)	-	(84)	(84)
	5,070	(227,680)	(222,610)	4,297	(262,913)	(258,616)
Guarantees given	9,899	-	9,899	9,974	-	9,974
Credit Lines	2,817	-	2,817	3,933	-	3,933

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

In the first semesters of 2014 and 2013, the income and costs with commissions 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:

	30-06-2014			30-06-2013		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advance to customers	16,069	(7,482)	8,587	25,669	(7,441)	18,228
Liabilities						
Resources of customers and other debts	16,915	-	16,915	18,227	-	18,227

In the first semesters of 2014 and 2013, the Bank recognised financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to tEuros 3,360 and tEuros 4,647, respectively (Note 30).

OTHER DISCLOSURES

Hedge accounting

On June 30, 2014 and December 31, 2013, hedging derivatives and financial instruments designated as hedged items are as follows:

	30-06-2014					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedges						
Loans and advance to customers	35,775	36,018	4,383	40,401	35,776	(4,626)
Available-for-sale financial assets	1,330,000	1,343,596	159,033	1,502,629	1,330,000	(172,039)
Resources of customers and other debts	(3,731,428)	(3,788,196)	608	(3,787,588)	3,584,008	42,943
Debt securities	(1,154,562)	(1,184,153)	(7,884)	(1,192,037)	1,155,142	32,200
Cash flow hedges						
Loans and advance to customers	3,286,509	3,286,509	-	3,286,509	2,250,000	89,110
Debt securities	1,084,089	1,084,089	-	1,084,089	650,000	(35,754)
	850,383	777,863	156,140	934,003	9,004,926	(48,166)

	31-12-2013					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedges						
Loans and advance to customers	38,085	38,323	4,200	42,523	38,086	(4,477)
Available-for-sale financial assets	2,075,000	2,118,830	225,613	2,344,443	2,075,000	(267,880)
Resources of customers and other debts	(3,576,534)	(3,625,401)	3,986	(3,621,415)	3,579,439	33,602
Debt securities	(1,341,104)	(1,357,461)	30,862	(1,326,599)	1,449,525	(23,554)
Cash flow hedges						
Loans and advance to customers	4,492,042	4,492,042	-	4,492,042	5,450,000	80,640
Debt securities	1,141,190	1,141,190	-	1,141,190	650,000	10,412
	2,828,679	2,807,523	264,661	3,072,184	13,242,050	(171,257)

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

Cash flow hedges

The expected periods for the occurrence of the cash flows that will affect the profit or loss of the year are as follows:

	30-06-2014					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	4,728	2,436	25,335	34,648	(13,791)	53,356

	31-12-2013					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	40,959	8,125	6,861	48,869	(13,762)	91,052

The gains and losses recognised in the income statement for the semesters ended on June 30, 2014 and 2013, arising from fair value hedging operations, are as follows:

	Result of assets and liabilities at fair value through profit or loss					
	30-06-2014			30-06-2013		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advance to customers	183	(183)	-	(1,317)	1,317	-
Available-for-sale financial assets	(66,580)	66,580	-	(74,224)	74,224	-
Resources of customers and other debts	(3,335)	5,219	1,884	33,254	(32,325)	929
Debt securities	4,829	(6,566)	(1,737)	24,543	(26,081)	(1,538)
	(64,903)	65,050	147	(17,744)	17,135	(609)

Fair value of financial instruments

On June 30, 2014 and December 31, 2013, financial instruments were made up as follows:

	30-06-2014		
	Valued at fair value	Not valued at fair value	Total
Assets			
Cash and deposits at central banks	-	1,063,298	1,063,298
Balances due from other banks	-	247,263	247,263
Financial assets held for trading	2,216,725	-	2,216,725
Available-for-sale financial assets	6,763,373	13,460	6,776,833
Loans and advances to credit institutions	-	1,453,887	1,453,887
Loans and advances to customers	40,401	25,647,986	25,688,387
Hedging derivatives	193,377	-	193,377
	9,213,876	28,425,894	37,639,770
Liabilities			
Resources of central banks	-	4,243,056	4,243,056
Financial liabilities held for trading	1,881,329	-	1,881,329
Resources of other credit institutions	-	5,548,778	5,548,778
Resources of customers and other debts	3,787,588	16,350,168	20,137,756
Debt securities	1,192,037	2,891,880	4,083,917
Hedging derivatives	241,543	-	241,543
Subordinated liabilites	-	4,307	4,307
	7,102,497	29,038,189	36,140,686

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

	31-12-2013		
	Valued at fair value	Not valued at fair value	Total
Assets			
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
	6,559,809	30,240,239	36,800,048
Liabilities			
Resources of central banks	-	6,241,410	6,241,410
Financial liabilities held for trading	1,619,768	-	1,619,768
Resources of other credit institutions	-	4,175,058	4,175,058
Resources of customers and other debts	3,621,415	17,085,586	20,707,001
Debt securities	1,326,599	1,207,562	2,534,161
Hedging derivatives	370,684	-	370,684
Subordinated liabilites	-	4,307	4,307
	6,938,466	28,713,923	35,652,389

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 June 30, 2014 and December 31, 2013, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	30-06-2014					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	333,736	1,068	1,881,921	-	-	2,216,725
Available-for-sale financial assets	6,522,224	99,505	36,867	159,033	(54,256)	6,763,373
Loans and advances to customers	35,775	293	-	4,383	(50)	40,401
Hedging derivatives	-	-	193,377	-	-	193,377
	6,891,735	100,866	2,112,165	163,416	(54,306)	9,213,876
Liabilities						
Financial liabilities held for trading	-	-	1,881,329	-	-	1,881,329
Resources of customers and other debts	3,731,428	56,768	-	(608)	-	3,787,588
Debt securities	1,154,563	29,590	-	7,884	-	1,192,037
Hedging derivatives	-	-	241,543	-	-	241,543
	4,885,991	86,358	2,122,872	7,276	-	7,102,497

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

	31-12-2013					
	Acquisition cost	Accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	355,921	1,650	1,591,544	-	-	1,949,115
Available-for-sale financial assets	4,369,692	61,522	(233,773)	225,613	(54,310)	4,368,744
Loans and advances to customers	38,085	324	-	4,200	(86)	42,523
Hedging derivatives	-	-	199,427	-	-	199,427
	4,763,698	63,496	1,557,198	229,813	(54,396)	6,559,809
Liabilities						
Financial liabilities held for trading	-	-	1,619,768	-	-	1,619,768
Resources of customers and other debts	3,576,534	48,867	-	(3,986)	-	3,621,415
Debt securities	1,340,822	16,639	-	(30,862)	-	1,326,599
Hedging derivatives	-	-	370,684	-	-	370,684
	4,917,356	65,506	1,990,452	(34,848)	-	6,938,466

The methods used to determine the fair value of the financial instruments are based on market prices on active markets or other valuation techniques, such as discounted cash flows. On June 30, 2014 and December 31, 2013, 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:

	30-06-2014			
	Method of determining fair value			
	Quoted in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	276,043	1,926,865	13,817	2,216,725
Available-for-sale financial assets	5,723,639	702,333	337,401	6,763,373
Loans and advance to customers	-	40,401	-	40,401
Hedging derivatives	-	193,377	-	193,377
	5,999,682	2,862,976	351,218	9,213,876
Liabilities				
Financial liabilities held for trading	-	1,881,329	-	1,881,329
Resources of customers and other debts	-	3,787,588	-	3,787,588
Debt securities	-	1,192,037	-	1,192,037
Hedging derivatives	-	241,543	-	241,543
	-	7,102,497	-	7,102,497

	31-12-2013			
	Method of determining fair value			
	Quoted in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	267,025	1,540,019	142,071	1,949,115
Available-for-sale financial assets	3,417,440	686,315	264,989	4,368,744
Loans and advance to customers	-	42,523	-	42,523
Hedging derivatives	-	199,427	-	199,427
	3,684,465	2,468,284	407,060	6,559,809
Liabilities				
Financial liabilities held for trading	-	1,619,768	-	1,619,768
Resources of customers and other debts	-	3,621,415	-	3,621,415
Debt securities	-	1,326,599	-	1,326,599
Hedging derivatives	-	370,684	-	370,684
	-	6,938,466	-	6,938,466

In accordance with IFRS 7, 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 available-for-sale financial assets valued with indicative bids provided by external counterparties and the majority of the derivative financial instruments used for hedging and trading. It should be 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.

  For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main Valuation Techniques
Forwards	Present Value Model
Interest Rate Swaps	Present Value Model
Currency Swaps	Present Value Model
Equity Swaps	Present Value Model
FRA's	Present Value Model
Currency Options	Black-Scholes Model, Monte Carlo Model
Equity Options	Black-Scholes Model, Heston Model
Interest 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 these Notes) x loss given default (specific for project finance clients and 60% for other clients).

  When the inputs used in the valuation of derivative financial instruments resulted from market observable 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 market observable data. Some unquoted securities for which the Bank uses market data extrapolations were classified in this category.

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

In the first semester of 2014, the movement in the financial instruments classified in the column "Level 3", was as follows:

	30-06-2014			
	Financial assets held for trading		Available-for-sale financial assets	Total
	Securities	Derivatives		
Opening balance	35,952	106,119	264,989	407,060
Acquisitions	-	-	72,412	72,412
Sales	-	-	-	-
Reclassifications	-	(106,119)	-	(106,119)
Changes in fair value	(22,135)	-	-	(22,135)
Closing balance	13,817	-	337,401	351,218

The reclassifications occurred in the first semester of 2014 to Level 3 can be explained as follows:

- Reclassification from Level 2 of debt instruments whose valuation was based, essentially, in credit spreads calculated internally by the Bank;
- Acquisitions of debt instruments whose valuation was based, essentially, in credit spreads calculated internally by the Bank;
- Reclassification to Level 2 of derivative financial instruments whose respective Credit Value Adjustments / Debit Value Adjustments were calculated taking into consideration market credit spreads.

On June 30, 2014, 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
Financial assets held for trading			
Debt securities	Price provided by the counterparty	. No information	Not applicable
Available-for-sale financial assets			
Debt securities	Discounted cash flows	. *Credit spread calculated* internally by the Bank	If a higher credit spread is used, the fair value of the securitie will decrease. On the other hand, if a lower credit spread is used, the fair value of the securitie will increase.
Participating units in Venture Capital Funds	Price disclosed by the respective Management Company	. No information	Not applicable

The most representative interest rate curves used by maturity and currency were the following:

	30-06-2014		31-12-2013	
	EUR	USD	EUR	USD
Overnight	0.61%	0.29%	0.28%	0.31%
1 month	0.39%	0.24%	0.44%	0.25%
3 months	0.33%	0.23%	0.39%	0.25%
6 months	0.31%	0.24%	0.38%	0.27%
9 months	0.30%	0.25%	0.39%	0.29%
1 year	0.29%	0.28%	0.40%	0.31%
3 years	0.39%	1.01%	0.74%	0.86%
5 years	0.66%	1.73%	1.26%	1.80%
7 years	1.00%	2.23%	1.70%	2.51%
10 years	1.47%	2.72%	2.21%	3.18%

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

On June 30, 2014 and December 31, 2013, the book value and the fair value of the financial instruments valued at amortised cost or historical cost, was the following:

	30-06-2014		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,063,298	1,063,298	-
Balances due from other banks	247,263	247,263	-
Available-for-sale financial assets	13,460	13,460	-
Loans and advances to banks	1,453,887	1,486,600	32,713
Loans and advances to customers	25,647,986	22,976,448	(2,671,538)
	28,425,894	25,787,069	(2,638,825)
Liabilities			
Resources of central banks	4,243,056	4,243,056	-
Resources of other credit institutions	5,548,778	5,559,375	(10,597)
Resources of customers and other debts	16,350,168	16,500,049	(149,881)
Debt securities	2,891,880	2,742,447	149,433
Subordinated liabilities	4,307	4,307	-
	29,038,189	29,049,234	(11,045)

	31-12-2013		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	337,841	337,841	-
Balances due from other banks	552,921	552,921	-
Available-for-sale financial assets	13,509	13,509	-
Loans and advances to banks	3,270,970	3,358,931	87,961
Loans and advances to customers	26,064,998	23,114,032	(2,950,966)
	30,240,239	27,377,234	(2,863,005)
Liabilities			
Resources of central banks	6,241,410	6,122,608	118,802
Resources of other credit institutions	4,175,058	4,197,975	(22,917)
Resources of customers and other debts	17,085,586	17,230,163	(144,577)
Debt securities	1,207,562	920,474	287,088
Subordinated liabilities	4,307	4,301	6
	28,713,923	28,475,521	238,402

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

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounting future cash flows. On June 30, 2014 and December 31, 2013, the financial instruments recorded at amortized cost or historical cost, presents the following detail by valuation methodology:

	30-06-2014			
	Methodology for determining fair value			
	Quoted in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,063,298	-	1,063,298
Balances due from other banks	-	247,263	-	247,263
Available-for-sale financial assets	-	-	13,460	13,460
Loans and advances to credit institutions	-	1,453,887	-	1,453,887
Loans and advances to customers	-	-	25,647,986	25,647,986
	-	2,764,448	25,661,446	28,425,894
Liabilities				
Resources of central banks	-	4,243,056	-	4,243,056
Resources of other credit institutions	-	5,548,778	-	5,548,778
Resources of customers and other debts	-	-	16,350,168	16,350,168
Debt securities	-	-	2,891,880	2,891,880
Subordinated liabilities	-	-	4,307	4,307
	-	9,791,834	19,246,355	29,038,189

The main assumptions used in the calculation of fair value, by type of financial instrument, were the following:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- The fair value of variable rate loans was determined considering the average spread of the production in the last quarter, which has been used to discount the future portfolio cash flows. Regarding the fixed rate loans, future cash flows were discounted at the average rates applied by the Bank to new credit operations in the last quarter;

- 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 period 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 semester/year;

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates taking in consideration the residual term of each issue.

(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, a perimeter control is defined in accordance with the segments involved.

Control of these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables that the concentration of risk by groups of customers/counterparties to be controlled on a transversal basis (at several levels).

Derivative position risk (known as Equivalent Credit Risk) is determined as the sum of the present value of each contract (or present cost of substitution) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating variables relating to the credit quality of each counterparty in the quantitative control.

On June 30, 2014 and December 31, 2013, the maximum exposure to credit risk and the corresponding book value of the financial instruments are made up as follows:

	30-06-2014		31-12-2013	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,063,298	1,063,298	337,841	337,841
Balances due from other banks	247,263	247,263	552,921	552,921
Financial assets held for trading	2,216,725	2,216,725	1,949,115	1,949,115
Available-for-sale financial assets	6,776,833	6,776,833	4,382,253	4,382,253
Loans and advances to credit institutions	1,453,887	1,453,887	3,270,970	3,270,970
Loans and advances to customers	25,688,387	30,569,804	26,107,521	30,967,721
Hedging derivatives	193,377	193,377	199,427	199,427
Investments in associated companies	154,228	154,228	147,730	147,730
	37,793,998	42,675,415	36,947,778	41,807,978
Guarantees given (Note 29)	1,334,248	1,334,248	1,384,781	1,384,781

The maximum exposure in “Loans and advances to customers” on June 30, 2014, includes tEuros 767,160 and tEuros 4,114,257 relating to irrevocable credit lines and revocable credit lines, respectively (tEuros 652,278 and tEuros 4,207,992 on December 31, 2013, respectively).

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

Loans granted

The Bank monthly reviews loans and advances to customers and other receivables in order to identify evidence of impairment. For the purpose of collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in the Circular Letter nº 02/2014/DSP issued by Bank of Portugal, in February 26, 2014, the Bank presents the following information reported to June 30, 2014:

- Credit exposure and respective impairment by segment:

	Exposure as at 30-06-2014					Impairment as at 30-06-2014		
Segment	Total Exposure	Performing loans	of which restructured	Non-performing loans	of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	7,490,991	7,161,083	304,088	329,908	148,639	(292,384)	(85,113)	(207,271)
Building and CRE	3,068,554	2,543,177	374,815	525,377	291,996	(326,693)	(66,407)	(260,286)
Mortgage	15,029,343	14,564,748	886,858	464,595	154,280	(325,943)	(174,367)	(151,576)
Retail	1,889,161	1,685,084	219,282	204,077	117,898	(198,712)	(35,486)	(163,226)
Guarantees	1,446,911	1,446,911	-	-	-	(1,263)	(649)	(614)
	28,924,960	27,401,003	1,785,043	1,523,957	712,813	(1,144,995)	(362,022)	(782,973)

		Total exposure as at 30-06-2014			
		Performing loans		Non-performing loans	
Segment	Total	Failure up to 30 days	Failure from 30 days to 90 days	Failure up to or equal to 90 days *	Failure over 90 days
Credit					
Corporate	7,490,991	7,099,074	62,009	6,053	323,855
Building and CRE	3,068,554	2,498,590	44,587	77,115	448,262
Mortgage	15,029,343	14,300,182	264,566	68,020	396,575
Retail	1,889,161	1,655,006	30,078	16,798	187,279
Guarantees	1,446,911	1,446,478	433	-	-
	28,924,960	26,999,330	401,673	167,986	1,355,971
Impairment					
Corporate	(292,384)	(68,416)	(16,697)	(2,674)	(204,597)
Building and CRE	(326,693)	(53,025)	(13,382)	(31,111)	(229,175)
Mortgage	(325,943)	(144,373)	(29,994)	(7,340)	(144,236)
Retail	(198,712)	(25,291)	(10,195)	(3,692)	(159,534)
Guarantees	(1,263)	(648)	(1)	-	(614)
	(1,144,995)	(291,753)	(70,269)	(44,817)	(738,156)
	27,779,965	26,707,577	331,404	123,169	617,815

	Corporate			Building and CRE			Mortgage			Retail		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	9,682	326,707	(9,482)	4,286	174,874	(10,907)	130,087	4,533,251	(112,438)	120,952	137,508	(4,919)
2005	2,194	103,802	(6,247)	995	110,354	(10,107)	26,488	1,378,970	(33,052)	21,198	26,649	(795)
2006	1,866	129,951	(8,323)	1,220	112,004	(15,248)	27,355	1,625,063	(37,349)	20,428	31,649	(1,319)
2007	2,834	185,030	(12,523)	1,869	155,930	(19,289)	36,842	2,229,609	(51,101)	32,620	53,996	(3,428)
2008	3,201	260,447	(18,442)	2,517	222,146	(28,362)	26,981	1,635,490	(40,398)	35,121	72,896	(8,568)
2009	4,347	456,628	(27,532)	2,881	223,551	(31,020)	17,812	1,146,356	(20,320)	44,061	117,787	(14,831)
2010	8,361	456,427	(39,468)	4,035	315,007	(48,099)	15,923	1,179,397	(16,032)	58,384	180,366	(30,518)
2011	9,646	438,963	(46,947)	4,103	365,181	(50,399)	7,793	518,828	(7,401)	75,296	227,539	(48,939)
2012	10,009	596,684	(54,350)	4,007	559,438	(76,253)	5,085	335,762	(3,961)	88,223	307,099	(50,406)
2013	13,008	973,603	(48,388)	4,159	351,977	(27,610)	4,054	301,204	(2,695)	99,597	476,492	(28,541)
2014	87,880	3,562,750	(20,682)	16,038	478,092	(9,399)	1,931	145,414	(1,195)	38,569	257,180	(6,448)
	153,028	7,490,991	(292,384)	46,110	3,068,554	(326,693)	300,351	15,029,343	(325,943)	634,449	1,889,161	(198,712)

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

On June 30, 2014, the credit risk analysed individually and through the statistical model of impairment, by segment, was as follows:

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	393,973	7,097,018	7,490,991	(104,467)	(187,917)	(292,384)
Building and CRE	915,298	2,153,256	3,068,554	(239,991)	(86,702)	(326,693)
Mortgage	-	15,029,343	15,029,343	-	(325,943)	(325,943)
Retail	-	1,889,161	1,889,161	-	(198,712)	(198,712)
Guarantees	10,968	1,435,943	1,446,911	(1,077)	(186)	(1,263)
	1,320,239	27,604,721	28,924,960	(345,535)	(799,460)	(1,144,995)

On June 30, 2014, the credit risk analysed individually and through the statistical model of impairment had the following composition by sector, for the “Corporate” and "Building and CRE" segments:

	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	51,922	1,158,678	1,210,600	(18,339)	(3,997)	(22,336)
Scientific, technical and similar consultancy activities	31,965	179,494	211,459	(7,636)	(7,226)	(14,862)
Human health and social support activities	11,024	139,740	150,764	(2,612)	(3,275)	(5,887)
Extraterritorial organizations and other international institutions activities	-	31,344	31,344	-	(545)	(545)
Manufacturing industries	61,785	1,571,083	1,632,868	(15,489)	(46,791)	(62,280)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	1,522	93,066	94,588	(13)	(999)	(1,012)
Construction	648,612	1,372,131	2,020,743	(171,564)	(51,042)	(222,606)
Real Estate	251,706	425,454	677,160	(63,979)	(10,540)	(74,519)
Education	1,000	26,637	27,637	(650)	(880)	(1,530)
Other service activities	18,203	63,309	81,512	(1,270)	(2,304)	(3,574)
Transport and storage	7,687	231,811	239,498	(1,567)	(10,167)	(11,734)
Art, entertainment, recreation and sports activities	9,862	23,216	33,078	(986)	(1,764)	(2,750)
Agriculture, Livestock, Hunting, Foresty and Fishing	4,297	96,783	101,080	(1,004)	(6,083)	(7,087)
Wholesale and retail trade	114,023	1,390,833	1,504,856	(35,098)	(87,983)	(123,081)
Administrative and support activities	20,568	170,990	191,558	(11,965)	(6,119)	(18,084)
Information and communication activities	1,021	155,722	156,743	(293)	(3,871)	(4,164)
Electricity, gas and water	-	682,478	682,478	-	(1,784)	(1,784)
Hotels, restaurants and similar	65,413	329,940	395,353	(10,070)	(10,698)	(20,768)
Extractive industries	6,977	15,423	22,400	(322)	(1,439)	(1,761)
Public administration, defence and social security	-	666,899	666,899	-	(108)	(108)
Others	1,684	425,243	426,927	(1,601)	(17,004)	(18,605)
	1,309,271	9,250,274	10,559,545	(344,458)	(274,619)	(619,077)

On June 30, 2014, the credit risk analysed individually and through the statistical model of impairment had the following composition by geography:

	Portugal	
	Exposure	Impairment
Individual	1,320,239	(345,535)
Collective	27,604,721	(799,460)
Total	28,924,960	(1,144,995)

The risk analysis for customers 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 rating attributed to the customers’, which can go from 1 to 9, is dependent upon its risk level and the probability of default in one year that the Bank monitors and calibrates in a constant and in a regular way. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Partners/Management;
. Access to credit;
. Profitability;
. Generation of funds;
. Solvency.

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

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%
Acess 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 in the following manner:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with medium credit risk;
Rating 7 – 9: Customer with low credit risk.

On June 30, 2014, the loans portfolio of the Bank presents the following segmentation by internal rating:

	Risk Level				
	High	Medium	Low	Without rating	Total
Corporate	277,244	4,370,901	1,950,037	892,809	7,490,991
Building and CRE	438,106	1,942,230	92,995	595,223	3,068,554
Mortgage	2,255,990	1,480,286	10,569,531	723,536	15,029,343
Retail	376,820	305,105	915,353	291,883	1,889,161
Guarantees	8,689	696,067	693,645	48,510	1,446,911
Total	3,356,849	8,794,589	14,221,561	2,551,961	28,924,960

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

On June 30, 2014 and December 31, 2013, the book value of executed guarantees and other collaterals relating to credit operations granted amounted to tEuros 267,278 and tEuros 271,850, respectively, and present the following detail:

	30-06-2014	31-12-2013
Non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	257,875	268,035
. Participating units	18,663	18,663
. Equipment	3,225	4,021
Investment Properties (Note 13)	18,191	18,191
Other assets received as settlement of defaulting loans (Note 17)	79,035	72,477
Available-for-sale financial assets	22,121	22,121
	399,110	403,508
Impairment of non-current assets held for sale (Note 12):		
. Properties received as settlement of defaulting loans	(86,448)	(87,677)
. Participating units	(4,000)	(4,000)
. Equipment	(2,573)	(2,927)
Impairment of other assets received as settlement of defaulting loans (Note 17)	(16,690)	(14,933)
Impairment of available-for-sale financial assets	(22,121)	(22,121)
	(131,832)	(131,658)
	267,278	271,850

The detail of the fair value and the net book value of property received as settlement of defaulting loans, by type of asset, is as follows:

	30-06-2014		
Asset	**Items of real estate property**	**Asset's fair value**	**Book value**
Land			
Urban	81	23,609	19,121
Rural	61	6,029	4,817
Buildings			
Commercial	508	71,607	56,049
Mortgage	1,360	104,907	85,762
Others	34	8,841	5,678
Others	2	32,854	32,854
Total	2,046	247,847	204,281

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

The detail of the fair value and the net book value of property received as settlement of defaulting loans, by aging, is as follows:

	30-06-2014				
Asset	**Up to 1 year**	**From 1 year to 2,5 years**	**From 2,5 years to 5 years**	**Over 5 years**	**Total**
Land					
Urban	694	2,480	14,923	1,024	19,121
Rural	-	3,478	487	852	4,817
Buildings					
Commercial	13,334	31,867	7,276	3,572	56,049
Mortgage	23,993	40,569	17,290	3,910	85,762
Others	684	2,111	1,673	1,210	5,678
Others	-	32,854	-	-	32,854
Total	38,705	113,359	41,649	10,568	204,281

Restructured credit

On June 30, 2014 and December 31, 2013, the restructured credit operations were identified in accordance with the Instruction nº 32/2013 of Bank of Portugal (which replaced the Instruction nº 18/2012), which established the definition of restructured credit due to client's financial difficulties.

According to the referred Instruction, the institutions shall identify and mark in their information systems credit operations of clients with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, postponement of the reimbursement deadline, introduction of grace periods, capitalized interest, reduction in interest rates, forgiveness of interest or principal) or the institution enters into new credit lines for settling (totally or partially) the existing debt service, in which cases the institutions should include the reference "restructured credit by financial difficulties of the client."

A client is considered to be in a difficult financial position whenever he has failed to fulfil any of its financial obligations to the institution or if it is predictable, given the information available, that such situation will occur.

Unmarking restructured credit by financial difficulties of the client can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

On June 30, 2014, the portfolio of restructured credits by restructuring measure adopted, had the following detail:

	30-06-2014								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Period of grace	33,474	876,645	(64,430)	9,697	234,730	(110,391)	43,171	1,111,375	(174,821)
Others	28,004	908,398	(93,468)	11,717	478,083	(242,599)	39,721	1,386,481	(336,067)
	61,478	1,785,043	(157,898)	21,414	712,813	(352,990)	82,892	2,497,856	(510,888)

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

On June 30, 2014 and December 31, 2013, the book value of debt and equity instruments presents the following breakdown by external rating in accordance with Standard & Poor's rating:

Debt instruments

	30-06-2014	31-12-2013
Financial assets held for trading		
Rating S&P		
AA+ / AA / AA-	-	2,098
A+ / A / A-	48,144	53,382
BBB+ / BBB / BBB-	143,452	96,913
BB+ / BB / BB-	38,575	101,169
B+ / B / B-	8,895	7,815
Without external rating	98,872	84,693
	337,938	346,070
Available-for-sale financial assets		
Rating S&P		
AA+ / AA / AA-	7,418	7,437
BBB+ / BBB / BBB-	342,658	1,067,927
BB+ / BB / BB-	5,383,293	2,246,906
B+ / B / B-	473,547	362,756
Without external rating	453,651	697,227
	6,660,567	4,382,253
	6,998,505	4,728,323

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

The liquidity risk management policy is decided in the top organization structure responsible for Asset and Liability Management (ALM), the Assets and Liabilities Committee (ALCO), which is chaired by the President of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin (NIM) sensitivity and asset value (MVE) sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through liquidity coefficient and accumulated net illiquidity indicators.

The Bank financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level given the credit lines available, the dispersion of the maturities and the minimization of funding activity related costs.

Under its liquidity management policy, on June 30, 2014 and December 31, 2013, the Bank has a Euro Medium Term Notes (EMTN) Program, under which tEuros 32,300 and tEuros 141,830 are used, respectively.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

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

The projected cash flows of the financial instruments (not discounted) on June 30, 2014 and December 31, 2013, in accordance with their contractual maturity, were as follows:

	30-06-2014							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	182,146	327	1,002	2,684	883,913	-	-	1,070,072
Balances due from other banks	247,263	-	-	-	-	-	-	247,263
Financial assets held for trading	2,216,725	-	-	-	-	-	-	2,216,725
Available-for-sale financial assets	2	11,432	1,418,850	715,240	1,089,130	4,768,833	173,026	8,176,513
Loans and advances to credit institutions	188,172	5,751	454,641	744,500	62,164	51,972	-	1,507,200
Loans and advances to customers	230,681	1,776,500	3,907,665	5,459,876	3,735,641	14,728,783	-	29,839,146
Hedging derivatives	193,377	-	-	-	-	-	-	193,377
Investments in associates	-	-	-	-	-	-	154,228	154,228
	3,258,366	1,794,010	5,782,158	6,922,300	5,770,848	19,549,588	327,254	43,404,524
Liabilities								
Resources of central banks	743,077	-	3,516,083	-	-	-	-	4,259,160
Financial liabilities held for trading	1,881,329	-	-	-	-	-	-	1,881,329
Resources of other credit institutions	1,506,359	3,182,133	414,983	271,444	3,723	204,672	-	5,583,314
Resources of customers and other debts	5,122,196	2,516,295	4,904,508	7,690,217	286,800	263,047	-	20,783,063
Debt securities	7,884	22,100	1,208,817	1,312,943	923,266	774,972	-	4,249,982
Hedging derivatives	241,543	-	-	-	-	-	-	241,543
Subordinated liabilities	-	4,320	-	-	-	-	-	4,320
	9,502,388	5,724,848	10,044,391	9,274,604	1,213,789	1,242,691	-	37,002,711

	31-12-2013							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	222,107	72	221	588	587	123,086	-	346,661
Balances due from other banks	552,921	-	-	-	-	-	-	552,921
Financial assets held for trading	1,949,115	-	-	-	-	-	-	1,949,115
Available-for-sale financial assets	2	299,222	1,106,694	532,235	1,100,163	1,963,112	142,567	5,143,995
Loans and advances to credit institutions	1,679,810	42,892	124,521	1,411,556	63,308	53,578	-	3,375,665
Loans and advances to customers	665,187	2,908,286	3,989,822	4,465,835	3,072,981	15,022,088	-	30,124,199
Hedging derivatives	199,427	-	-	-	-	-	-	199,427
Investments in associates	-	-	-	-	-	-	147,730	147,730
	5,268,569	3,250,472	5,221,258	6,410,214	4,237,039	17,161,864	290,297	41,839,713
Liabilities								
Resources of central banks	41,410	2,200,138	-	4,030,742	-	-	-	6,272,290
Financial liabilities held for trading	1,619,768	-	-	-	-	-	-	1,619,768
Resources of other credit institutions	474,345	2,869,871	86,833	575,931	5,370	206,009	-	4,218,359
Resources of customers and other debts	5,227,653	3,018,611	5,135,818	7,348,145	359,500	296,950	-	21,386,677
Debt securities	(30,862)	55,762	1,228,197	348,438	188,069	812,124	-	2,601,728
Hedging derivatives	370,684	-	-	-	-	-	-	370,684
Subordinated liabilities	-	4,320	-	-	-	-	-	4,320
	7,702,998	8,148,702	6,450,848	12,303,256	552,939	1,315,083	-	36,473,826

The projected cash flows of the financial instruments were determined based on principles and assumptions used by the Bank to manage and control liquidity resulting from its operations, namely the following ones:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve were calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to the market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;

- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity security prices, precious metals and commodities.

The standard methodology applied for the Bank trading activity is Value at Risk (VaR). Historical simulation with a 99% confidence level and a time horizon of one day is used as the basis, being applied statistical adjustments to enable the more recent occurrences that affect the level of risk assumed to be included quickly and effectively. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measures.

The VaR calculated represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

In addition, other measures are carried out that enable additional risk control to be maintained. In abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios with different financial variables, in order to obtain the corresponding potential impact on results. In resume, the analysis of scenarios tries to identify the potential risk in extreme market conditions and scenarios at the limits of probability not covered by VaR.

Furthermore, 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. For interest rate, it uses the BPV – estimated impact on results of parallel changes in the interest rate curves. Due to 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).

Quantitative limits, classified into two groups, are used for the trading portfolio based on the following objectives:

- Limits aimed to protect the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed to protect the volume of effective losses or protecting the results already achieved during the period (Loss Triggers and Stop Losses).

The model used to analyse interest rate structural risk enables the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and re-pricing structure, which determine the sensitivity of the financial margin and the sensitivity of the asset value of the balance sheet instruments.

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

Interest rate risk

On June 30, 2014 and December 31, 2013, the detail of the financial instruments by exposure to interest rate risk is as follows:

	30-06-2014				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	881,261	182,037	-	1,063,298
Balances due from other banks	-	-	247,263	-	247,263
Financial assets held for trading	-	337,938	2,979	1,875,808	2,216,725
Available-for-sale financial assets	5,389,219	980,862	406,752	-	6,776,833
Loans and advances to credit institutions	957,715	448,021	48,151	-	1,453,887
Loans and advances to customers	2,201,314	23,480,202	6,871	-	25,688,387
Hedging derivatives	-	-	-	193,377	193,377
	8,548,248	26,128,284	894,053	2,069,185	37,639,770
Liabilities					
Resources of central banks	-	4,200,008	43,048	-	4,243,056
Financial liabilities held for trading	-	-	-	1,881,329	1,881,329
Resources of other credit institutions	4,816,284	463,582	268,912	-	5,548,778
Resources of customers and other debts	15,074,517	160,252	4,902,987	-	20,137,756
Debt securities	2,900,440	1,148,426	35,051	-	4,083,917
Hedging derivatives	-	-	-	241,543	241,543
Subordinated liabilities	-	4,307	-	-	4,307
	22,791,241	5,976,575	5,249,998	2,122,872	36,140,686

	31-12-2013				
	Exposure to		Not subject to		
	Fixed rate	Variable rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	116,135	221,706	-	337,841
Balances due from other banks	-	-	552,921	-	552,921
Financial assets held for trading	-	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
	8,272,997	25,756,092	971,639	1,799,320	36,800,048
Liabilities					
Resources of central banks	-	6,200,016	41,394	-	6,241,410
Financial liabilities held for trading	-	-	-	1,619,768	1,619,768
Resources of other credit institutions	3,582,505	592,187	366	-	4,175,058
Resources of customers and other debts	15,696,775	4,781,987	228,239	-	20,707,001
Debt securities	1,341,104	1,209,023	(15,966)	-	2,534,161
Hedging derivatives	-	-	-	370,684	370,684
Subordinated liabilities	-	4,307	-	-	4,307
	20,620,384	12,787,520	254,033	1,990,452	35,652,389

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 ranges for measurement of the interest rate gaps are defined;

- for each group, the flows are re-grouped based on the ranges created;

- for each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- the total inflows and outflows are calculated for each range and the difference between them, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap enables an approximation to the sensitivity of the net assets value and the financial margin to variations in market rates. This approximation uses the following assumptions:

- the volumes remain constant in the balance sheet and are automatically renewed;

- the 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's value, an increase in the interest rates originates a decrease in the amount of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balances remain unchanged during the period under analysis;

- Maturities and re-pricing – the actual maturity and re-pricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- New business features (term, spread, indexing factor and other) – the conditions applied in the budget for each product are used. When these features cease to be within market conditions for certain products, the average conditions in place in the last month or new commercial directives for each product under review are used.

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

On June 30, 2014 and December 31, 2013, 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, corresponds to:

	30-06-2014		31-12-2013	
Assets	Change + 100 bp's	Change - 100 bp's	Change + 100 bp's	Change - 100 bp's
Cash and deposits at central banks	8,763	(1,314)	1,132	(452)
Available-for-sale financial assets	4,117	(1,157)	5,039	(2,070)
Loans and advances to credit institutions	6,329	(1,847)	25,314	(10,162)
Loans and advances to customers	184,377	(52,965)	199,861	(80,391)
	203,586	(57,283)	231,346	(93,075)
Hedging derivatives	(31,869)	9,225	(34,983)	14,108
Liabilities				
Resources of central banks	43,008	(9,176)	61,056	(18,487)
Resources of other credit institutions	48,494	(14,010)	35,474	(14,124)
Resources of customers and other debts	57,842	(17,068)	62,425	(25,699)
Debt securities	8,863	(2,500)	9,368	(3,769)
	158,207	(42,754)	168,323	(62,079)

Financial instruments held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of VaR are as follows:

- Time horizon: The period of time used for calculating potential losses on a portfolio, for measuring VaR (daily) is 1 day;

- Confidence level: both VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, of the distribution of losses and gains);

- Exponential deterioration factor: Enables that the amount of 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 the highest arising from the calculation made with the factor of deterioration in force and the calculation with uniform weights.

- Currency of calculation: VaR calculations are made in Euros, which ensures that local currency is the risk currency. VaR results are reported in US Dollars in order to allow accumulation of different units; and

- Time window of market data: A 2 year time window is used or at least 520 items of data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight to the more recent observations in relation to the reference date of the analysis.

Historic simulation consists of using historic changes as a distribution model of possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between them, are well reflected in the historical period selected.

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

In addition, a complete revaluation of the portfolio requires a valuation for each of the instruments using the respective mathematical expression, in order to obtain the market value of each individual position. Upon using revaluation methods, the implicit nonlinear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

On June 30, 2014 and December 31, 2013, the VaR associated to the interest rate risk corresponds to:

	30-06-2014	31-12-2013
VaR Percentil 99%	(2)	(4)
VaR Weighted Percentil 99%	(2)	(2)

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 June 30, 2014 and December 31, 2013, financial instruments by currency are as follows:

	30-06-2014			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	1,060,092	2,047	1,159	1,063,298
Balances due from other banks	219,199	15,568	12,496	247,263
Financial assets held for trading	2,182,042	33,929	754	2,216,725
Available-for-sale financial assets	6,769,415	7,418	-	6,776,833
Loans and advances to credit institutions	1,004,371	426,253	23,263	1,453,887
Loans and advances to customers	25,632,636	28,869	26,882	25,688,387
Hedging derivatives	192,578	799	-	193,377
	37,060,333	514,883	64,554	37,639,770
Liabilities				
Resources of central banks	4,243,056	-	-	4,243,056
Financial liabilities held for trading	1,880,547	440	342	1,881,329
Resources of other credit institutions	5,068,726	476,251	3,801	5,548,778
Resources of customers and other debts	19,174,748	806,551	156,457	20,137,756
Debt securities	4,082,739	-	1,178	4,083,917
Hedging derivatives	239,251	2,292	-	241,543
Subordinated liabilities	4,307	-	-	4,307
	34,693,374	1,285,534	161,778	36,140,686

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

	31-12-2013			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	329,257	5,391	3,193	337,841
Balances due from other banks	493,501	34,386	25,034	552,921
Financial assets held for trading	1,908,412	38,432	2,271	1,949,115
Available-for-sale financial assets	4,374,816	7,437	-	4,382,253
Loans and advances to credit institutions	2,924,538	326,942	19,490	3,270,970
Loans and advances to customers	26,043,429	38,177	25,915	26,107,521
Hedging derivatives	198,634	793	-	199,427
	36,272,587	451,558	75,903	36,800,048
Liabilities				
Resources of central banks	6,241,410	-	-	6,241,410
Financial liabilities held for trading	1,618,606	1,111	51	1,619,768
Resources of other credit institutions	3,779,243	393,149	2,666	4,175,058
Resources of customers and other debts	19,784,630	764,049	158,322	20,707,001
Debt securities	2,534,161	-	-	2,534,161
Hedging derivatives	368,086	2,598	-	370,684
Subordinated liabilities	4,307	-	-	4,307
	34,330,443	1,160,907	161,039	35,652,389

On June 30, 2014 and December 31, 2013, the VaR associated to foreign exchange risk corresponds to:

	30-06-2014	31-12-2013
VaR Percentil 99%	(7)	(7)
VaR Weighted Percentil 99%	(3)	(5)

Equity risk of assets

Financial instruments held for trading

On June 30, 2014 and December 31, 2013, the Bank had no equity risk associated with financial instruments held for trading and therefore the VaR related to this risk is zero.

49. LEGAL ACTIONS IN PROGRESS

From the end of the first quarter of 2013 a movement with public projection arise in Portugal in the sequence of which the validity of some interest rate swap agreements established between some financial institutions and several state owned enterprises, namely in the railway and road transportation sectors, have been challenged. These agreements were signed essentially until 2008, which is, before the beginning of the recent financial crisis and represent to those enterprises high charges.

Among those agreements, some established with the Bank were challenged, whose positive fair value at June 30, 2014 arise to approximately tEuros 1,243,000, 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 doubts about their validity and binding force. This initiative took place during the second quarter of 2013, in English courts, as they were the ones chosen by the parties as expressly stated in the respective agreement terms.

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

On September 2013, after the submission of the above referred legal actions, the state owned enterprises communicated to the Bank that they would suspend from that date the payment of the net interest associated with those swap agreements until the on-going actions were decided. On June 30, 2014, the balance sheet caption "Other assets - Other" includes approximately tEuros 100,000 relating to the interests not paid (Note 17).

On November 2013, the state owned enterprises presented to the English courts their plea to the legal actions raised by the Bank requiring the nullity of the agreements and requesting the refund of the net flows of interest paid in the past, which amounted to approximately tEuros 134,000.

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.

Additionally, during the first semester of 2014, some new legal actions regarding the validity and binding force of certain interest rate swap agreements were raised against the Bank in Portuguese Courts by some entities comprised in the Regional Government of Madeira Island (entities included in the Portuguese public sector), which have also suspended the payment of the net interest associated with those contracts. On June 30, 2014, the positive fair value of those swaps amounted to tEuros 80,000 and was recorded under the caption “Financial assets held for trading” (Note 7). On the other hand, on June 30, 2014 the balance sheet caption "Other assets - Other" includes approximately tEuros 80,000 relating to the interests not paid. Last, the above referred entities are asking for the refund of the net interest paid by them in the past, which as of June 30, 2014 amounted to tEuros 20,000.

and the interest which payment is suspended (both recorded in the financial statements of the Bank as of that date), as well as, the net interest paid in the past by those entities that now are being subject to a refund request amounted to, approximately, tEuros 88,000, tEuros 8,000 and tEuros 20,000, respectively. As of this date, the Bank has already presented its plea to these legal actions. Nevertheless, since the arguments used by the above referred entities to challenge the validity of those swap contracts are similar to the ones used in the legal actions referred in the previous paragraphs, the Board of Directors of the Bank do not expect an adverse outcome of those legal actions.

Furthermore, on June 30, 2014, another set of claims / legal actions were placed against the Bank by its customers relating to swap agreements. In the majority of those claims / 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 June 30, 2014, the amounts involved in those claims / legal actions were as follows:

Interest received from customers	39,507
Interest paid to customers	(4,755)
	34,752
Interest overdue not paid by customers	9,701
Swaps Mark to Market	459
Impairment recorded	(9,142)
	1,018
Provisions for litigations in progress	(3,120)
Exposure	32,650

However, it is the Board of Directors of the Bank belief that the provisions recorded in the accompanying financial statements are sufficient to address an eventual adverse outcome of the above referred claims / legal actions.

Finally, in the first quarter of 2014 another major legal action was placed against the Bank, involving a total amount of approximately tEuros 274,500, which is not included above. However, that legal action relates to a request for the cancelation of some of the swap contracts signed by the Bank with one Portuguese state-owned enterprise, which are already in litigation as described above.

50 FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors on July 24, 2014.

51. 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 ON JUNE 30, 2014 (Note 21)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex I originally issued in Portuguese - Note 51)

		Amount of the issue				Value adjustments	Total				
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Accrual	of hedging operations	Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Bonds issued											
Bonds											
Performance Mais	EUR	63.096	63.096	-	-	-	-	Floating	24-nov-2009	24-nov-2014	Basket of indexes
Performance Mais II	EUR	13.731	13.731	-	-	-	-	Floating	22-dez-2009	15-jan-2015	Basket of indexes
Rendimento Europeu	EUR	99.796	99.796	-	-	-	-	Floating	06-ago-2009	06-ago-2014	Basket of indexes
ST Diversificaçao Invest 3º amortização Clientes	EUR	23.912	6.925	16.987	1.016	1.686	19.689	Floating	17-mar-2009	28-mar-2015	Basket of indexes
ST Diversificaçao Invest 4º amortização Clientes	EUR	23.913	6.923	16.990	-	-	16.990	Floating	17-mar-2009	28-mar-2017	Basket of indexes
Valorização Performance 5 anos	EUR	21.533	-	21.533	404	182	22.119	Floating	30-set-2010	30-set-2015	Basket of indexes
Valorização Performance 5 anos OUTUBRO 2010	EUR	9.993	-	9.993	183	68	10.244	Floating	02-nov-2010	02-nov-2015	Basket of indexes
Top Alemanha	EUR	65.042	29.342	35.700	1.206	325	37.231	Floating	14-fev-2011	13-fev-2015	Basket of indexes
Top Alemanha Fevereiro 2011	EUR	57.892	26.513	31.379	1.299	269	32.947	Floating	09-mar-2011	09-mar-2015	Basket of shares
Valorização China	EUR	56.379	9.215	47.164	1.529	379	49.072	Floating	11-abr-2011	02-abr-2015	Index FTSE China 25
America Latina Top 3	EUR	99.997	-	99.997	4.351	243	104.591	Floating	01-ago-2011	31-out-2014	Index of shares FTSE Latibex Top
AutoCallable 85-15	EUR	570	-	570	-	(266)	304	Floating	01-ago-2011	31-out-2014	Basket of shares
Valorização Europa GBP	GBP	1.178	-	1.178	-	-	1.178	Floating	27-jun-2014	09-jul-1905	Index of shares Standard & Poor's 500
		537.032	**255.541**	**281.491**	**9.988**	**2.886**	**294.365**				
Covered bonds											
Mortgage Bonds II	EUR	1.000.000	125.750	874.250	19.602	4.998	898.850	3,25%	21-out-2009	21-out-2014	Fixed interest rate
Mortgage Bonds VII - 1st tranche	EUR	130.000	130.000	-	-	-	-	2,839%	04-nov-2011	04-nov-2014	Fixed interest rate
Mortgage Bonds VIII - 1st tranche	EUR	250.000	250.000	-	-	-	-	2,827%	04-nov-2011	04-nov-2014	Fixed interest rate
Mortgage Bonds IX - 1st tranche	EUR	500.000	500.000	-	-	-	-	2,668%	02-abr-2013	02-abr-2016	Fixed interest rate
Mortgage Bonds IX - 2nd tranche	EUR	1.000.000	1.000.000	-	-	-	-	2,578%	15-abr-2013	15-abr-2017	Fixed interest rate
Mortgage Bonds X	EUR	750.000	750.000	-	-	-	-	2,587%	26-jul-2013	26-jul-2017	Fixed interest rate
Mortgage Bonds XI - 1st tranche	EUR	500.000	500.000	-	-	-	-	2,155%	19-dez-2013	19-dez-2017	Fixed interest rate
Mortgage Bonds XI - 2st tranche	EUR	500.000	500.000	-	-	-	-	2,243%	19-dez-2013	19-dez-2017	Fixed interest rate
Mortgage Bonds XI - 3st tranche	EUR	750.000	750.000	-	-	-	-	2,575%	13-jan-2014	13-jan-2015	Fixed interest rate
Mortgage Bonds XII - 1st tranche	EUR	1.000.000	5.300	994.700	2.369	-	997.069	1,500%	01-abr-2014	03-abr-2017	Fixed interest rate
Mortgage Bonds XIII - 1st tranche	EUR	750.000	-	750.000	(3.470)	-	746.530	1,625%	11-jun-2014	11-jun-2019	Fixed interest rate
		7.130.000	**4.511.050**	**2.618.950**	**18.501**	**4.998**	**2.642.449**				
Bonds issued on securitization operations											
Hipototta 1 - Class A - Notes	EUR	155.704	126.595	29.109	(12)	-	29.097	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	10.040	10.040	-	-	-	-	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	4.424	4.424	-	-	-	-	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	939.039	485.141	453.898	(1.067)	-	452.831	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	34.163	34.163	-	-	-	-	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	107.893	57.700	50.193	1	-	50.194	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	823.350	239.175	584.175	(247)	-	583.928	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)
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	9.304	9.304	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio
Leasetotta - Class A - Notes	EUR	50.138	50.138	-	-	-	-	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
		2.591.055	**1.473.680**	**1.117.375**	**(1.325)**	**-**	**1.116.050**				
Other											
EMTN's	EUR	32.300	1.250	31.050	3	-	31.053				
		32.300	**1.250**	**31.050**	**3**	**-**	**31.053**				
TOTAL DEBT SECURITIES ISSUED		**10.290.387**	**6.241.521**	**4.048.866**	**27.167**	**7.884**	**4.083.917**				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES ON JUNE 30, 2014 (Note 23)

(Amounts expressed in thousands of Euros – tEuros)

(Translation of Annex II originally issued in Portuguese - Note 51)

Securities issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed by the Group	Amount of the issue: Consolidated Balance Sheet	Accrual: Total	Accrual: Subscribed by the Group	Accrual: Consolidated Balance Sheet	Total Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from
Subordinated Perpetual Bonds 2000	EUR	270.447	270.447	-	137	137	-	-	2,08%	Perpetual	June 22, 2010
Subordinated Perpetual Bonds CPP 2001	EUR	4.275	-	4.275	42	-	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
		288.540	284.265	4.275	283	241	32	4.307			