

PORTUGAL

First half 2017

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The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries.

In addition to the financial information prepared under International Financial Reporting Standards ("IFRS"), this presentation includes certain alternative performance measures as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415es) as well as Non-IFRS measures. The APMs and Non-IFRS Measures are performance measures that have been calculated using the financial information from the Santander Group but that are not defined or detailed in the applicable financial information framework and therefore have neither been audited nor are capable of being completely audited. These APMs and Non-IFRS Measures are used to allow for a better understanding of the financial performance of the Santander Group but should be considered only as additional information and in no case as a replacement of the financial information prepared under IFRS. Moreover, the way the Santander Group defines and calculates these APMs and Non-IFRS Measures may differ to the way these are calculated by other companies that use similar measures, and therefore they may not be comparable. Please refer to the quarterly financial Report for further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFR, see Section 26 of the Documento de Registro de Acciones for Banco Santander filed with the CNMV on July 4, 2017 (available on the Web page of the CNMV -www.cnmv.es- and at Banco Santander -www.santander.com) and Item 3A of the Annual Report on Form 20-F for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission on March 31, 2017 (the "Form 20-F"). For a discussion of the accounting principles used in translation of foreign currency-denominated assets and liabilities to euros, see note 2(a) to our consolidated financial statements on Form 20-F and to our consolidated financial statements available on the CNMV's website (www.cnmv.es) and on Banco Santander's website (www.santander.com).



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▶ Macroeconomic environment and financial system ◀

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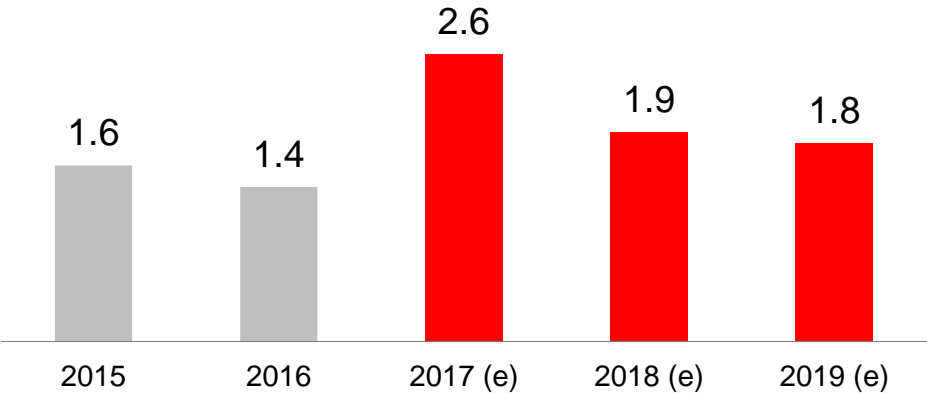
Appendix

Note: All figures excluding Popular

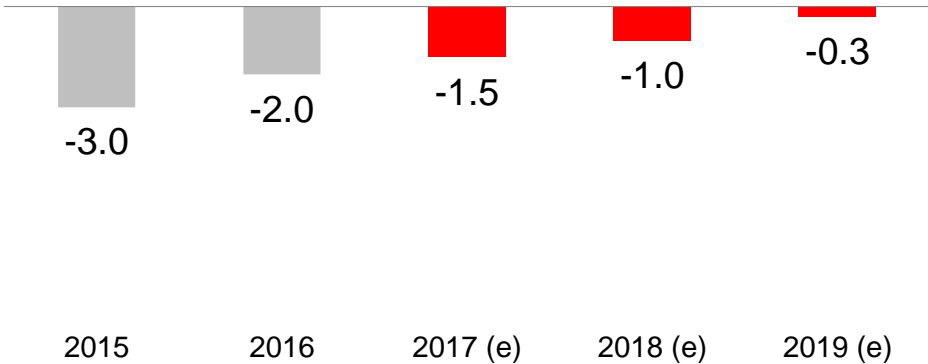
Macro-economic environment

GDP accelerating, with stronger growth and lower unemployment in 2017

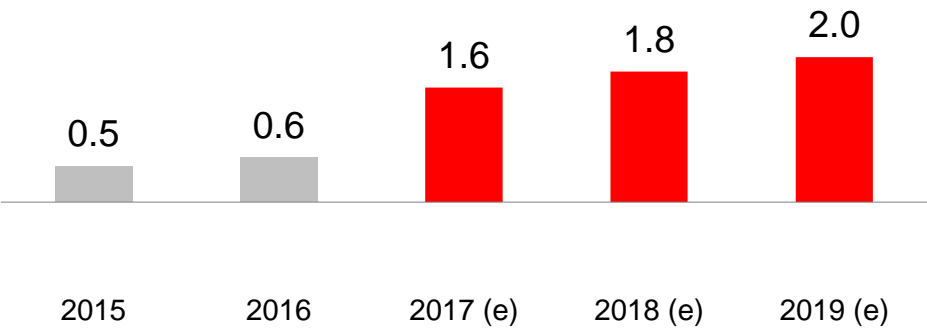
Annual GDP Growth (% , real)



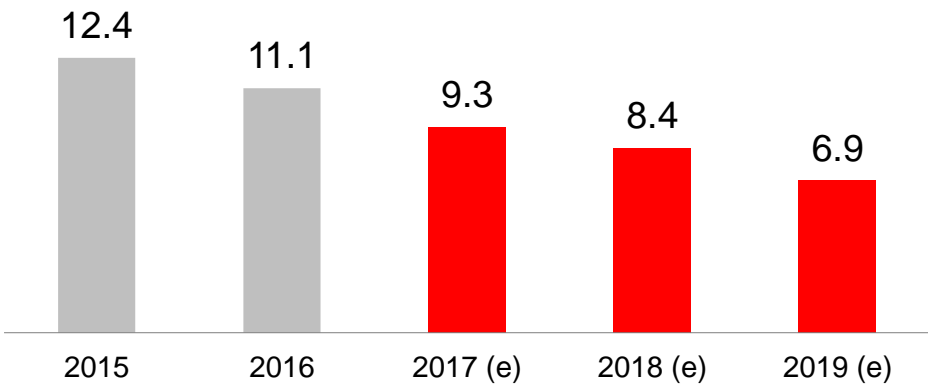
Fiscal Balance (% GDP)



Inflation (annual change, %)



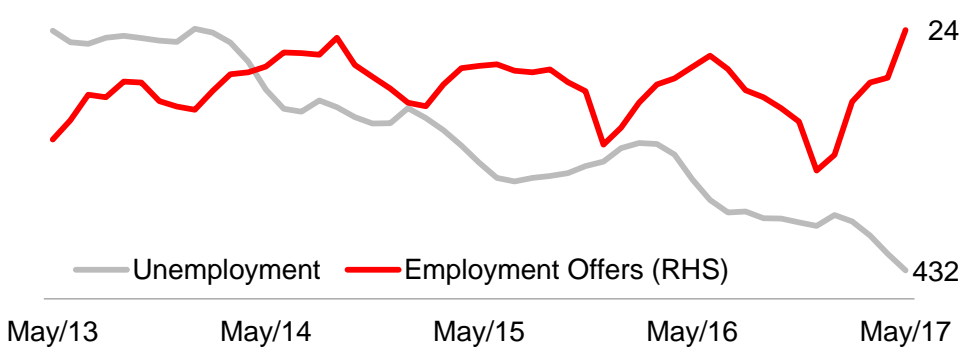
Unemployment (% , annual average)



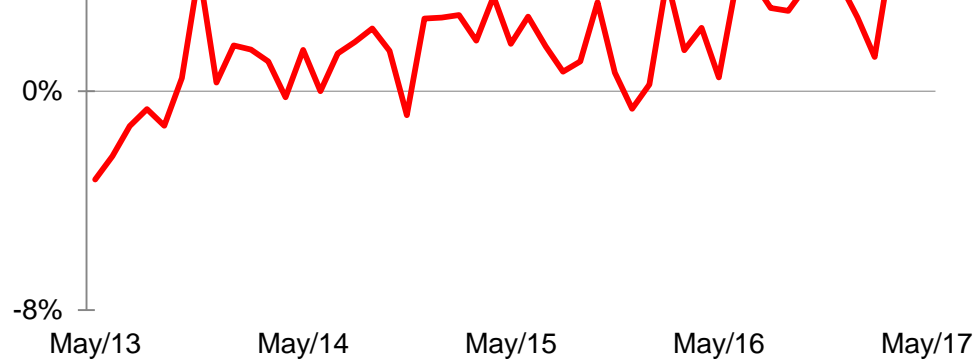
Macro-economic environment

Investment and exports are recovering

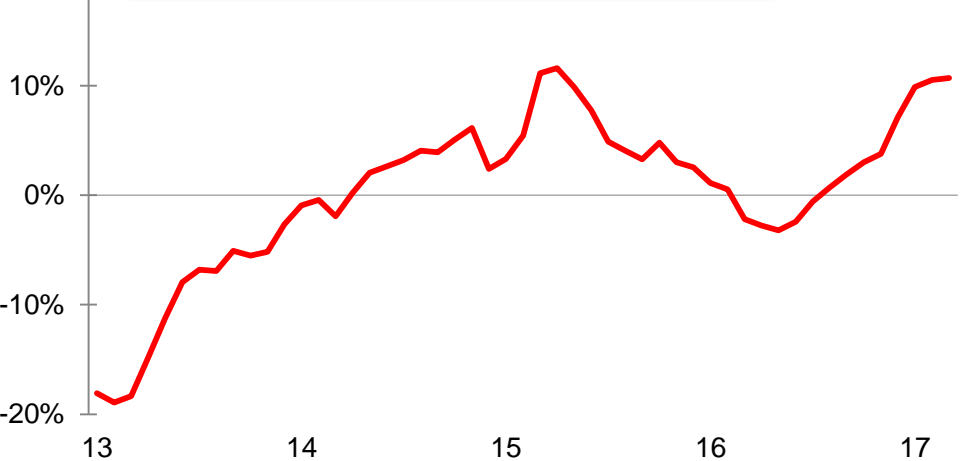
Registered Unemployment (000)



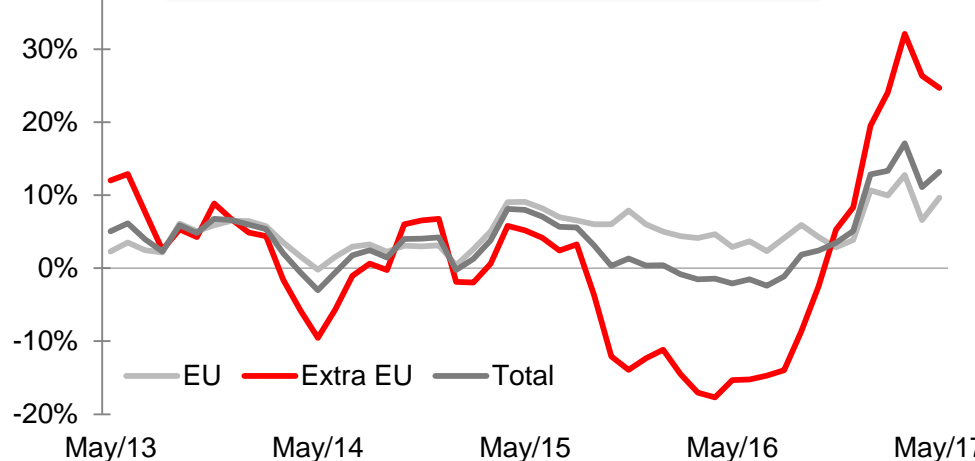
Retail Sales (YoY growth, %)



Investment Indicator (YoY growth, %)

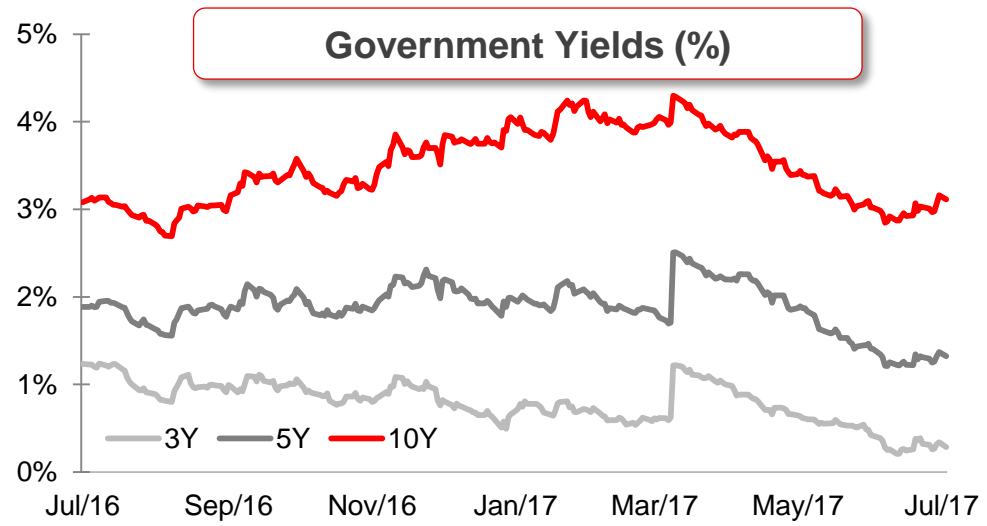
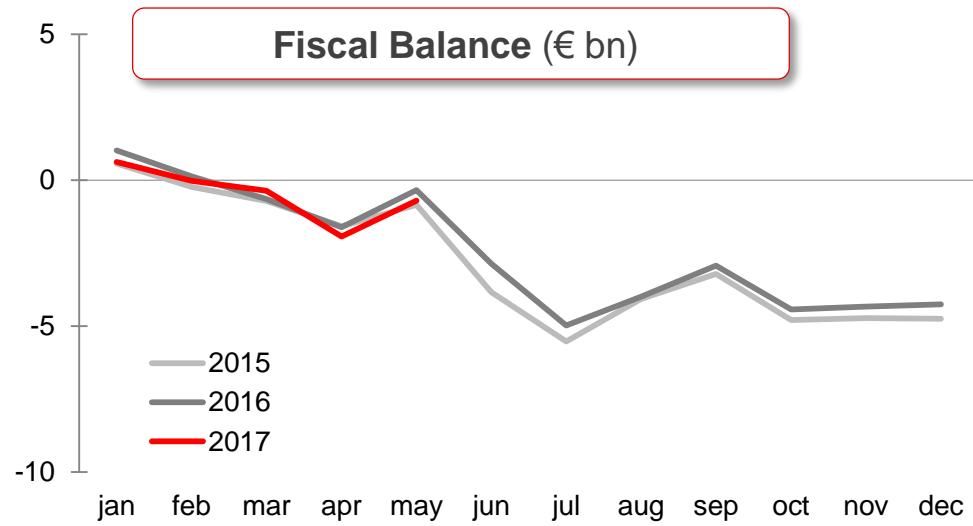
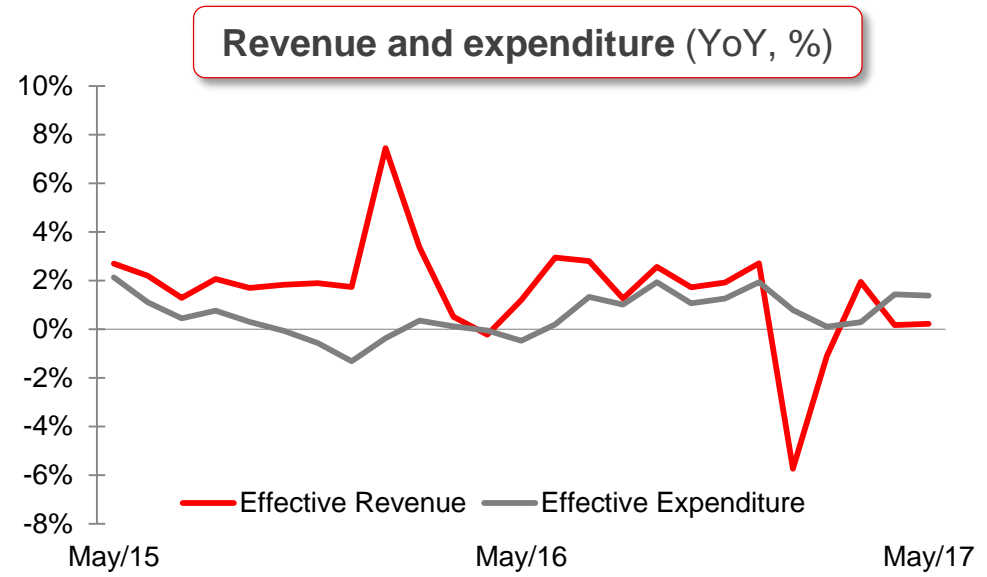
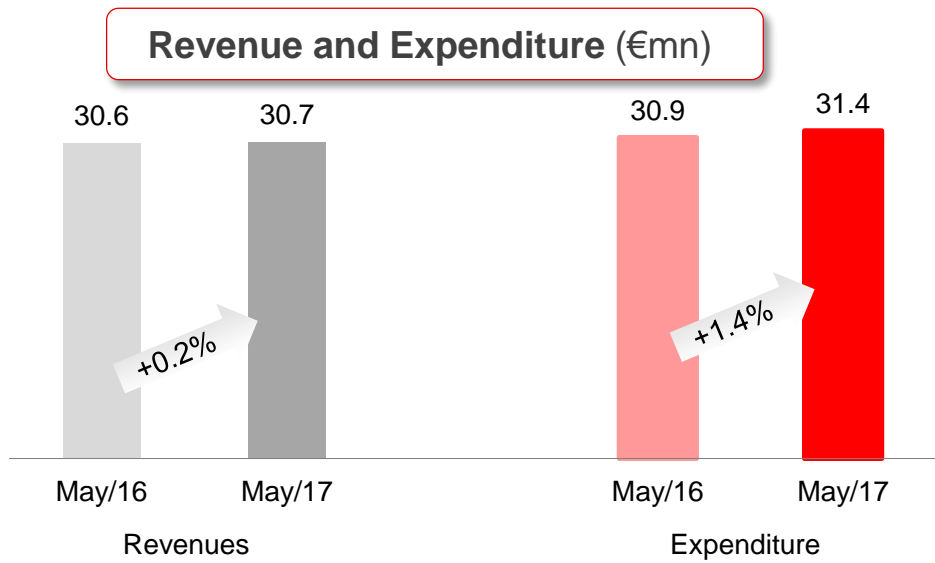


Exports (YoY growth, %, MA3)



Macro-economic environment

Fiscal aggregates in line with the 2017 targets

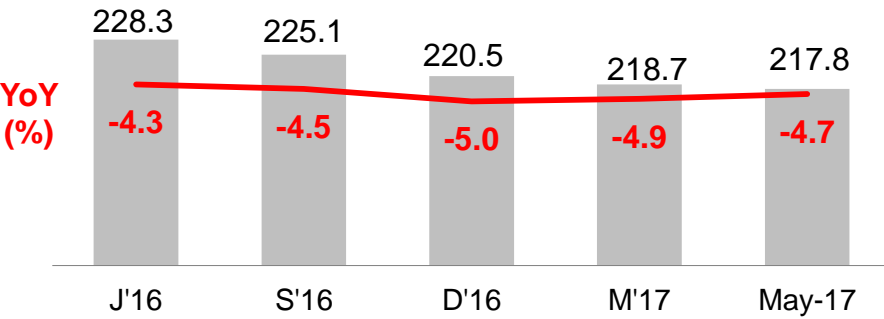


Note: Cash basis data for the General Government
 Source: Ministry of Finance and Santander Totta estimates

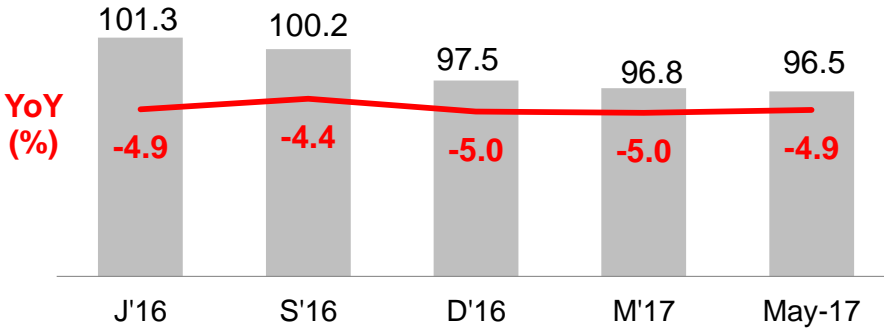
Financial system: Loan and deposit evolution

The loan book continued to decline, as the system writes-off impaired loans

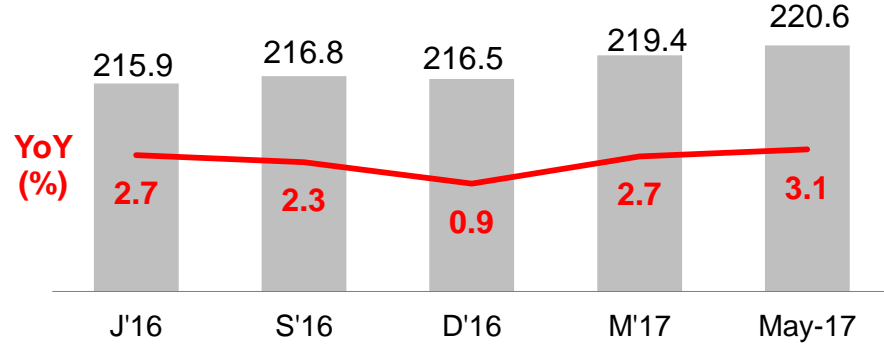
Total loans (€bn)



Corporate loans (€bn)



Total Deposits (€bn)



- The deleveraging process is ongoing, as the banking sector increased the pace of balance sheet cleanup. Total loans could decline c. 3.5% in 2017(E), following -5% in 2016.
- Deposits remain resilient, and could grow around 2% in 2017(E), after c.1% in 2016.



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Santander Totta is the 2nd private bank in domestic activity by total assets












STRATEGIC PRIORITIES

Keep on gaining profitable market share

Optimise the cost of funds

Improve efficiency and cost of credit

Adjust the capital structure to the new regulatory requirements

KEY DATA	1H'17	Var. YoY
 Gross loans ¹	28,770	-3.8%
 Customer funds ¹	36,823	-0.8%
 Attributable profit ¹	233	+15.8%
 RoTE	13.9%	-14 bps
 Efficiency ratio	49.3%	+19 bps
 Loans' market share ²	14.4%	15bps
 Deposits' market share ²	13.6%	14bps
 Loyal customers ³	670	+24%
 Digital customers ³	543	+34%
 Branches	600	-18.3%
 Employees	6,096	-5.7%



Improved customer experience due to innovative products and services

Awards



In April, Santander Totta ranked first in the banking sector in On Strategy's "Global RepScore Pulse" reputation study for 2017 and in June was named "Best Bank in Portugal" by Global Finance magazine.



Euromoney magazine recognized Banco Santander Totta as "Best Bank in Portugal 2017". This is the 16th time the bank has been awarded this prize.

Corporates



A new line of credit of € 1.6 billion to support SME



The bank held the "Top Exporta" conference in collaboration with Informa D&B, where the best Portuguese exporting companies were distinguished. This event is part of Santander Totta's objective of being the Bank of reference in supporting companies, reinforcing their proximity to this segment and supporting the Portuguese economy

Digital services



The digital access platform that allows you to keep track of your investments anytime and anywhere has now a simpler design and new features



The new iOS and Android App from Santander Cash Nexus allows customers to check their daily position from the mobile phone and facilitate the management of the treasury activities of multinational clients

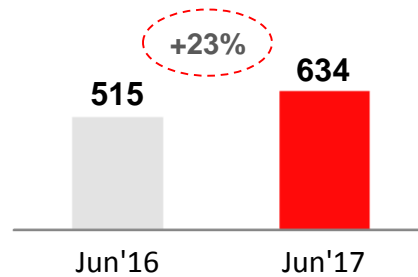


The new app for Corporates allows approval of all pending operations, as well as consult all account movements and outstanding amounts.



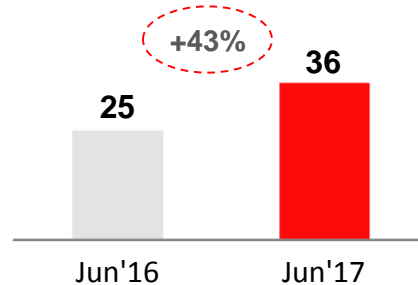
Dynamic growth in the most valuable client segments

Loyal individuals (000)



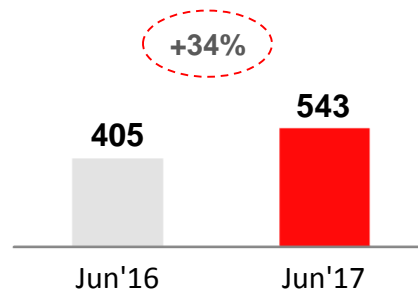
- The number of loyal customers is growing above the targets...

Loyal companies (000)



- ... while the focus on corporates is reflected in the increase of clients

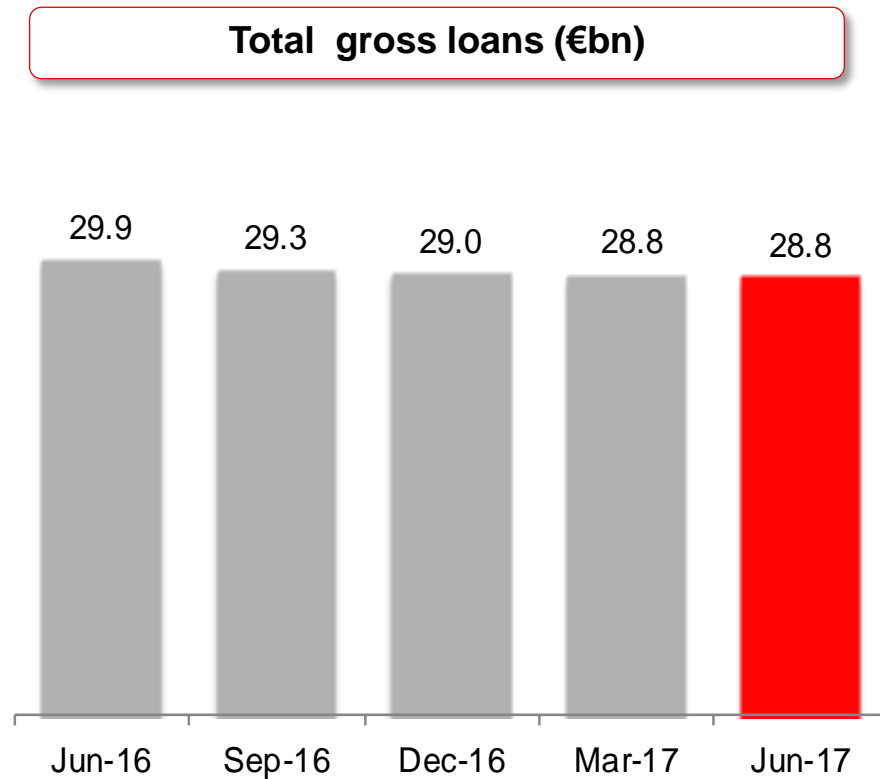
Digital customers (000)



- The number of digital clients maintains a strong growth



Loan book increases QoQ, namely in consumer credit and corporates



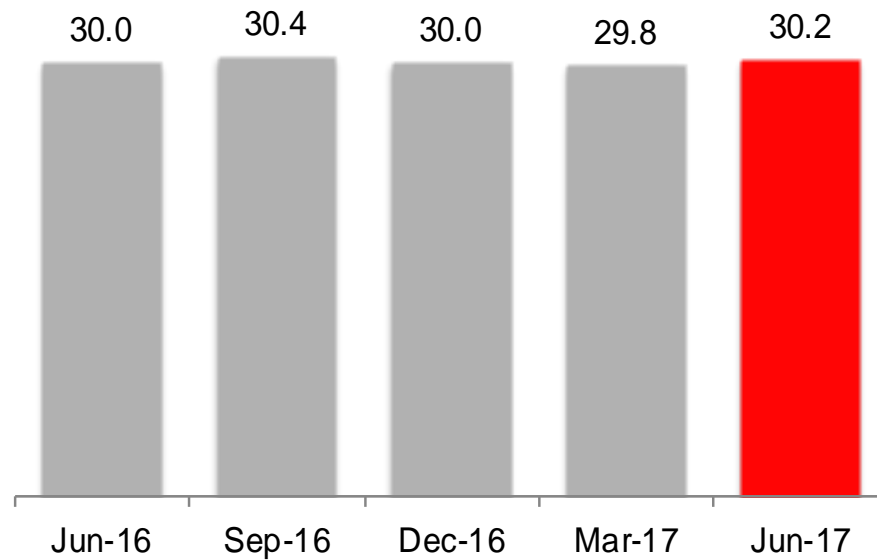
	Jun-17	YoY (%)	QoQ (%)
Individuals	19,000	-1.5	-0.1
<i>from which:</i>			
Mortgage	17,039	-0.5	+0.1
Consumer credit	1,521	-0.3	+1.2
Corporates	9,532	-7.0	+0.8
Total	28,770	-3.8	0.0
Loans to Corporates (*)	13,843	-4.5	+0.3
Total Loans (*)	33,082	-3.2	-0.1

(*) includes commercial paper



Increase in customer funds, namely demand deposits, but also in off-balance sheet funds

Total deposits (€bn)



	Jun-17	YoY (%)	QoQ (%)
Demand	11,514	+15.1	+2.7
Time and Savings	16,001	-7.9	-0.3
Total Deposits	27,514	+0.5	+0.9
Financial insurance	2,679	+3.1	+6.2
Deposits & financial insurance	30,192	+0.8	+1.4
Securities placed	3,574	-20.4	-1.5
Investment funds and other	3,056	+13.8	+5.9
Total Customer Funds	36,822	-0.8	+1.4



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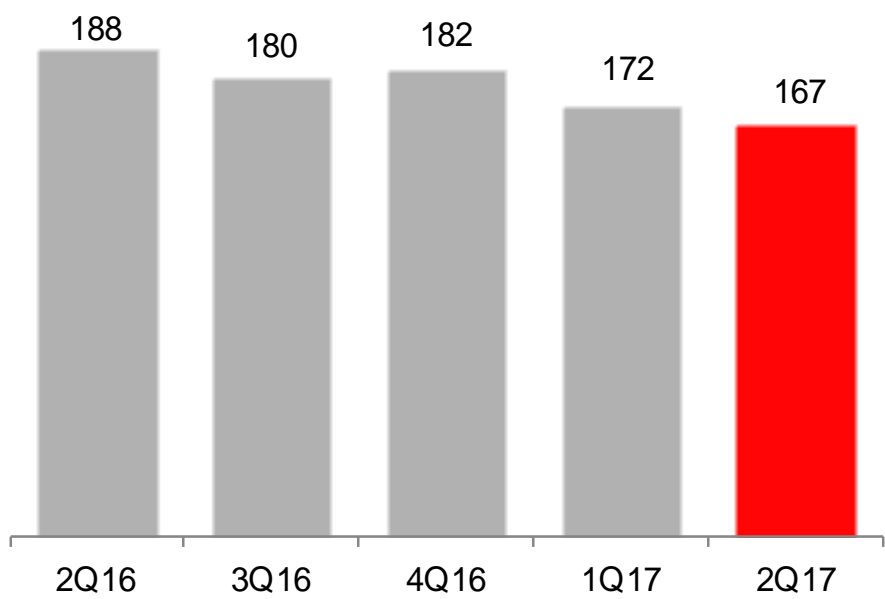
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Net interest income

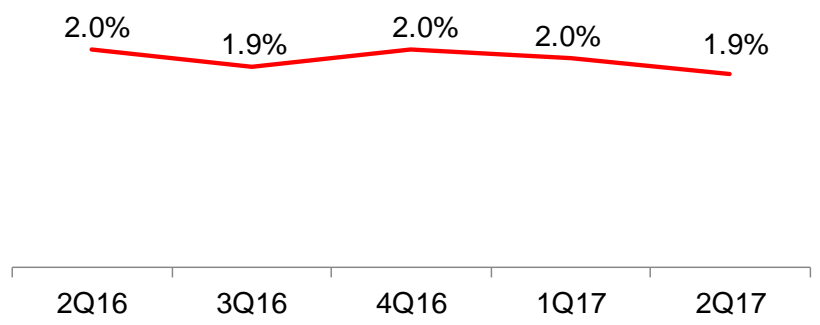
NII declined, in tandem with interest rates on the loan book

Net Interest Income (€MM)

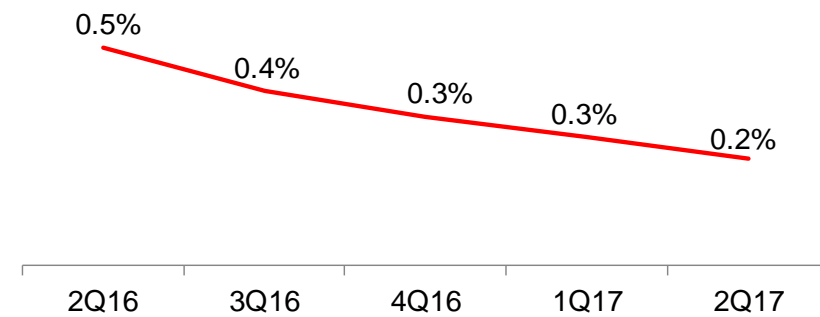


	2Q16	3Q16	4Q16	1Q17	2Q17
NIM¹ (%)	1.59	1.55	1.59	1.51	1.45
Official interest rate² (%)	0,04	0,00	0,00	0,00	0,00

Yield on loans (%)



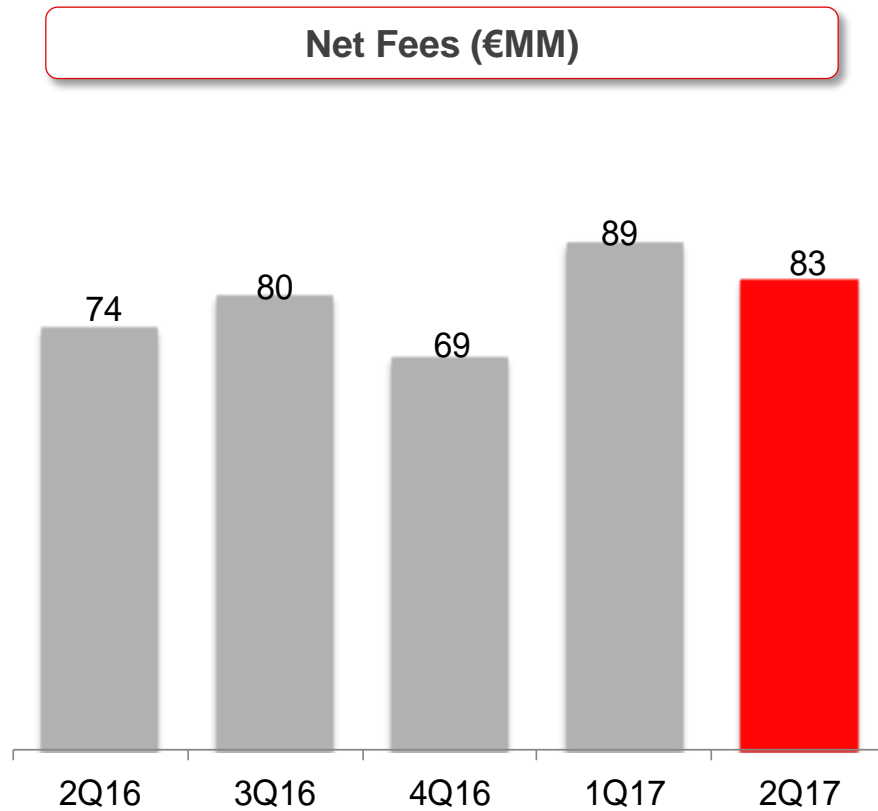
Cost of deposits (%)



(1) Group criteria; (2) Quarter average.



Fees grow YoY, while QoQ dynamics reflect seasonality and lower GCB fees

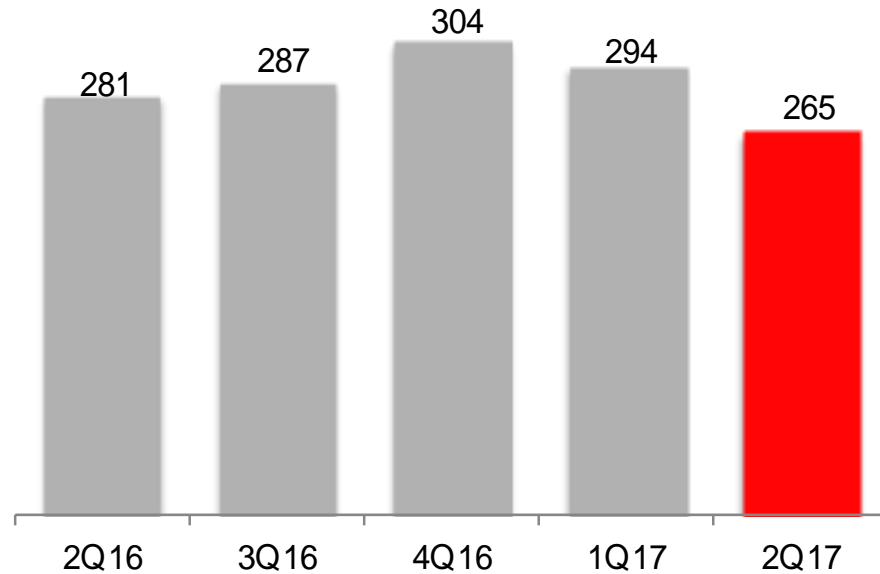


	6M17	6M16	YoY (%)	QoQ (%)
Credit	45	47	-5.0	-6.2
Credit cards	39	31	+25.7	-3.4
Mutual funds	9	9	+7.6	+14.3
Insurance	48	45	+6.3	-6.4
Other*	31	33	-5.2	-20.6
Total	172	165	+4.5	-7.4



Gross income affected by lower balances from the sale of loan and ALCO portfolios in 2016

Gross Income (€MM)



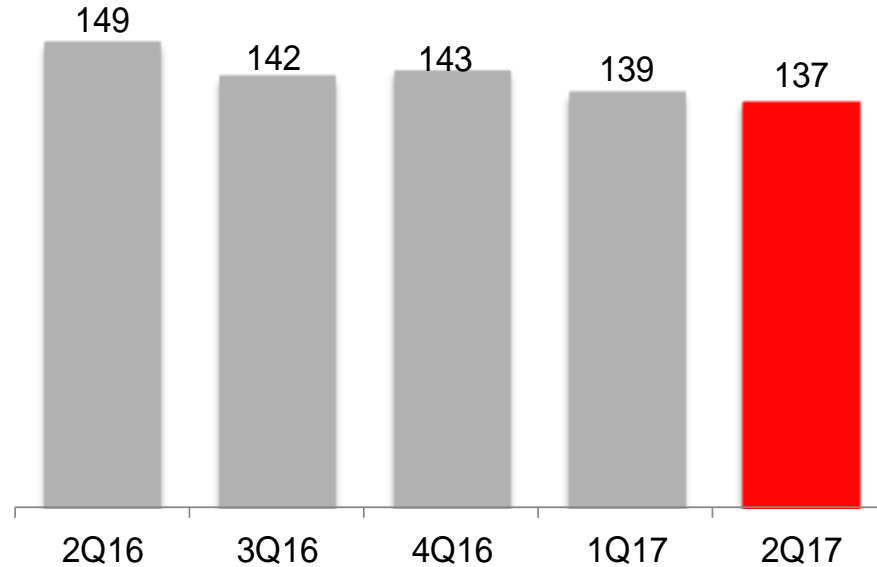
	6M17	6M16	YoY (%)	QoQ (%)
Net interest income	338	370	-8.7	-2.9
Net Fees	172	165	+4.5	-7.4
Subtotal	510	535	-4.7	-4.5
Other ¹	49	83	-41.3	-51.6
Gross income	559	618	-9.6	-9.7

(1) Other includes Gains (losses) on financial transactions and Other operating income



Costs continue declining, in line with the optimization of the commercial structure

Operating expenses (€MM)



	6M17	6M16	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	256	285	-10.1	-1.3
Depreciation and amortization	19	18	+4.1	-2.4
Total	275	303	-9.2	-1.4

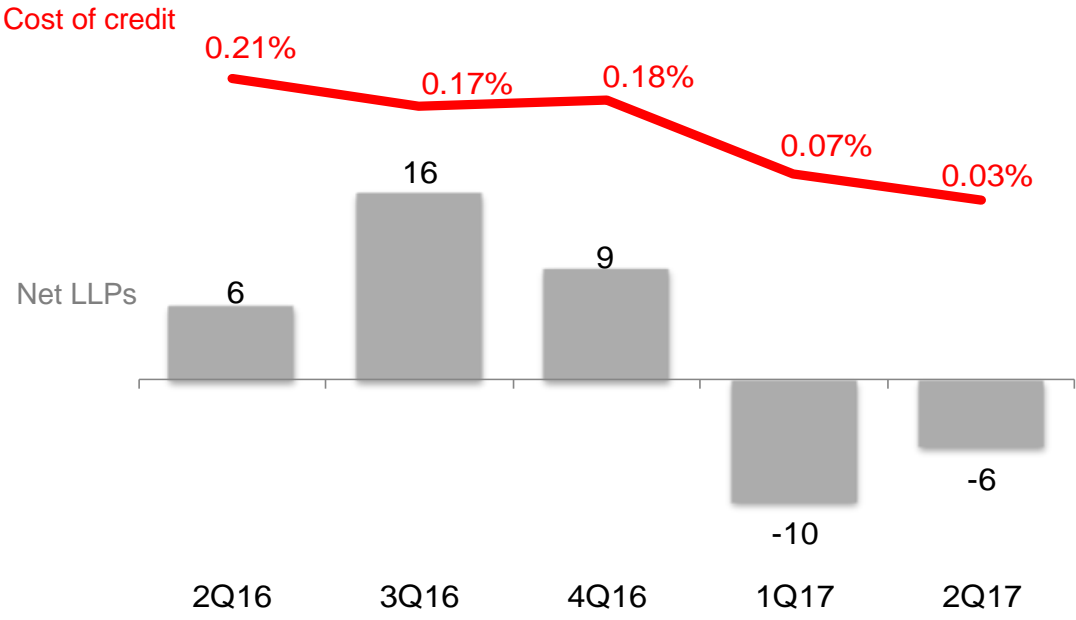
Efficiency ratio (with amortisations)	49.3%	49.1%
Number of branches	600	734
Number of employees	6,096	6,466



Net operating income after loan-loss provisions (LLPs)

NPL ratio continues to decline, with cost of credit close to zero

LLPs and cost of credit

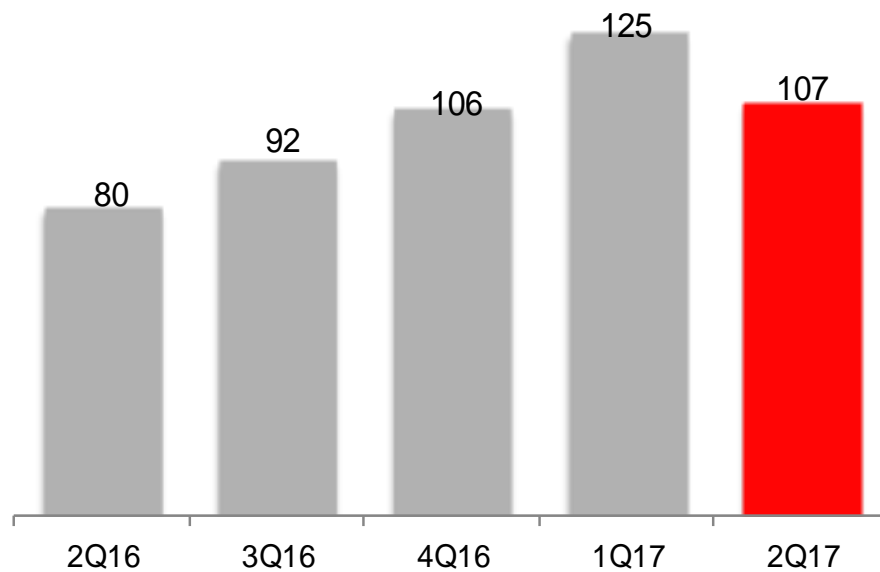


	6M17	6M16	YoY (%)	QoQ (%)
Net Operating Income	283	315	-9.9	-17.2
LLPs	-16	29	-	-
Net Op. Income after LLPs	299	286	+4.5	-18.9
NPL ratio	7.7%	10.5%		
NPL coverage ratio	59.8%	61.9%		



Attributable profit continues to grow YoY

Attributable profit (€MM)



	6M17	6M16	YoY (%)	QoQ (%)
Underlying Profit before taxes	276	263	+5.2	-16.9
Tax on profit	42	60	-30.0	-29.9
Underlying consolidated profit	234	202	+15.6	-14.4
Underlying att. Profit	233	201	+15.8	-14.4
Non-recurring	-	-	-	-
Attributable profit to the Group	233	201	+15.8	-14.4
Effective tax rate	15.3%	23.0%		



Market Environment & Financial System

- GDP is running around 3% YoY, in 2Q, as exports and investment continue to outperform. For the year, GDP should grow 2.6% and unemployment fall to around 9%.
- The Government continues to focus in cutting the fiscal deficit to 1.5% of GDP in 2017.
- Despite resilient volumes of new loans, the stock of credit continues to decline, also influenced by the balance sheet clean-up by some institutions.
- Deposits begin to reflect (i) the focus in off-balance products and (ii) the higher interest rate paid by the Treasury in its retail products.

Strategy & Business

- Continuing to increase the number of loyal customers, based on the different levers (1|2|3 and Advance).
- To continue the balance sheet rebalancing towards corporates.
- Capital ratios continue reflecting the sound structure of Santander Totta with the Common Equity Tier 1 ratio (CET1) reaching 15.7%.

Results

- Sustained recurrent results of activity, supported by the reduction in operating costs and cost of credit.
- However, total revenues and profit impacted by ALCO portfolio sales.
- Higher levels of new loans to households and corporates continue contributing to the gradual recovery of the credit book, as well as to fee income.



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Balance sheet

EUR million			Variation	
	30-Jun-17	30-Jun-16	Amount	%
Customer loans	27,405	27,889	(485)	(1.7)
Cash, central banks and credit institutions	4,241	3,535	705	20.0
Debt securities	10,968	11,835	(867)	(7.3)
<i>o/w: available for sale</i>	4,703	5,851	(1,147)	(19.6)
Other financial assets	1,575	1,890	(316)	(16.7)
Other assets	1,800	1,734	67	3.9
Total assets	45,988	46,883	(895)	(1.9)
Customer deposits	30,193	29,964	229	0.8
Central banks and credit institutions	7,657	8,164	(506)	(6.2)
Debt securities issued	3,574	4,488	(914)	(20.4)
Other financial liabilities	330	312	18	5.9
Other liabilities	783	791	(8)	(1.0)
Total liabilities	42,537	43,718	(1,181)	(2.7)
Total equity	3,451	3,165	286	9.1
Other managed and marketed customer funds	3,056	2,686	370	13.8
Mutual funds	1,664	1,389	275	19.8
Pension funds	938	894	44	4.9
Managed portfolios	454	403	51	12.7

Income statement

EUR million			Variation	
	1H17	1H16	Amount	%
Net interest income	338	370	(32)	(8.7)
Net fees	172	165	7	4.5
Gains (losses) on financial transactions	44	69	(25)	(36.3)
Other operating income	5	14	(9)	(66.6)
Gross income	559	618	(59)	(9.6)
Operating expenses	(275)	(303)	28	(9.2)
General administrative expenses	(256)	(285)	29	(10.1)
<i>Personnel</i>	(165)	(175)	10	(5.7)
<i>Other general administrative expenses</i>	(91)	(110)	19	(17.1)
Depreciation and amortisation	(19)	(18)	(1)	4.1
Net operating income	283	315	(31)	(9.9)
Net loan-loss provisions	16	(29)	44	—
Other income	(23)	(23)	1	(2.3)
Underlying profit before taxes	276	263	14	5.2
Tax on profit	(42)	(60)	18	(30.0)
Underlying profit from continuing operations	234	202	32	15.6
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	234	202	32	15.6
Minority interests	1	1	(0)	(18.5)
Underlying attributable profit to the Group	233	201	32	15.8
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	233	201	32	15.8

Income statement

EUR million

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Net interest income	183	188	180	182	172	167
Net fees	90	74	80	69	89	83
Gains (losses) on financial transactions	54	15	4	39	34	10
Other operating income	10	4	23	14	(1)	6
Gross income	337	281	287	304	294	265
Operating expenses	(154)	(149)	(142)	(143)	(139)	(137)
General administrative expenses	(145)	(140)	(133)	(133)	(129)	(127)
<i>Personnel</i>	(88)	(88)	(80)	(83)	(83)	(82)
<i>Other general administrative expenses</i>	(57)	(52)	(52)	(50)	(46)	(45)
Depreciation and amortisation	(9)	(9)	(9)	(10)	(10)	(9)
Net operating income	183	132	145	161	155	128
Net loan-loss provisions	(22)	(6)	(16)	(9)	10	6
Other income	(2)	(21)	(5)	(5)	(14)	(9)
Underlying profit before taxes	158	104	124	146	151	125
Tax on profit	(37)	(24)	(31)	(40)	(25)	(17)
Underlying profit from continuing operations	122	81	93	106	126	108
Net profit from discontinued operations	—	—	—	—	—	—
Underlying consolidated profit	122	81	93	106	126	108
Minority interests	1	1	1	1	1	0
Underlying attributable profit to the Group	121	80	92	106	125	107
Net capital gains and provisions	—	—	—	—	—	—
Attributable profit to the Group	121	80	92	106	125	107

Thank you

Our purpose is to help people and businesses prosper.

Our culture is based on the belief that everything we do should be

Simple | **Personal** | **Fair**

