

September 2023

# Mortgage Covered Bonds Investor Presentation

Banco Santander Totta S.A.



## IMPORTANT INFORMATION

Santander Totta SGPS, S.A. ("Santander Portugal") cautions that this presentation contains forward looking statements. These forward looking statements are found in various places throughout this presentation and include, without limitation, statements concerning our future business development and economic performance. While these forward looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in local and international securities markets, currency exchange rates, and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties, The risk factors and other key factors that we have indicated could adversely affect our business and financial performance contained in our past and future filings and reports, including those with the Securities and Exchange Commission of Portugal.

The information contained herein is in accordance with the Bank of Portugal's criteria. Unless otherwise stated, data in this presentation refers to consolidated figures for Santander Totta SGPS, the group's holding company in Portugal. BST is Santander Totta SGPS' main operating unit, aggregating the group's retail banking business in Portugal.

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**Santander  
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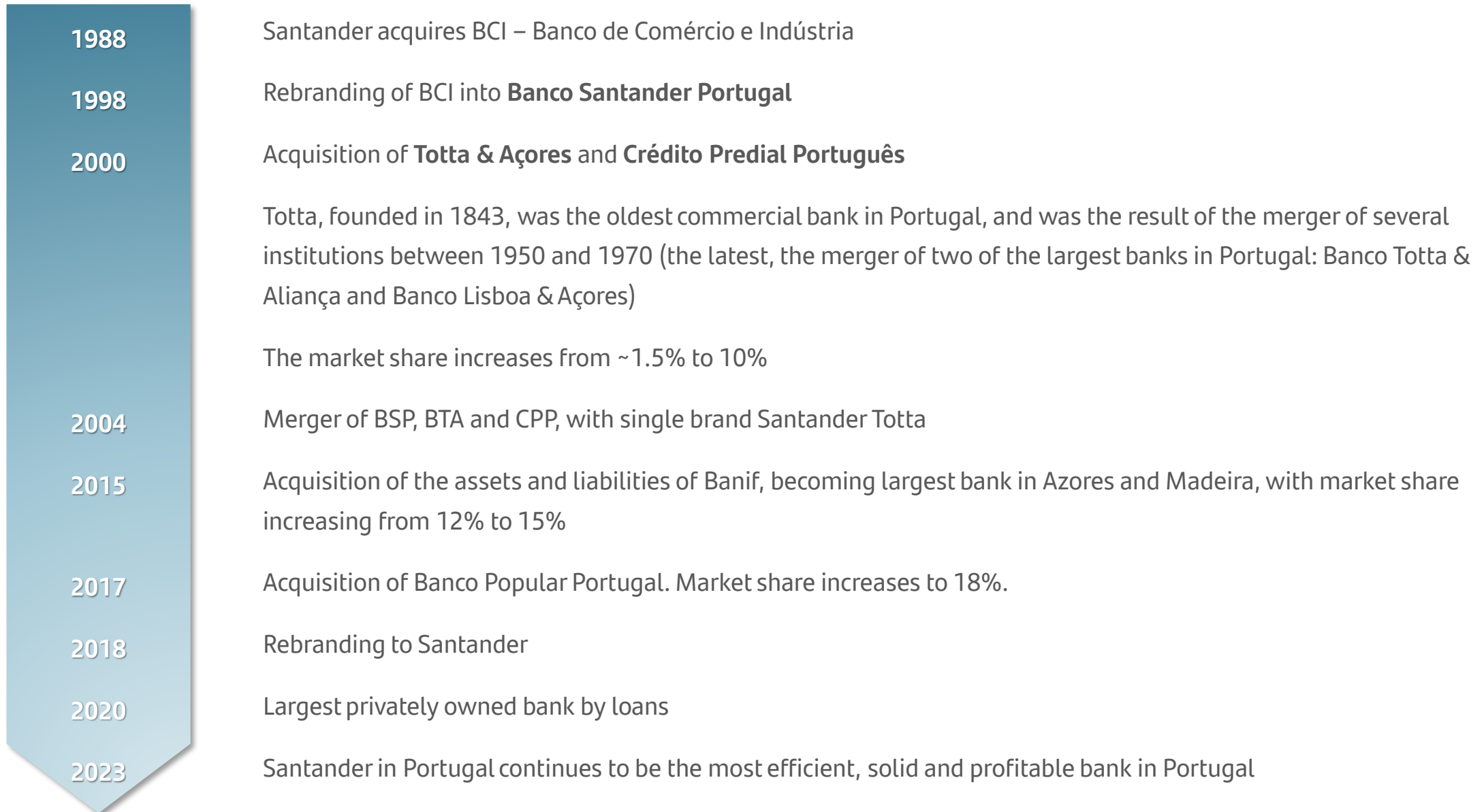
# Santander Portugal



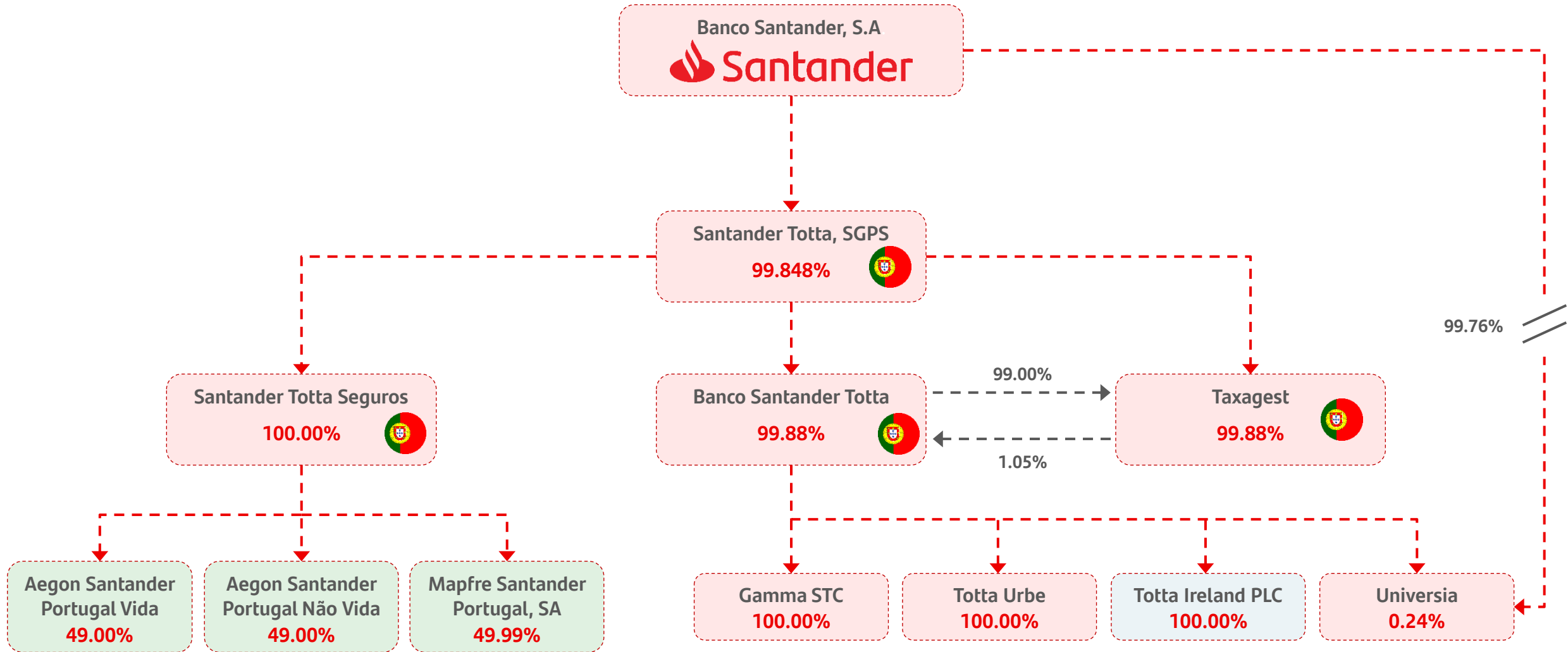
01



## Santander Portugal: a long and successful history of bank integration



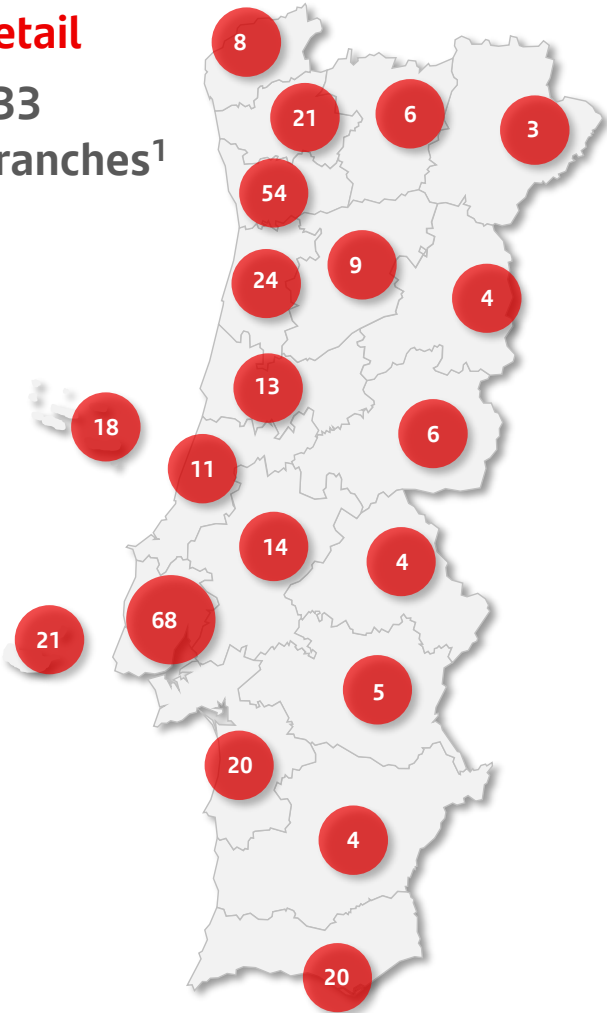
# Santander Portugal is Grupo Santander's fully owned commercial bank in Portugal



# Santander has a capilar branch network in Portugal

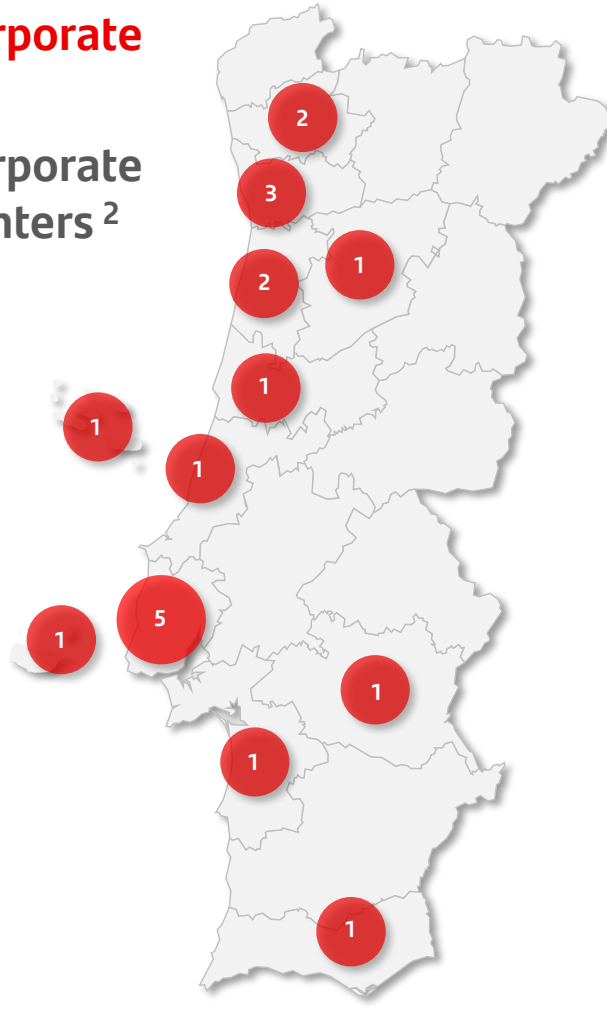
## Retail

333 Branches<sup>1</sup>



## Corporate

20 Corporate Centers<sup>2</sup>



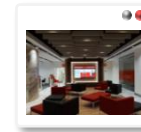
## Branches types (new concepts)

From a traditional network to ...

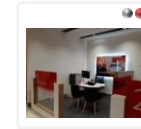
### Traditional branches

Yearly classification revision considering three criteria: Business Volume, Revenues and Headcount.

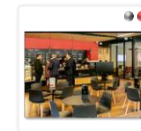
... embrace new concepts focused to provide a better Client service



**Smart Red**  
Full Concept



**Smart Red**  
Agile



**Work Café (#3)**  
Lisbon, Coimbra and Espinho














**Remote branch**

1. Retail branches: 333 branches as of Jun 2023

2. Corporate Centers: Large Corporate Centers not included

# Santander Portugal is the largest privately owned bank, by loans, and its strategy is focused on digital transformation to better serve its customers

KEY DATA	H1'23	YoY Var.
 Customer loans (gross)	€41.9 bn	-3.8%
 Customer Deposits	€36.6 bn	-8.8%
 Attributable profit	€333.7 mn	+38.3%
 RoTE <sup>1</sup>	20.9%	+5.9 pp
 Efficiency ratio	30.8%	-8.8 pp
 Loans market share <sup>2</sup>	17.4%	-4 bps
 Deposits market share <sup>2</sup>	13.9%	-71 bps
 Total customers	2.9 mn	-4.4%
 Digital customers	1.1 mn	+12.0%
 Branches <sup>3</sup>	333	-2.3%
 Employees <sup>3</sup>	4,666	-0.6%

- (1) Excluding reverse repos.  
 (2) Excluding repos.  
 (3) As at Sep-22  
 (4) Branches in Portugal

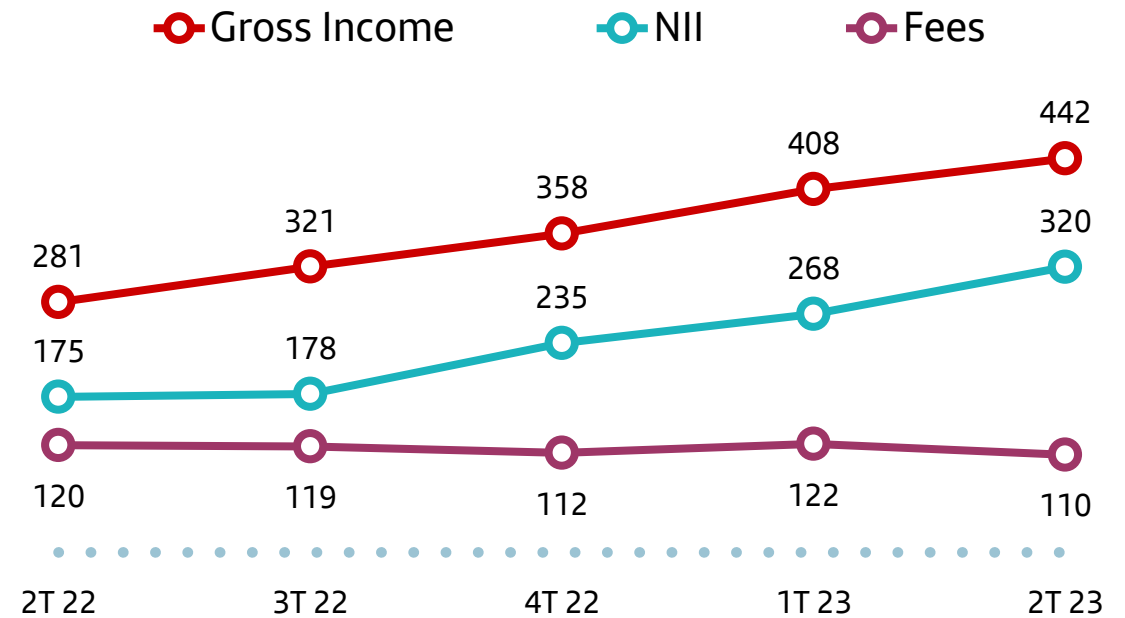




## Strong profitability, led by resilient commercial revenue, comprehensive transformation and controlled asset quality

### P&L (€ mn)

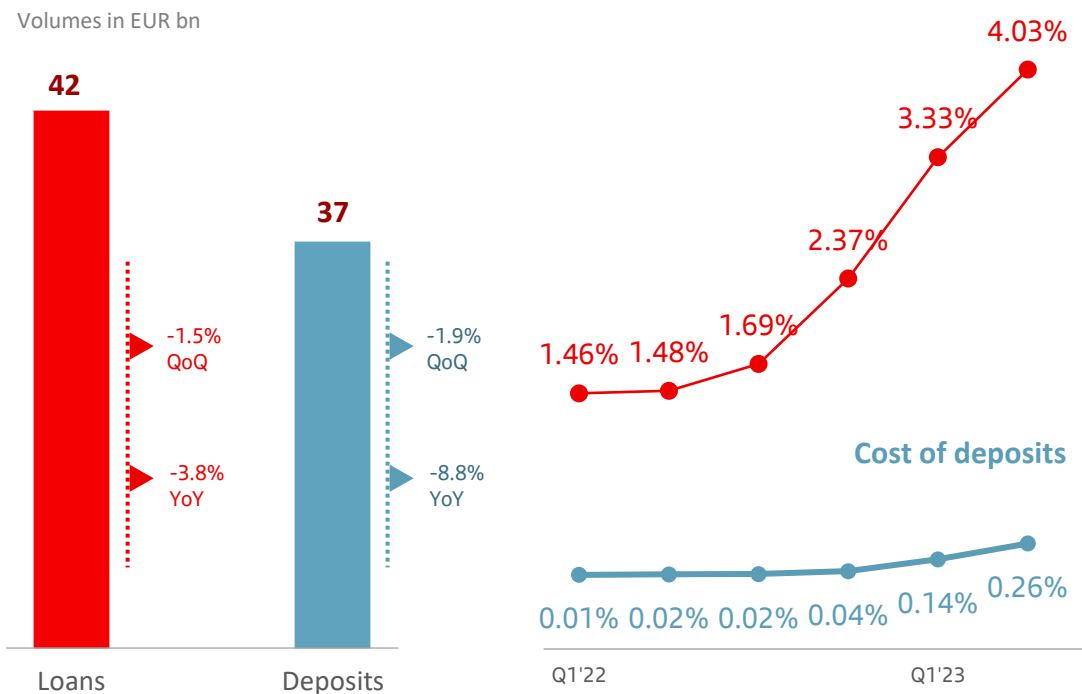
	H1'23	% H1'22
Net interest income	586.5	+58.4
Net fees	231.2	-3.5
<b>Gross Income</b>	<b>830.4</b>	<b>+35.5</b>
Operating costs	-255.4	+5.3
Impairment	-35.0	-
<b>Profit before taxes</b>	<b>501.0</b>	<b>+43.3</b>
<b>Consolidated net income</b>	<b>333.7</b>	<b>+38.3</b>



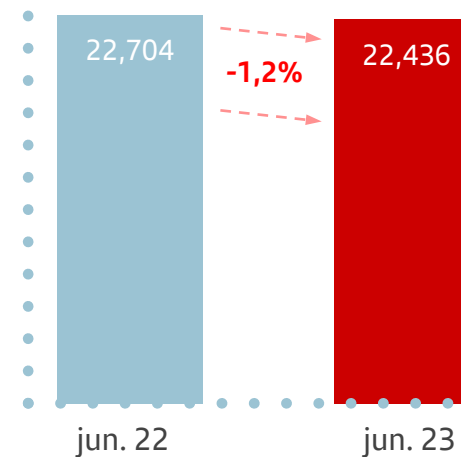
- ▶ **Attributable profit increased 38% YoY to 334mn**
- ▶ Gross income improvement led by NII, while net fee income was affected by lower new loan volumes and regulatory changes (also on mortgage fees). Costs increased, but below inflation, with a reduction in real terms.
- ▶ Low LLPs reflecting resilient underlying economic conditions, namely low unemployment
- ▶ The Bank remains focused in **maintaining an appropriate risk policy**, with high credit quality and strong capital position
- ▶ Santander Portugal **continues focused on organic growth in terms of profitable market share**, improving our position as leading private sector bank, as well as market leaders in efficiency, improving the cost base

# In a context of higher interest rates, there was a reduction in the stock of loans due to lower demand and early repayments

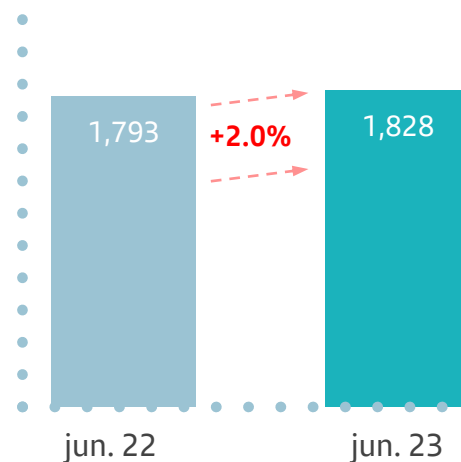
## Activity



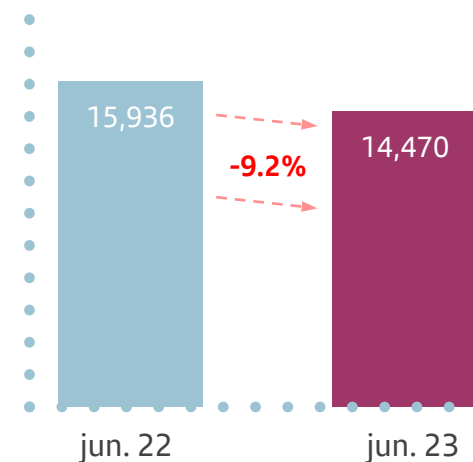
## Mortgages



## Consumption

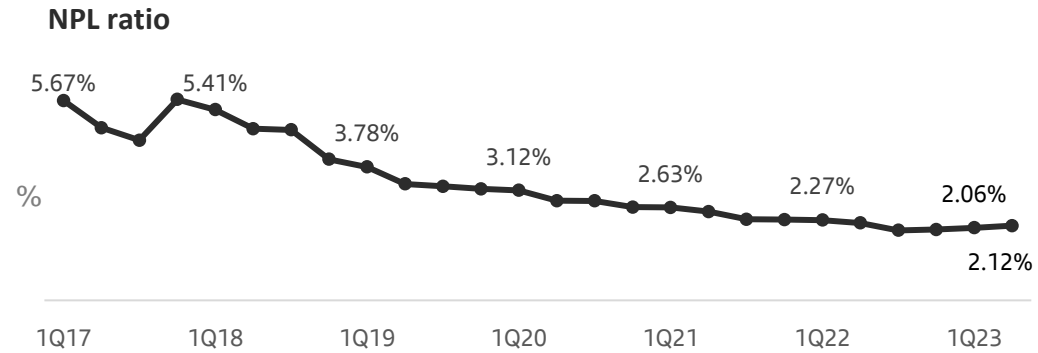


## Companies

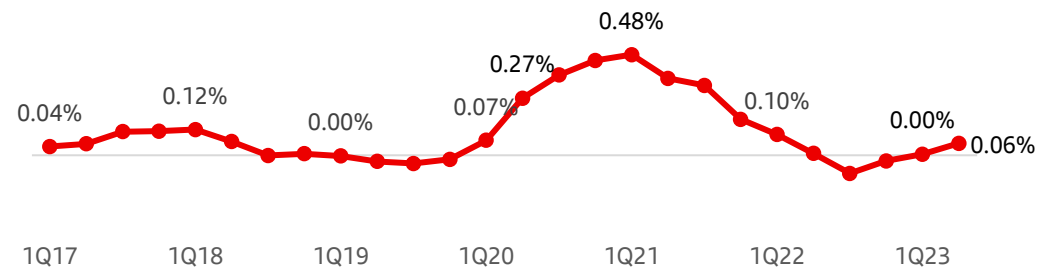


LLPs and CoR remained at very low levels, reflecting the strength of our balance sheet. The NPL and coverage ratios continued to improve

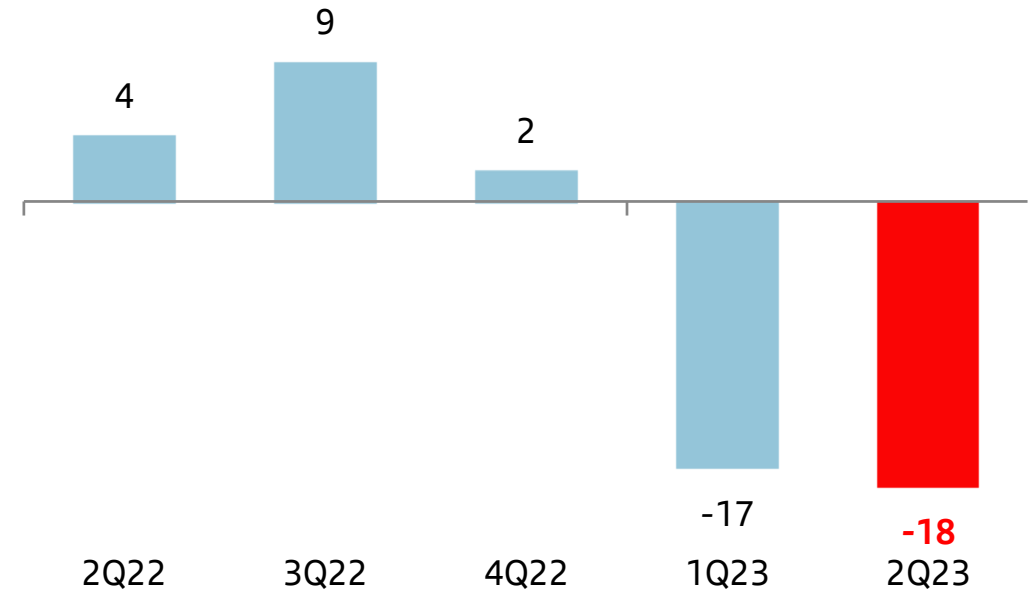
### Credit quality ratios – Portugal



### Cost of Credit

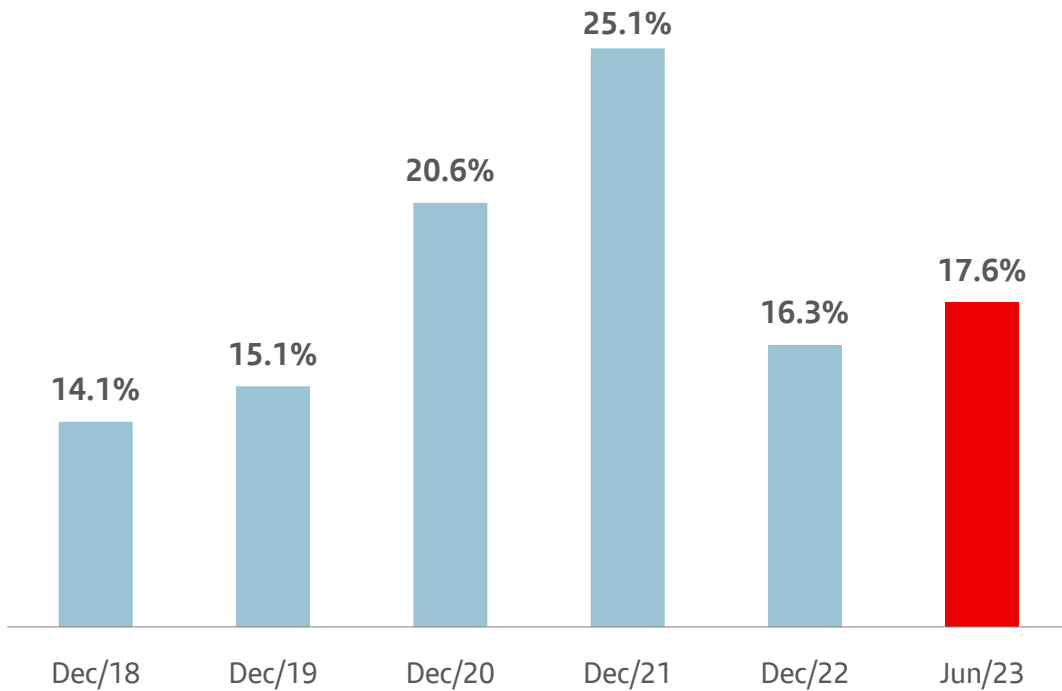


### Net LLPs (€ mn)

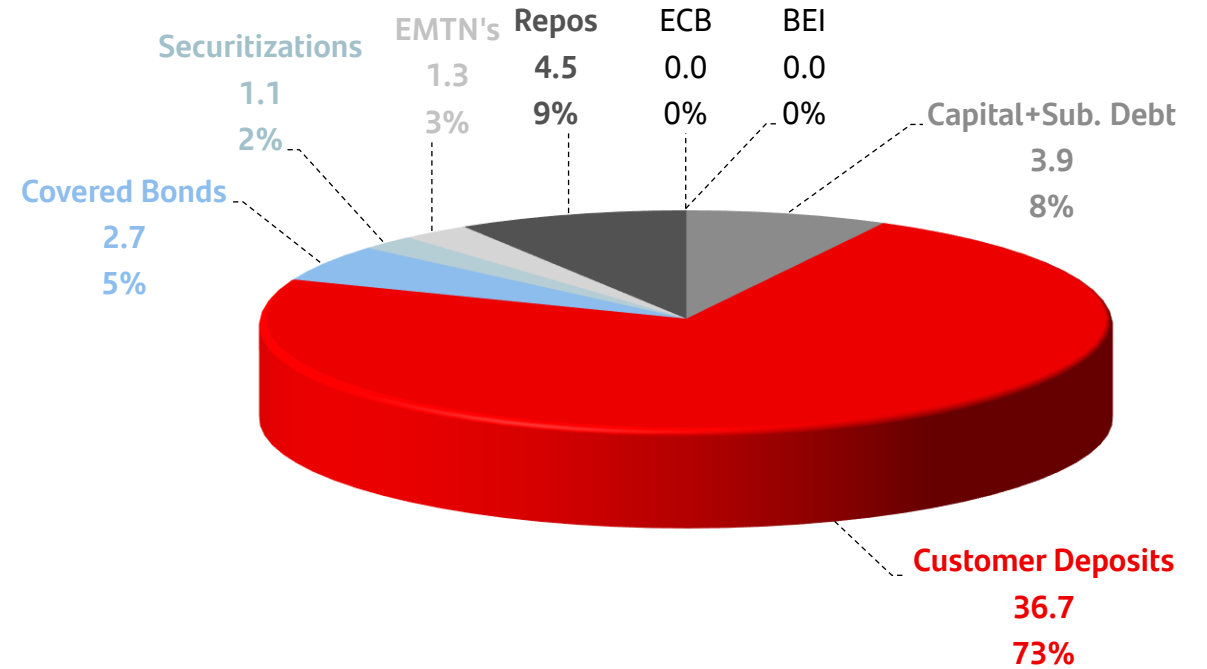


# Sound capital base and adequate funding structure

**CET1 (Fully Loaded)**



**Funding Structure (€bn and % of total)**




**LCR**  
129%

**NSFR**  
120%

**Liquidity Buffer**  
(% of deposits)  
46%

# Banco Santander Totta S.A. ratings

## Long Term Ratings – Senior Debt

DBRS		Fitch		Moody's		S&P	
A		A		Baa1	 Bank 3	BBB+	 Bank 3
AL		A-	Bank 3	Baa2	Bank 1 	BBB	
BBBH	Bank 1	BBB+		Baa3	Bank 2	BBB-	
BBB		BBB		Ba1		BB+	Bank 2
BBBL	Bank 2	BBB-	Bank 1	Ba2		BB	
BBH		BB+	Bank 2	Ba3	Bank 4	BB-	
BB		BB		B1		B+	
BBL	Bank 4	BB-		B2		B	
BH		B+		B3		B-	
B		B		Caa1		CCC+	
BL		B-		Caa2		CCC	



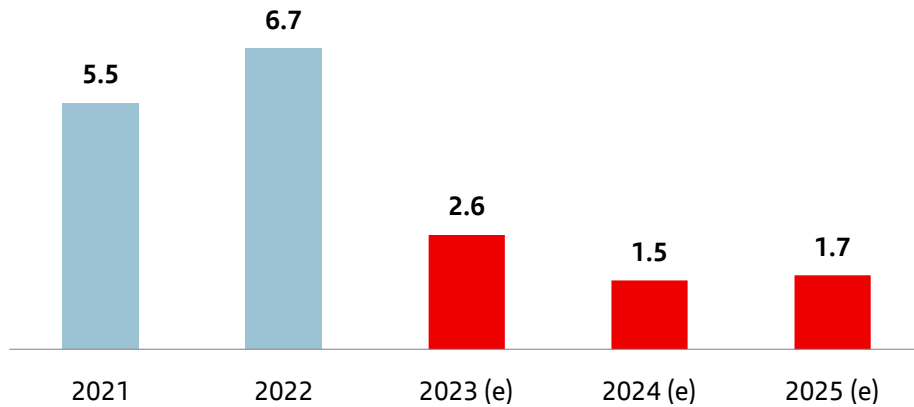
# Macroeconomic Environment in Portugal



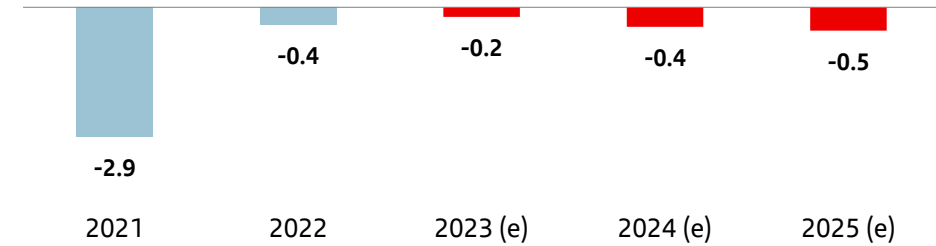
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# GDP growth gradually converging to potential, as rising interest rates and high inflation feed into economic activity. The unemployment rate holds at low levels, consistent with full employment

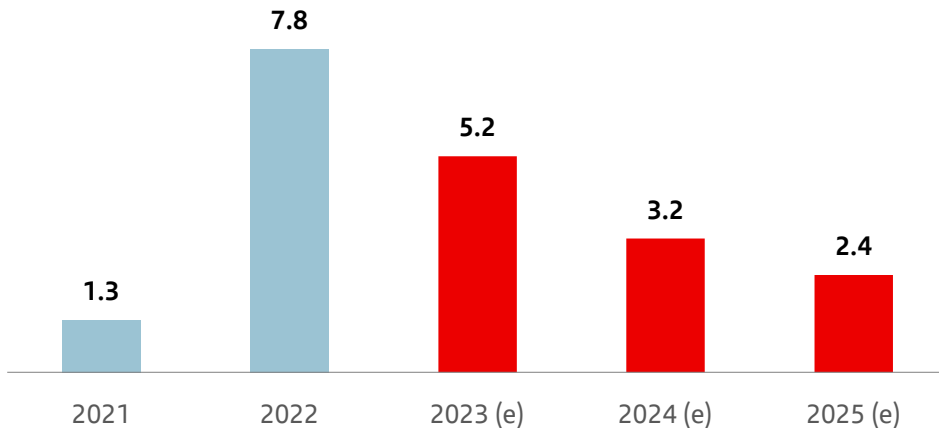
**Annual GDP Growth (real, %)**



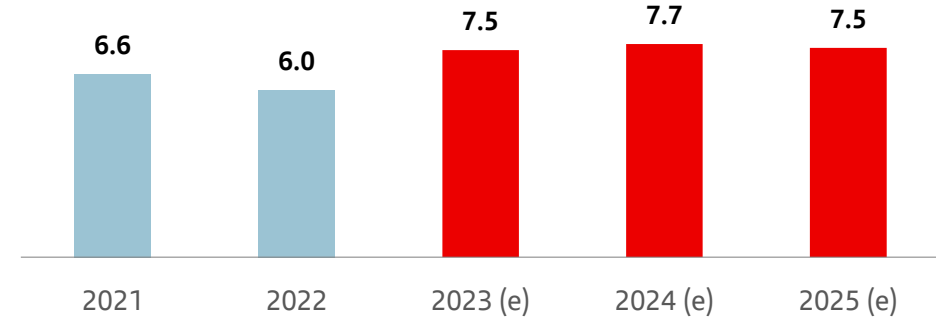
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**

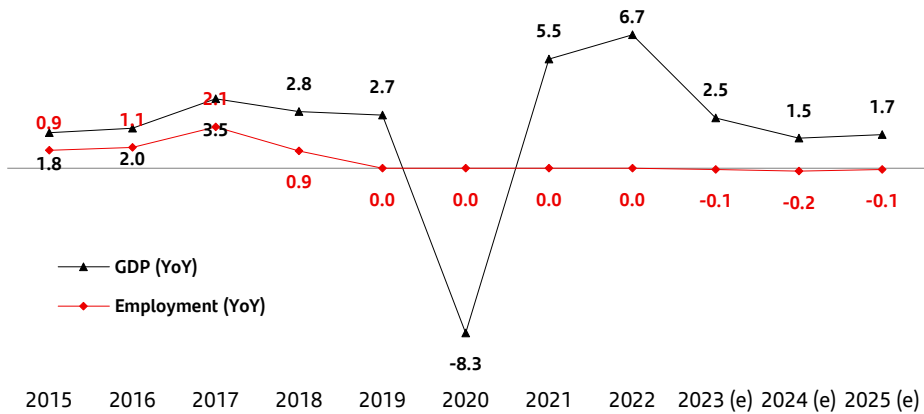


**Unemployment Rate (% , annual average)**

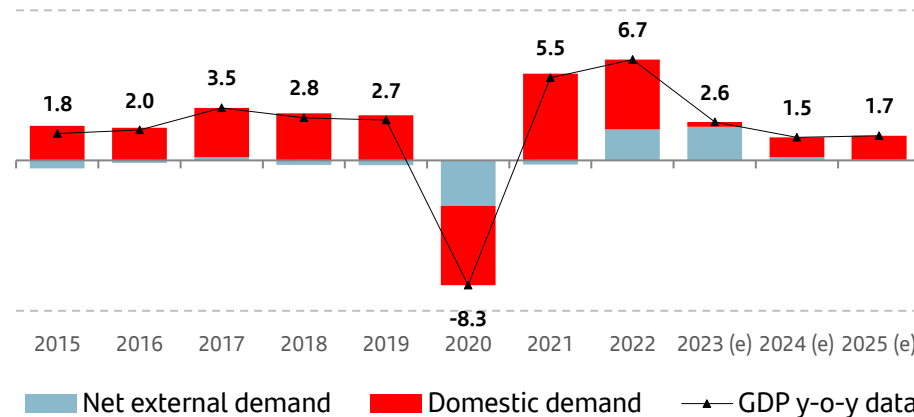


# Exports should continue contributing to growth,

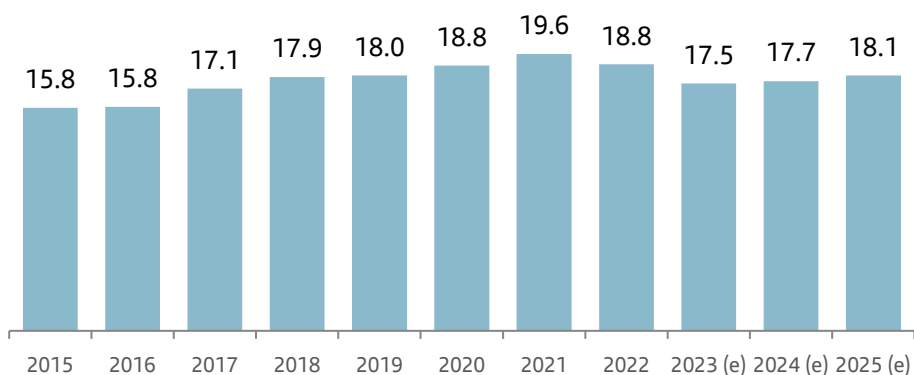
## Real Growth and Job dynamics



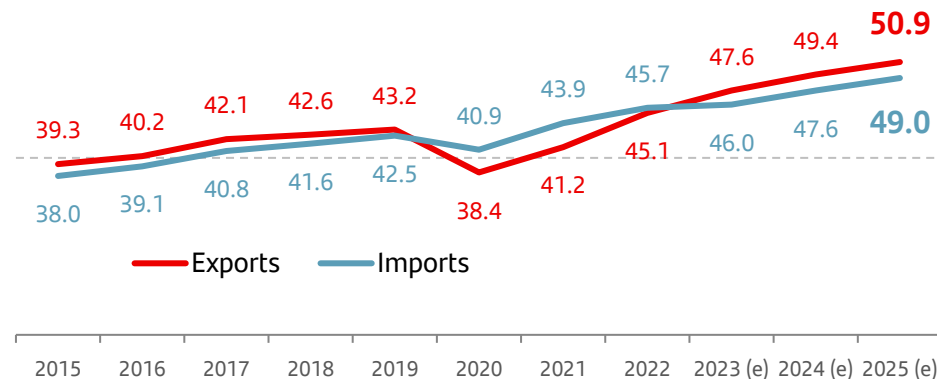
## Contribution to GDP growth (% YoY)



## Investment (% GDP)



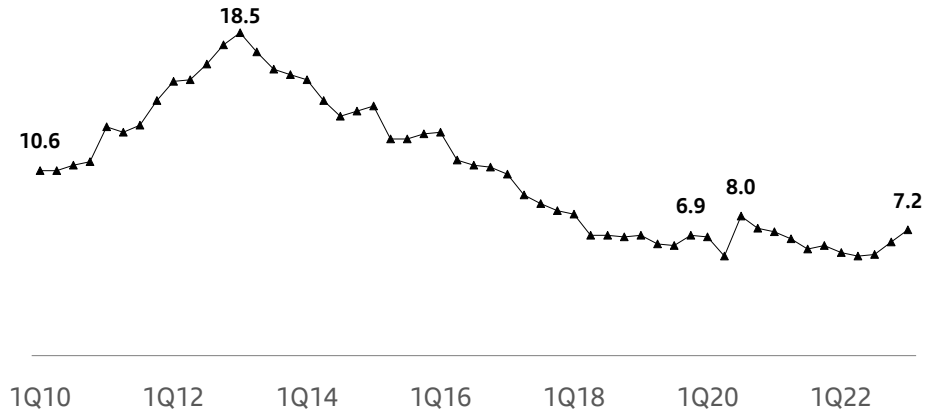
## Exports and Imports (% GDP)



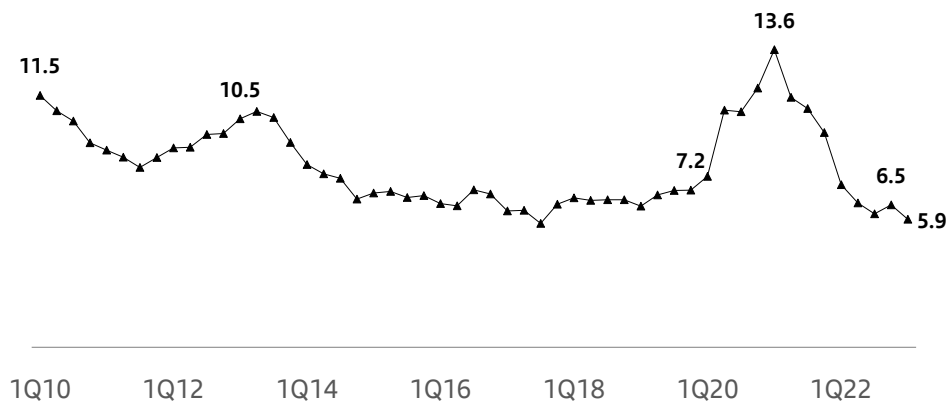
Source: Santander Research Department

# Despite the pandemic, household conditions have benefited from low unemployment and higher savings, combined with lower debt levels

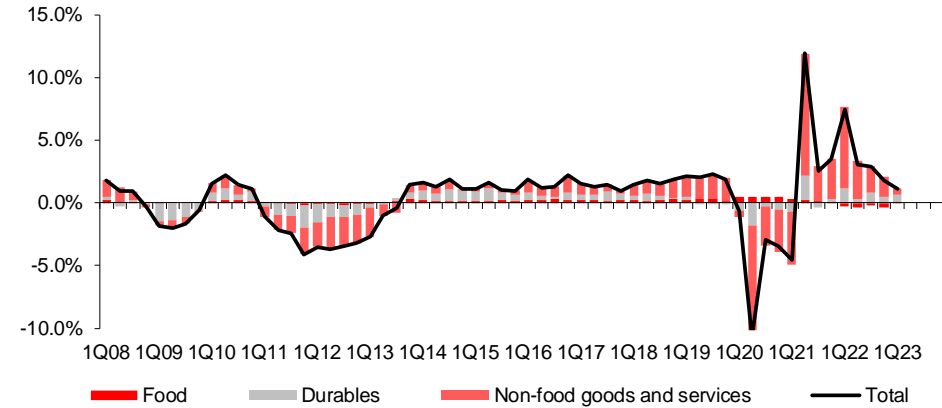
### Unemployment Rate (%)



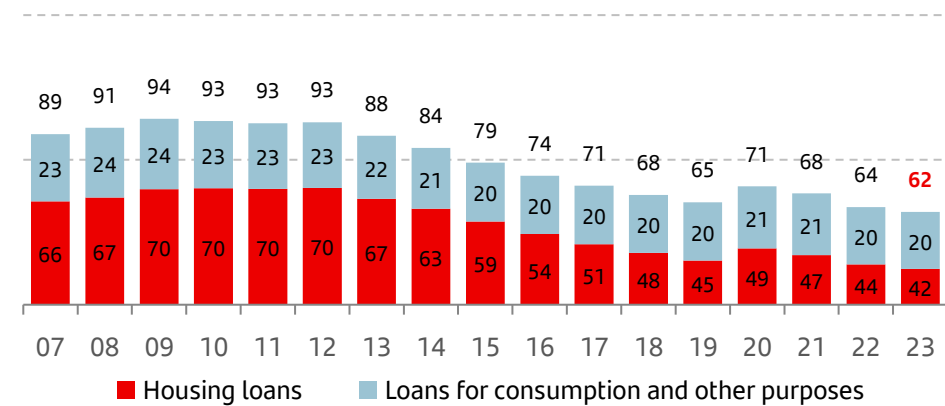
### Savings Rate (% disposable Income)



### Private Consumption (% YoY)



### Household Debt (% GDP)

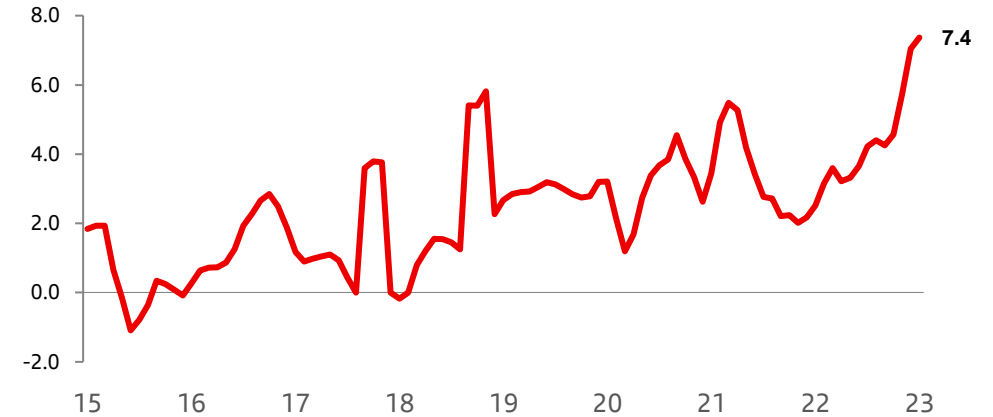


High inflation is gradually leading to higher wages, partly offsetting the negative impacts on purchasing power. Households also benefit from the fact that they have positive net wealth

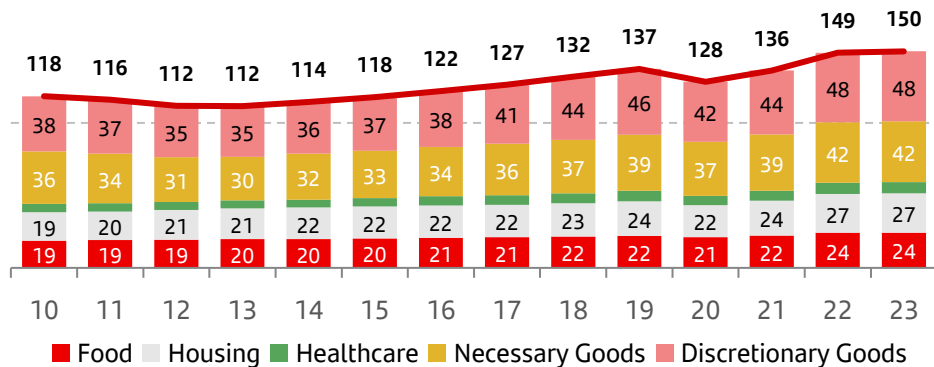
**CPI (% YoY)**



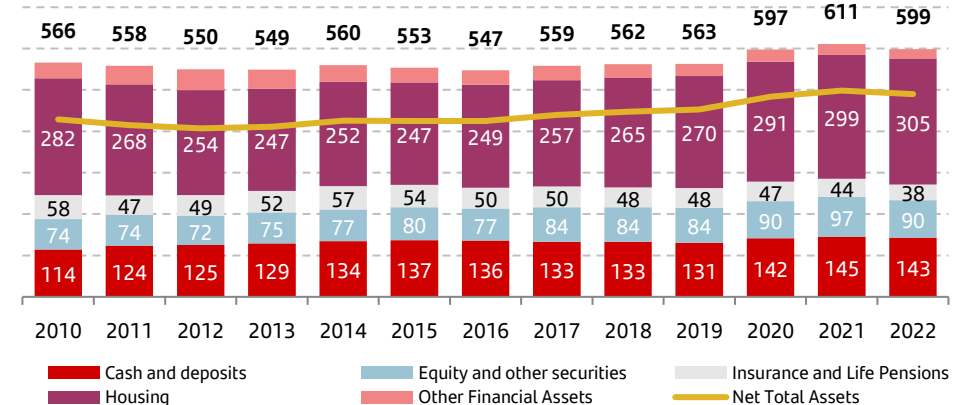
**Wages (% YoY)**



**Private Consumption (€ bn, by type of goods and services)**



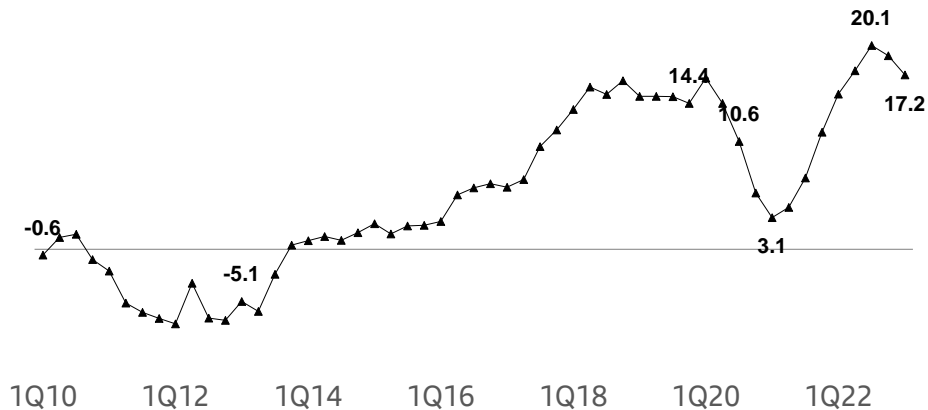
**Household Wealth (% disposable income)**



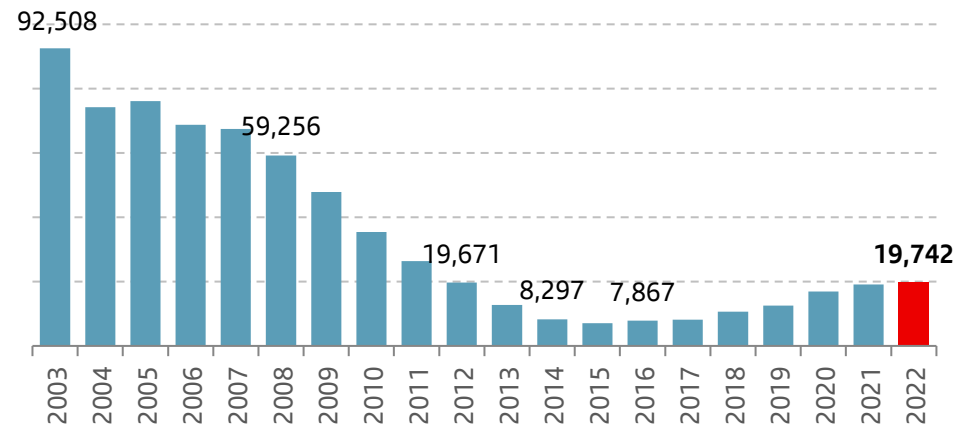


# Housing prices are beginning to decelerate, but continue to reflect the subdued supply of new housing, while demand remains resilient. Mortgage NPLs are at an all time low

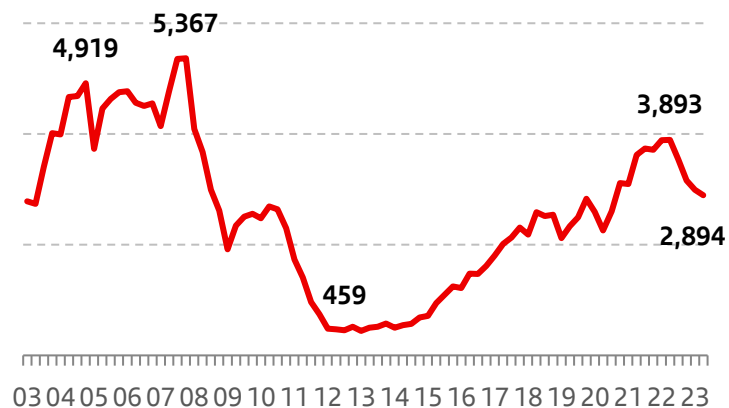
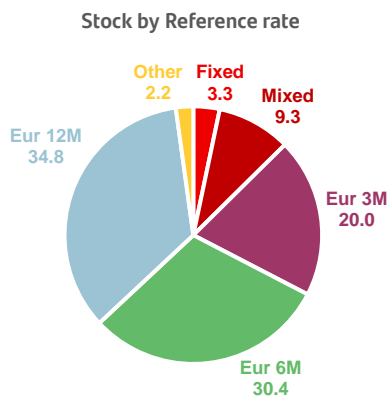
**Housing Prices (% YoY)**



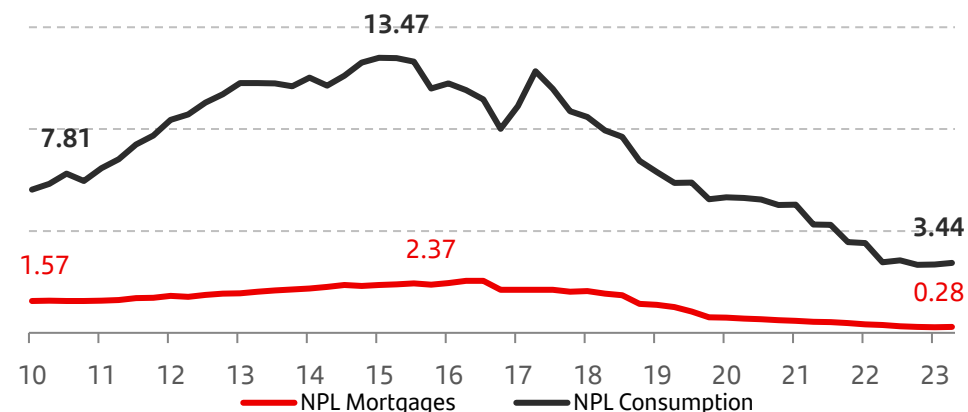
**Housing Construction - Dwellings (#)**



**New Mortgages (€ mn)**



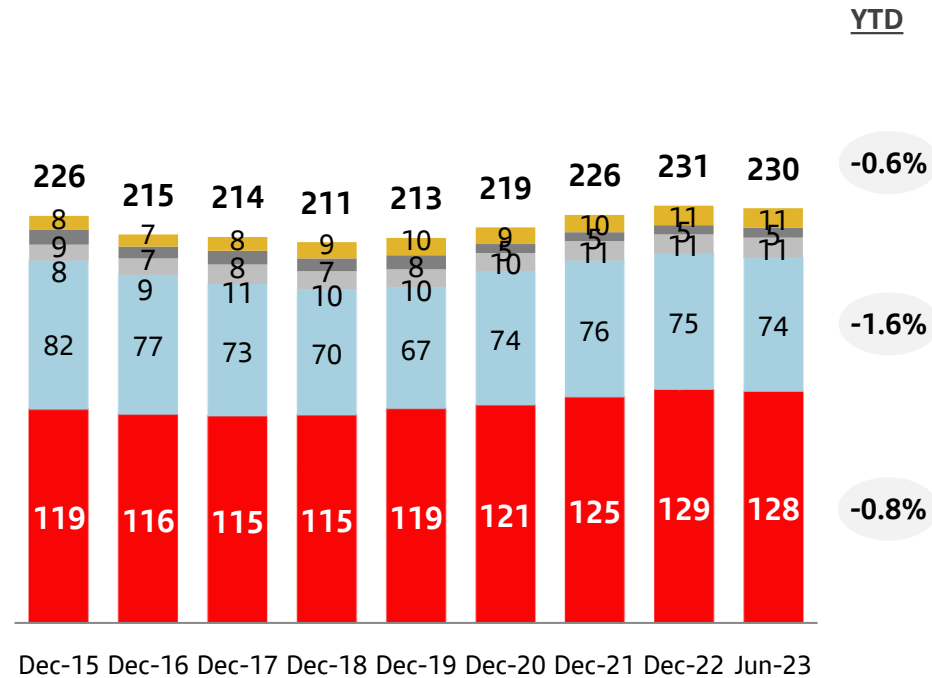
**Household Debt NPLs (%)**



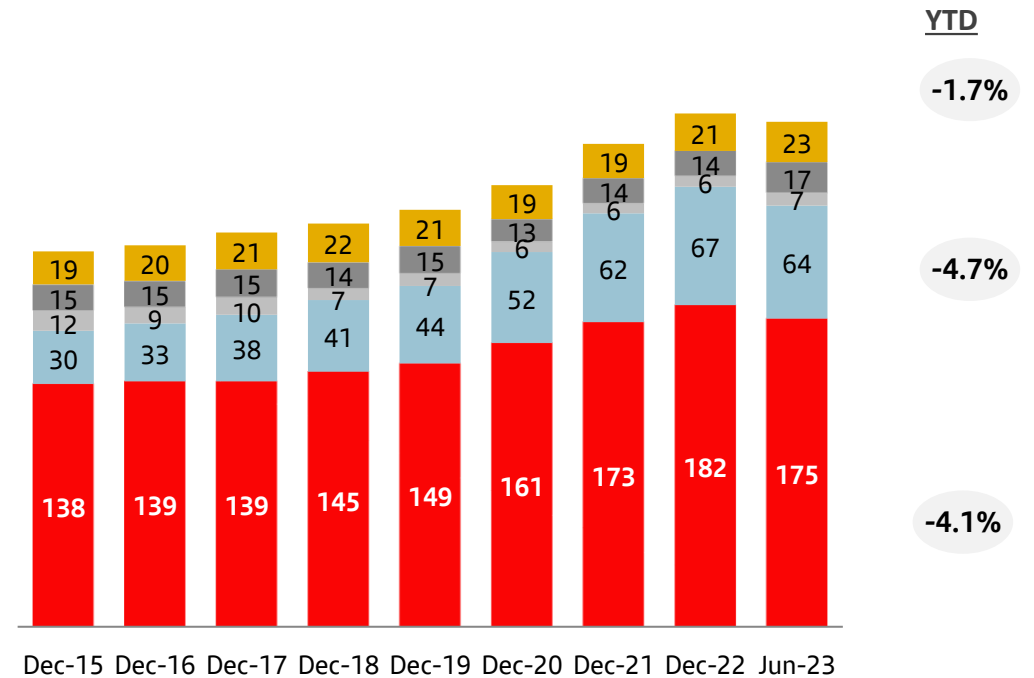
Source: Banco de Portugal, INE, Santander Research Department

Loans are declining. In the context of higher interest rates, households and corporates have begun using their stock of deposits to early redeem, partly or totally, outstanding loans

Loans to customers (EUR bn)



Customer Deposits (EUR bn)



Households Non-financial corporates General Govt Non-monetary financial institutions Non-resident sectors

# Mortgage Covered Bonds



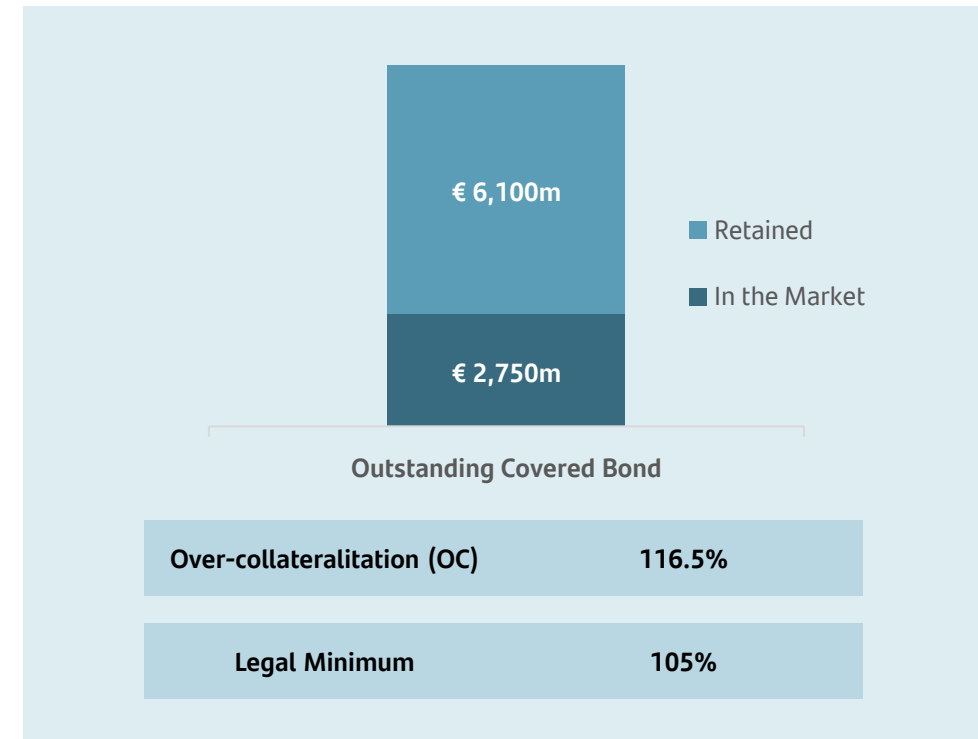
03

## Cover Pool – General Information

Mortgage Cover pool	
Cover Pool Size (m)	10,313 € <sup>(1)</sup>
<i>Residential Assets</i>	10,268.5 €
<i>Commercial Assets</i>	0 €
Outstanding Covered Bonds (m)	8,850 €
Number of Loans	163,138
Average Loan Size	62,944 €
WA LTV	54.1%
WA Seasoning (Months)	98.33
WA Remaining life (Months)	325
WA Interest Rate	3.99%
<i>Floating Rates Notes</i>	99%
<i>Fixed Rates Notes</i>	1%
WA Life (Years)	27.1

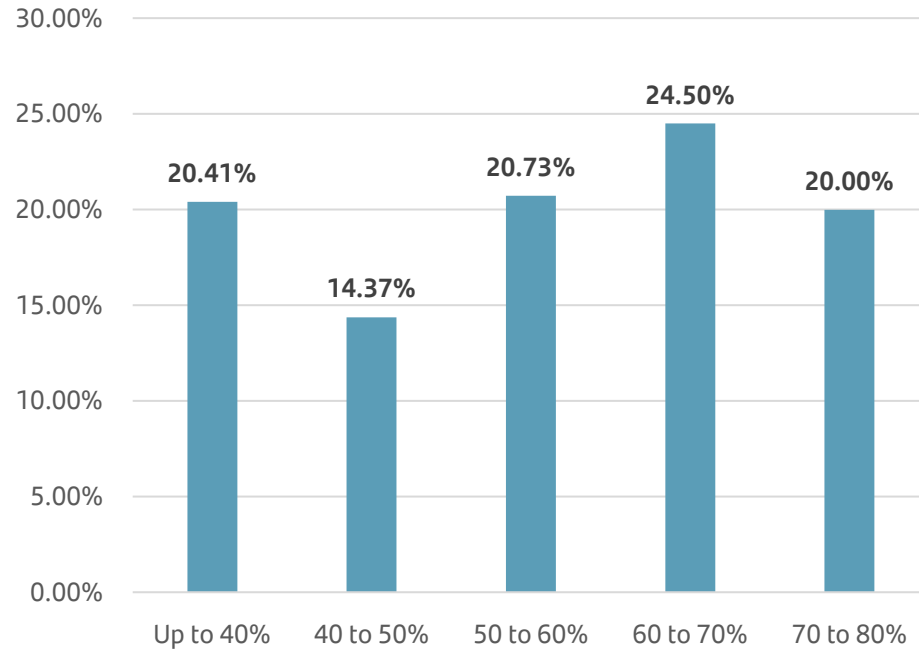
(1): 44.5m€ are accounted as Domestic Substitute Assets

## Covered Bonds & OC

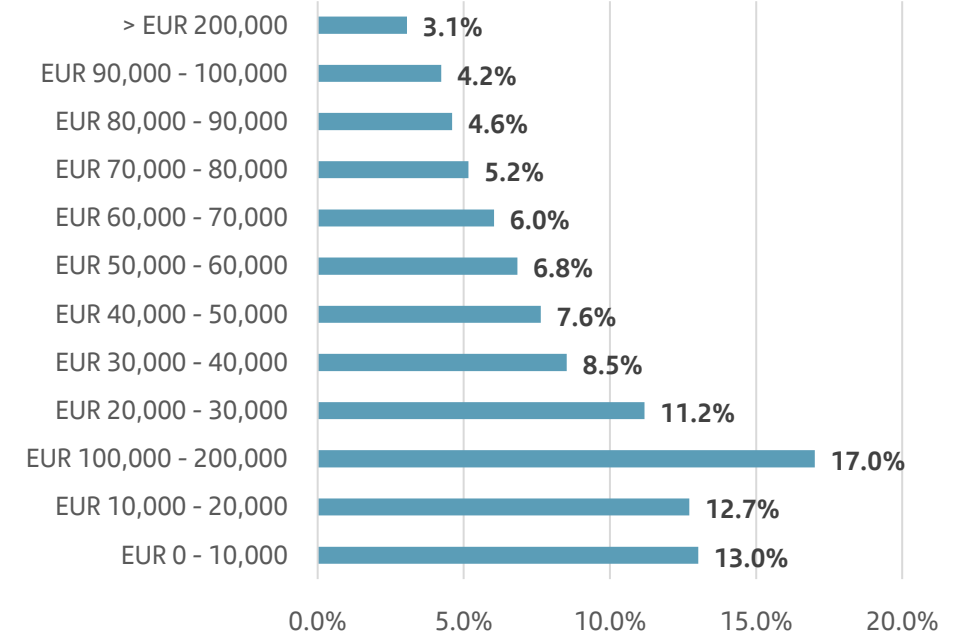


## Cover Pool – LTV Breakdown and Loans Balance

### LTV Breakdown



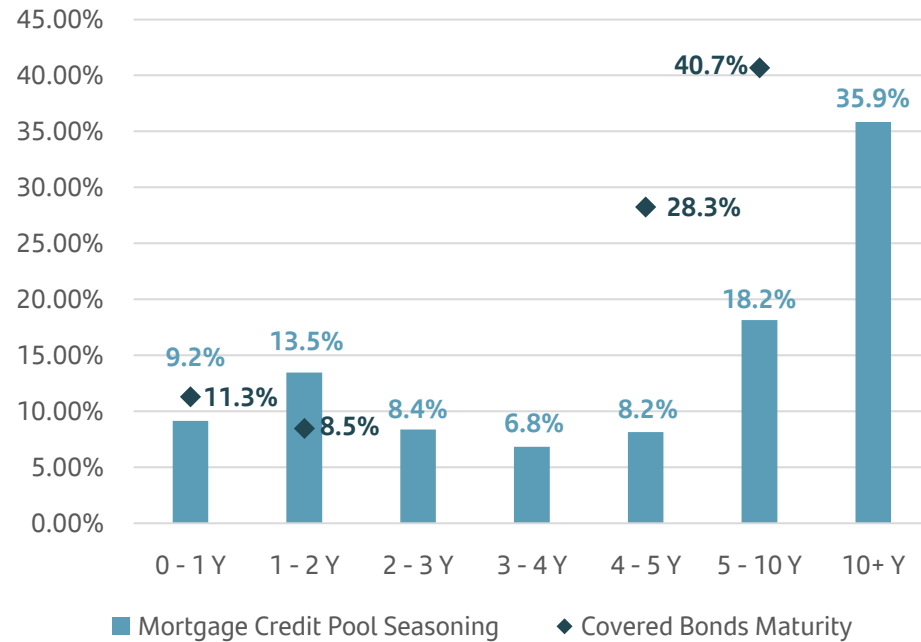
### Loans Balance



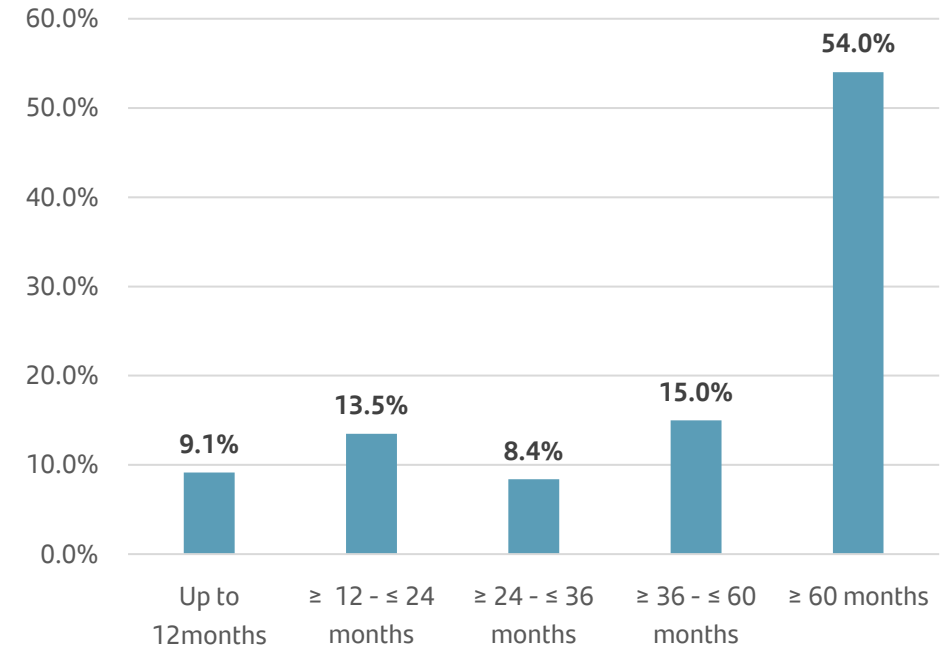


## Cover Pool – Maturity Structure and Seasoning

### Maturity Structure

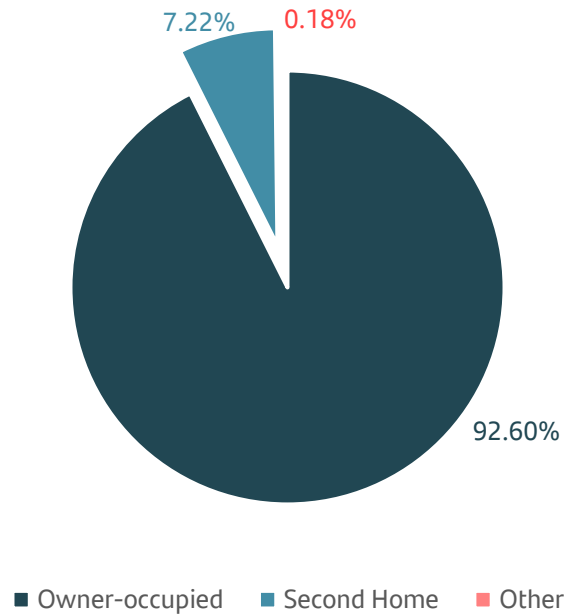


### Seasoning (months)

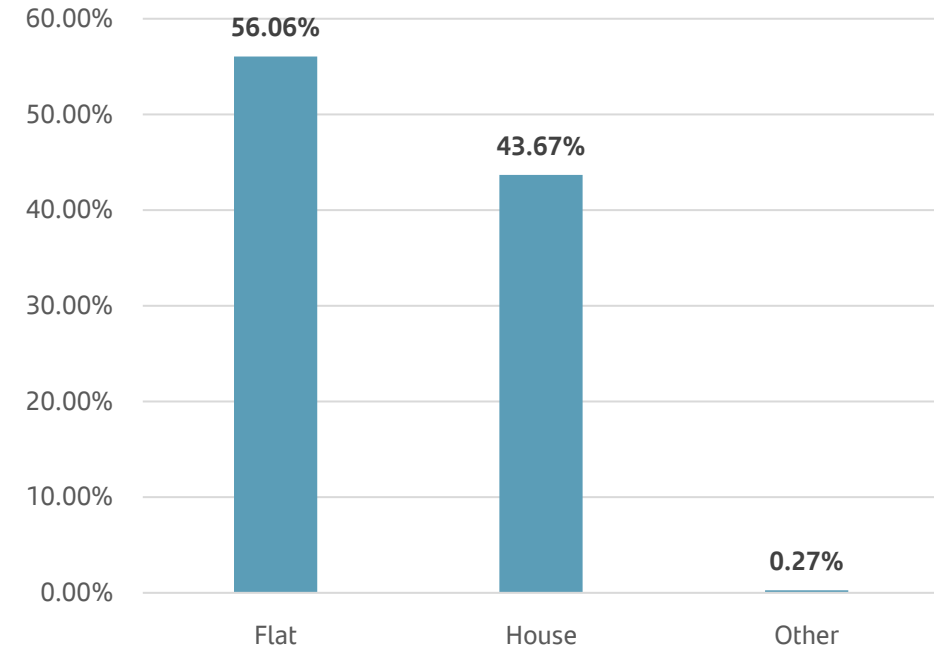


## Cover Pool – Loan Purpose and Property Type

Loan Purpose

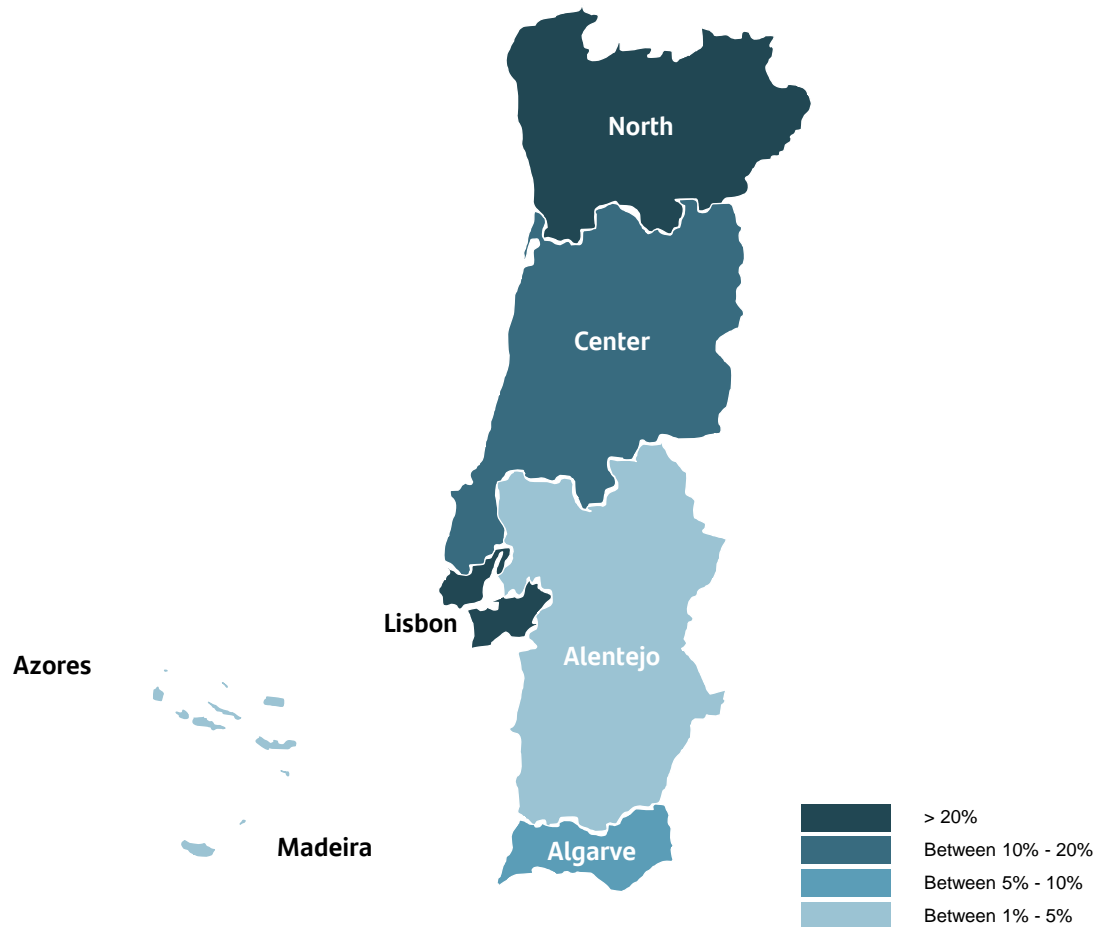


Residential Property Type



## Cover Pool – Geographical Distribution

### Geographical Distribution

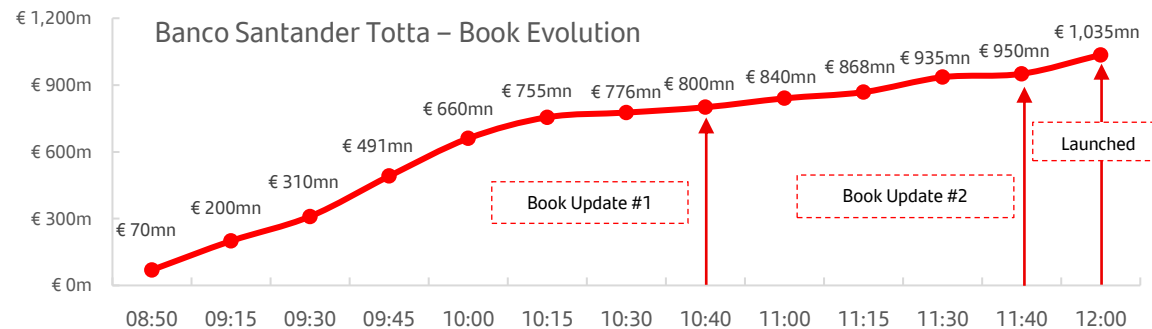


Geographical Distribution	Number of Loans	% Total Loans
North	53,285	31.3%
Center	31,848	17.1%
Lisbon	53,414	37%
Alentejo	10,212	4.5%
Algarve	9,215	6.3%
Madeira	3,362	2.5%
Azores	1,802	1.3%

# Case Study: Banco Santander Totta's EUR 750mn 5-year Obrigações Cobertas transaction

## Transaction Highlights

- On April 11<sup>th</sup>, 2023, Banco Santander Totta announced a 5-year € Benchmark Obrigações Cobertas - European Covered Bonds (Premium) transaction, for next day execution. On Wednesday 12<sup>th</sup>, Guidance was set at MS +45bps area, later to tighten 2bps to price at MS +43bps.
- This transaction represents the issuer's return to the primary market since September 19<sup>th</sup> 2017, when Banco Santander Totta issued a 10-year €1bn Covered Bond at MS +48bps. It also represents the first CB transaction from a Portuguese issuer since 2019 and the first after the European directive implementation in the country.
- The issuer chose to conduct a 1.5 day execution strategy in order to flag the transaction to investors and provide time for accounts to check the borrower's latest results. This turned out excellent for BST, who managed to collect feedback from more than 35 accounts after the announcement.
- On the tenor, Banco Santander Totta decided to issue a 5-year as it fits perfectly with the borrower's redemption profile and, as seen in the recent dynamics, turns out to be the sweet spot for investors in this asset class.
- The issuer offered a very attractive initial concession of ~15bps from a FV at low 30's, which along with the feedback, caught the investors' attention and enabled a strong start of the bookbuild, with over €650m of orders in the first hour. This positive dynamic continued, but in a more stabilized way, achieving over €1bn at the time the transaction was launched.
- Overall, the book was of very good quality and granularity, with over 50 investors, which helped close the final size of the book at €750mn.



## Execution Timeline

- 08.55 CET – Guidance MS +45bps area €€€
- 10.40 CET – Update #1 | Books > €800mn (incl. 80m JLM)
- 11:35 CET – Update #2 | Books > €950mn (incl. 80m JLM) | Spread set at MS +43bps
- 12.00 CET – Launched | Books > €1bn (incl. 80m JLM) | Spread MS +43 bps | Final size €750mn

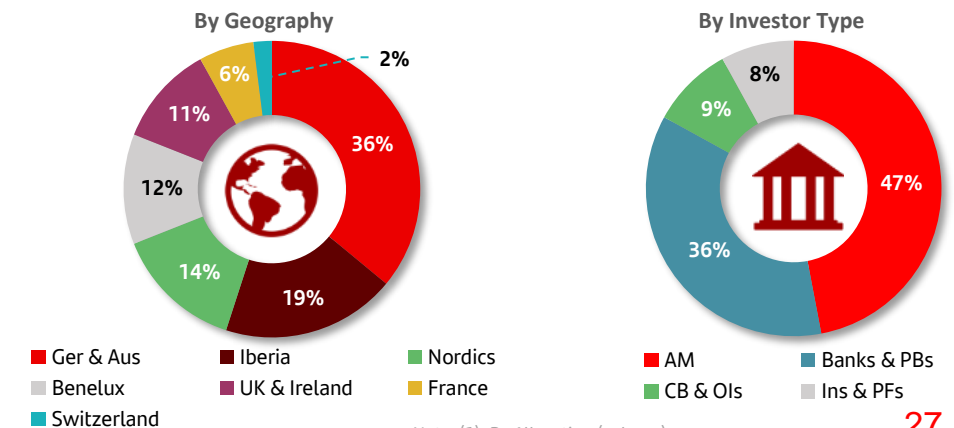
## Terms and Conditions

<b>Issuer</b>	Banco Santander Totta S.A. (SANTAN)
<b>Expected Issue Ratings</b>	Aa2 (Moody's) / AA- (Fitch) / AA (DBRS)
<b>Pricing Date</b>	12 April 2023
<b>Settlement Date</b>	19 April 2023 (T+5)
<b>Instrument</b>	Obrigações Cobertas - European Covered Bond (Premium)
<b>Form</b>	Reg S, Nominative dematerialised book entry form
<b>Re-offer Price / Yield</b>	99.521% / 3.481%
<b>Tenor</b>	5-year
<b>Maturity</b>	19 April 2028
<b>Amount</b>	EUR 750mn
<b>ISIN</b>	PTBSPAOM0008
<b>Coupon</b>	3.375 %, Annually, Act/Act (ICMA) Following, Unadjusted
<b>Reoffer Spread</b>	MS +43bps

## Orderbook Analysis

<b># of Investors</b>	56
<b>Orderbook size</b>	> €1bn
<b>Oversubscription</b>	1.3x
<b>Final Spread</b>	MS +43bps

## Breakdown by Geography & Investor Type<sup>(1)</sup>



# Legal Regime of Covered Bonds – main legal changes

04

The new Legal Regime of Covered Bonds was approved by DL 31/2022, of 6 May 2022, transposing the Covered Bonds Directive (Directive (EU) 2019/2162).

The key principles of the Legal Regime of Covered Bonds are as follows:

- **Public supervision** - From 1 July 2022 onwards, CMVM is the sole supervisory authority, replacing the Bank of Portugal. Regulations established by the Bank of Portugal remain in force until substituted by CMVM regulations and the CMVM has published a draft regulation on covered bonds, whose public consultation is already underway.
- **Extendable maturity structures** – issuers shall specify in the T&Cs the non-discretionary conditions for extension. Maturity extensions shall not affect the ranking of covered bond investors or modify the sequencing of the original maturity schedule of the covered bond programme. Such extensions shall be automatic and can only be triggered if either (i) the Issuer fails to redeem the relevant Series of Covered Bonds on the applicable maturity date and it is foreseeable that such failure will continue for 5 Business Days thereafter or (ii) the authorisation of the issuer as a credit institution is revoked by the competent banking supervisory authority, and in each case, notice thereof has been given to CMVM. If within 10 calendar days of receiving such notice, CMVM opposes to such extension, the extension will cease to apply and each covered bond shall, as at the date of such cessation.
- **Liquidity Buffer:** comprised by liquidity assets to cover all payment outflows falling due on one day net of all payment inflows falling due on the same day accumulated over the next 180 days, provided that (i) uncollateralised claims from exposures considered in default pursuant to article 178 of the CRR cannot contribute to the liquidity buffer, and (ii) if an extended maturity date is specified in the applicable final terms, principal repayments under the covered bonds shall be considered due on the relevant extended maturity date. The OC will never be lower than 5%, that will be the regulatory minimum and the liquidity buffer will be part of the OC and can be a deposit at the issuer entity or group or at the Bank of Portugal.
- **Common representative** – No longer expressly benefits from the creditors privilege but continues to benefit of the concept of autonomous estate. Its powers are now more strengthened as in case of acceleration of any covered bonds outstanding, it may have access to the list of assets making up the cover pool allocated to the relevant covered bonds.

# Thank you.

Our purpose is to help people  
and business prosper.

Our culture is based on believing  
that everything we do should be

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