

24 April 2018

# Portugal

## Q1'18 Earnings Presentation



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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 been 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](http://www.cnmv.es)- and at Banco Santander -[www.santander.com](http://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](http://www.cnmv.es)) and on Banco Santander's website ([www.santander.com](http://www.santander.com)).

- 1. Macroeconomic environment and financial system**
- 2. Strategy and business**
- 3. Results**
- 4. Appendix**

# Macroeconomic environment and financial system

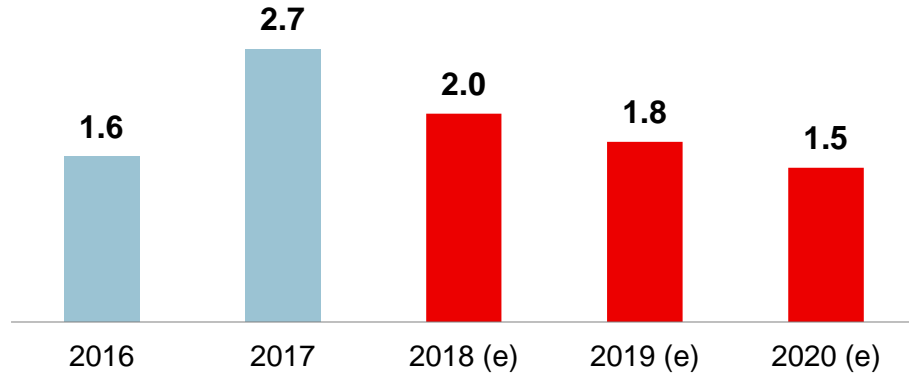


01

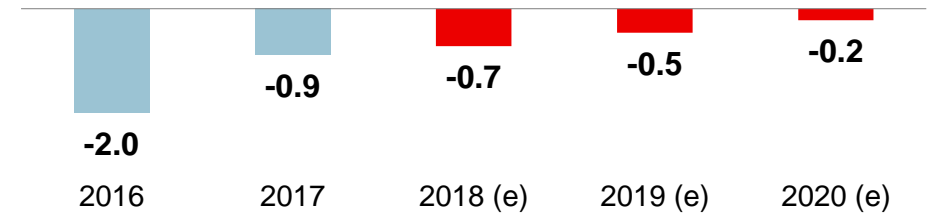


# Positive perspectives for economic fundamentals...

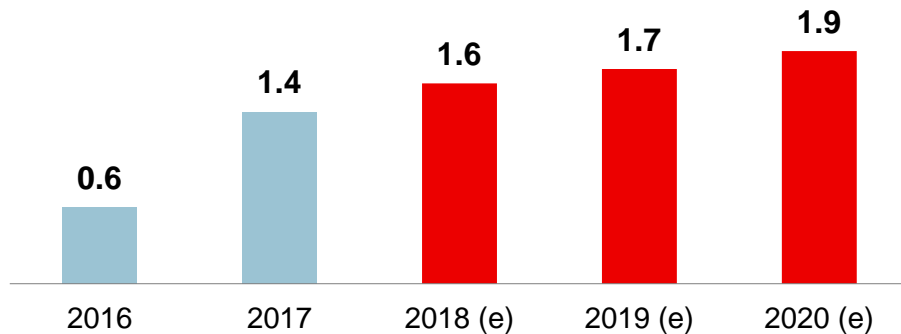
**Annual GDP Growth (real, %)**



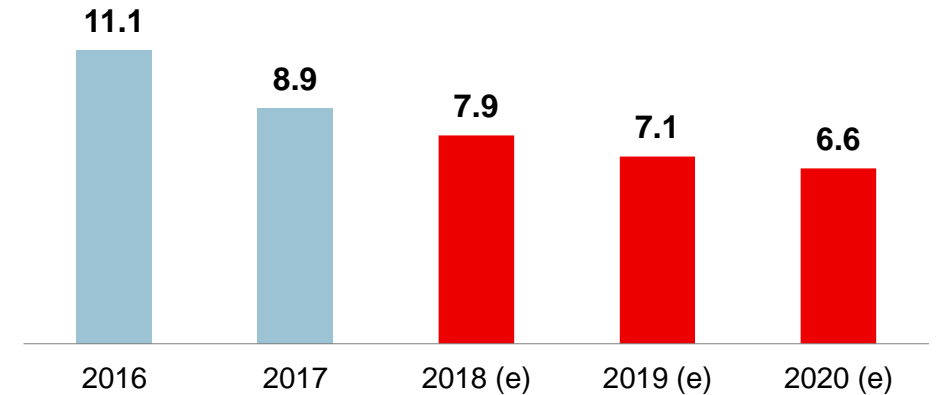
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**



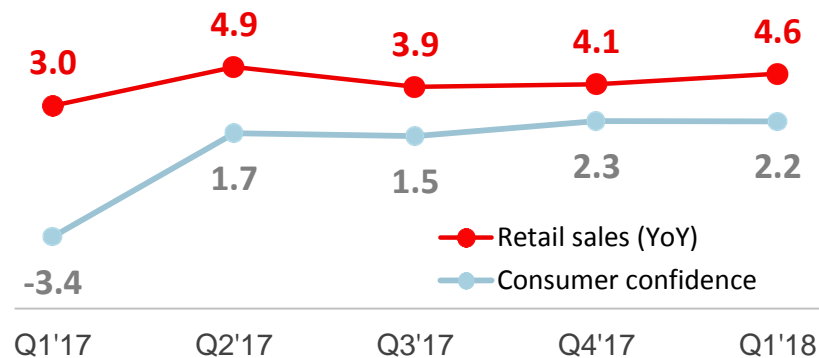
**Unemployment Rate (% , annual average)**



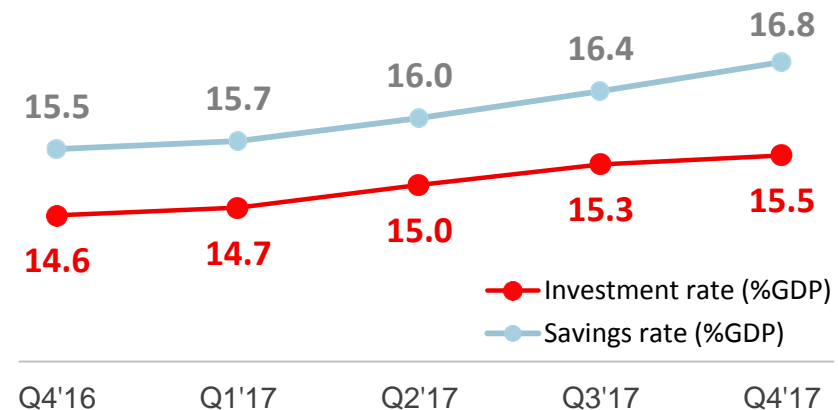


# ... as competitiveness improves and the economy deleverages...

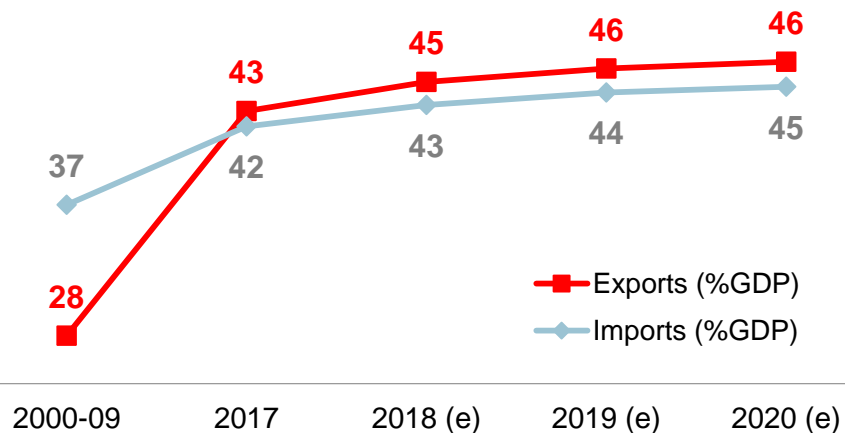
## Consumer dynamics



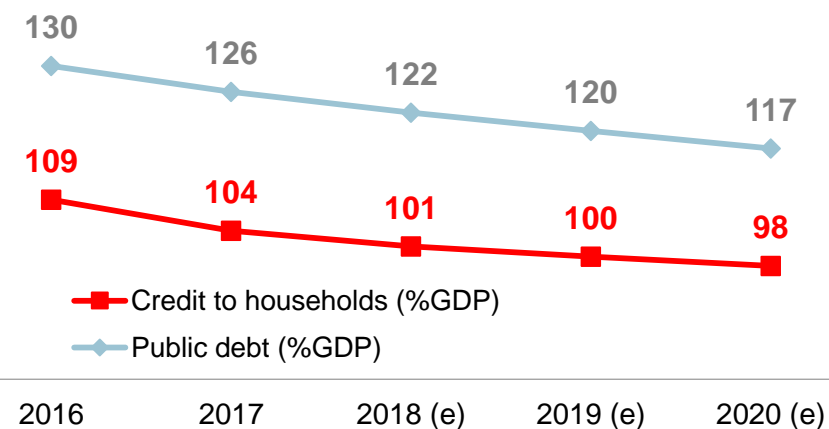
## Investment dynamics (total economy)



## Tradable sector dynamics



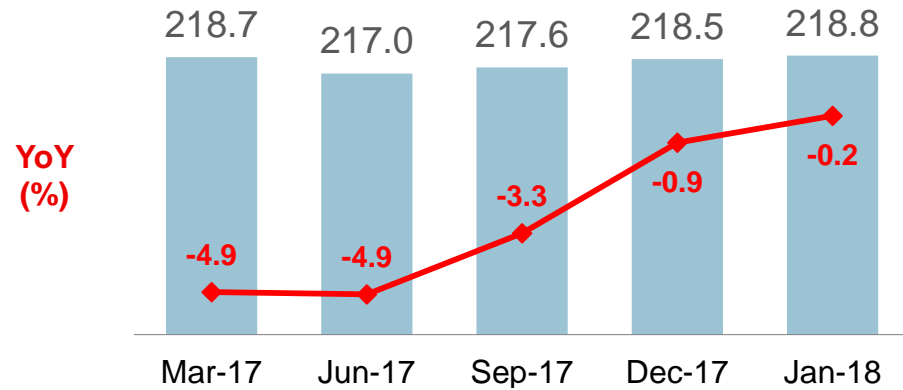
## Deleveraging dynamics





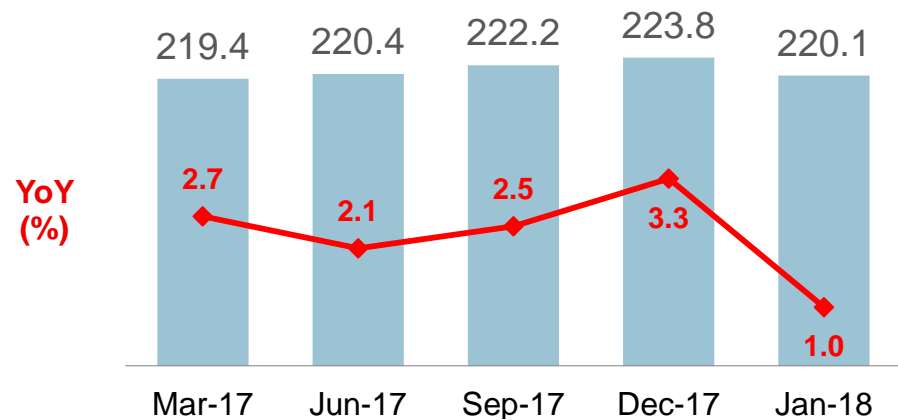
# ... and the financial system continues improving its resilience.

### Total loans (EUR bn<sup>1</sup>)



- ▶ The high indebtedness is the main constraint for the private sector credit growth
- ▶ Banks continue “cleaning” their balance sheets from impaired assets

### Total deposits (EUR bn<sup>1</sup>)



- ▶ Deposits moderate their dynamics as households consumption smoothly rebounds, and corporates finance their investments with own funds

# Strategy and business



02



# Santander Totta is now the first privately owned bank in Portugal in loans



## STRATEGIC PRIORITIES

- ▶ Operational and technology integration of ex-Banco Popular Portugal

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- ▶ Continue the transformation process of the Bank to simplify it, bring it closer to customers and make it more efficient

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- ▶ Continue gaining profitable market share

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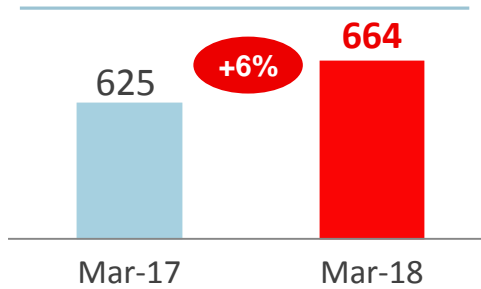
- ▶ Improve efficiency and cost of credit

	KEY DATA	Q1'18	YoY Var.
	Gross loans	37,418	+30.1%
	Deposits	35,114	+17.9%
	Attributable profit	126.9	+1.1%
	RoTE	12.7%	-260 bps
	Efficiency ratio	46.4%	-0.8pp
	Loans market share <sup>1</sup>	18.3%	+4.1pp
	Deposits market share <sup>1</sup>	15.2%	+1.5pp
	Loyal customers (k)	712	+7.9%
	Digital customers (k)	653	+24.5%
	Branches	676	+7.8%
	Employees	7,018	+12.6%



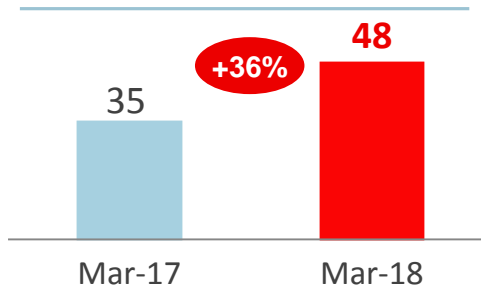
# Dynamic growth in the most valuable customer segments

## Loyal individuals (k)



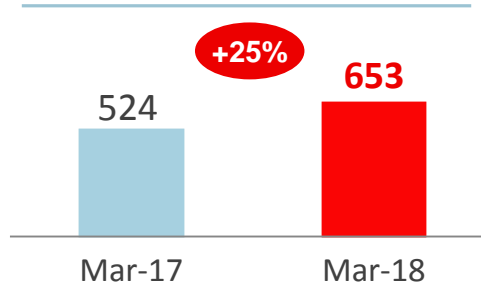
- ▶ The number of loyal customers continues growing, levered by the focus on the 1|2|3 strategy...

## Loyal companies (k)



- ▶ ...while the focus on corporates is reflected in the increase of customers, aligned with the strong market shares in new loans

## Digital customers (k)



- ▶ The number of digital customers continues increasing, as we increase the digital functionalities available for both household and corporate clients (*CrediSimples*, mutual funds, new Corporate mobile app)

# The integration of Popular Portugal is on track as scheduled and in an efficient way



## Popular Portugal integration

## Market recognition

### Branches

Change of branch brand image completed

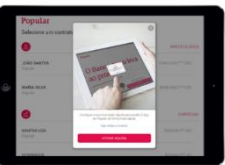


### System Documentation

Rebranding concluded on the 17th January

### Social Media

Platforms rebranding completed on the 19th January (e.g. Facebook, LinkedIn, YouTube)



### Digital Channels

Rebrand of website and mobile app finished on the 9th January

### Head Office

Change of Head Office brand image finished



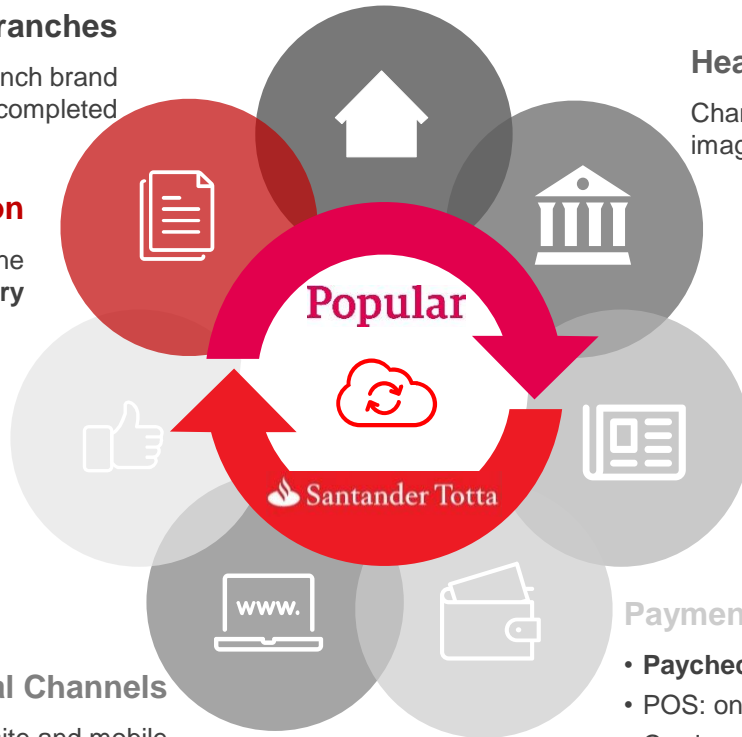
### Sponsorship and Advertising

Rebranding of campaigns ongoing



### Payment Methods

- Paychecks and ATMs: concluded
- POS: ongoing
- Cards: pending conclusion of WiZink deal



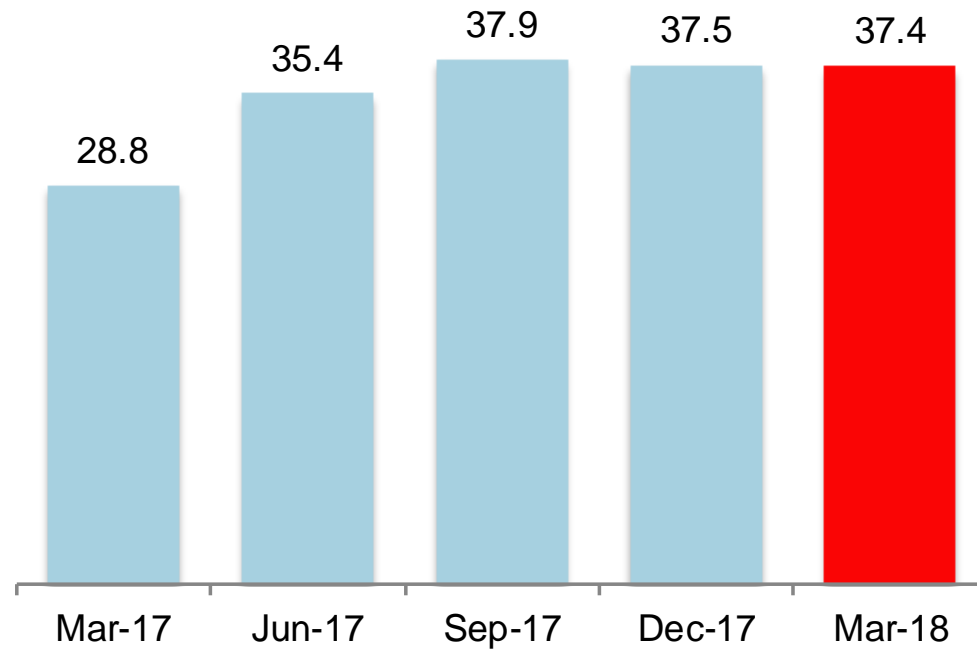
DBRS upgraded Bank's rating to A





# Loans are flat in QoQ, but the mortgage book increased by 0.3%

## Total loans (EUR bn)



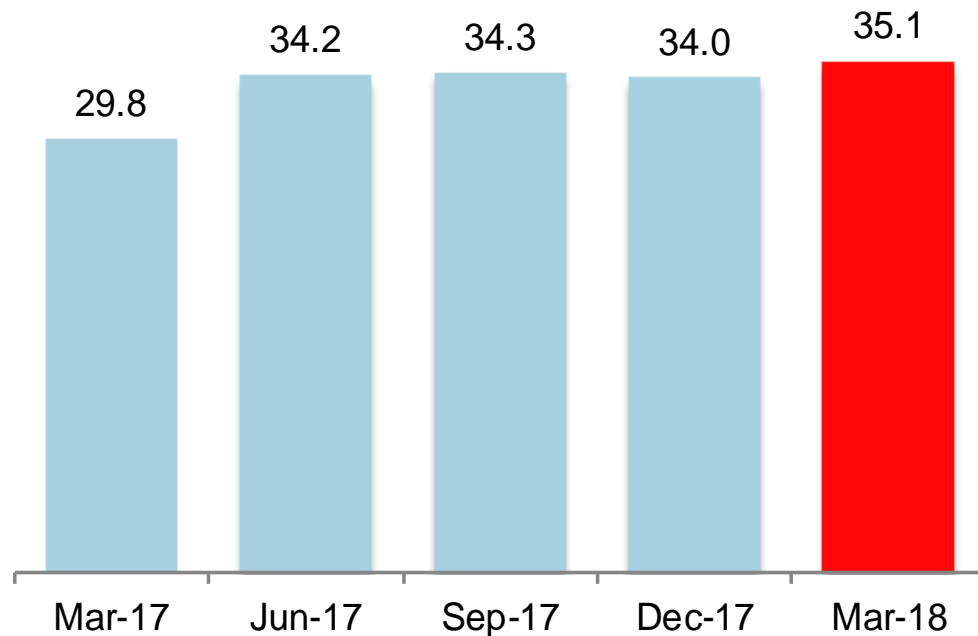
	Mar-18	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>21,470</b>	<b>+12.9</b>	<b>+0.2</b>
<i>from which:</i>			
Mortgage	19,153	+12.5	+0.3
Consumer credit	1,599	+7.6	+0.0
<b>Corporates</b>	<b>13,181</b>	<b>+39.3</b>	<b>-2.5</b>
<b>Total</b>	<b>37,418</b>	<b>+30.1</b>	<b>-0.2</b>
Loans to Corporates (*)	17,589	+27.3	-0.1
Total Loans (*)	41,826	+26.3	+0.6

(\*) includes commercial paper

# Deposits are flat QoQ, while financial insurance reflects the incorporation of Eurovida



## Total deposits (EUR bn)



	Mar-18	YoY (%)	QoQ (%)
Demand	13,285	+18.5	+4.5
Time and Savings	18,062	+12.7	-2.0
<b>Total Deposits</b>	<b>31,346</b>	<b>+15.0</b>	<b>+0.6</b>
Financial insurance	3,767	+48.4	+33.0
<b>Deposits &amp; financial insurance</b>	<b>35,114</b>	<b>+17.9</b>	<b>+3.3</b>
Securities placed	4,379	+20.7	-19.1
Investment funds and other	3,905	+35.3	+3.2
<b>Total Customer Funds</b>	<b>43,397</b>	<b>+19.6</b>	<b>+0.5</b>

Results

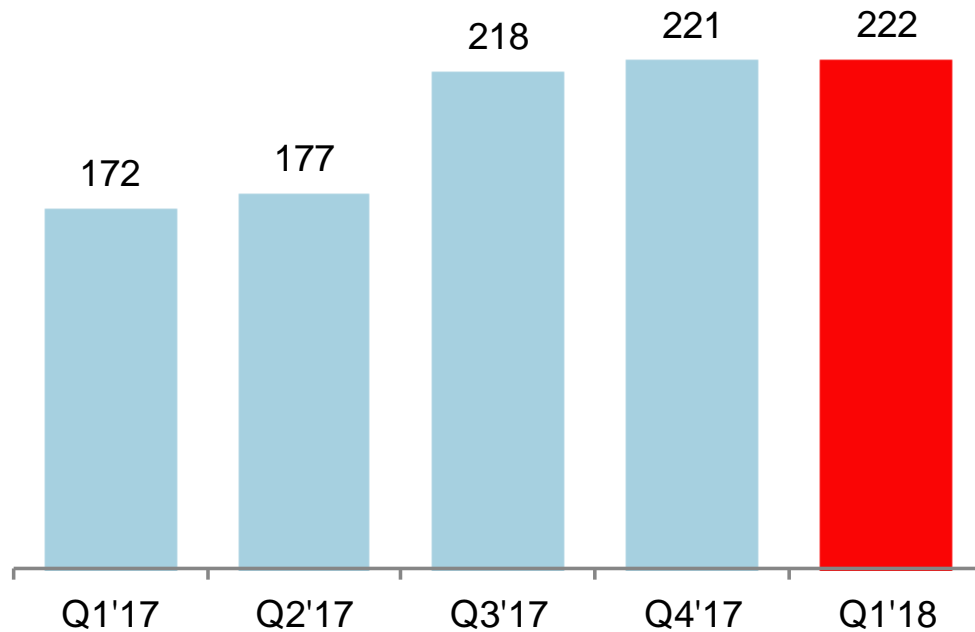


03

# NII increased slightly, as the cost of deposits continued declining



**Net interest income (EUR mn)**



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

Q1'17	Q2'17	Q3'17	Q4'17	Q1'18
1.51	1.46	1.52	1.53	1.56

**Official interest rate<sup>2</sup> (%)**

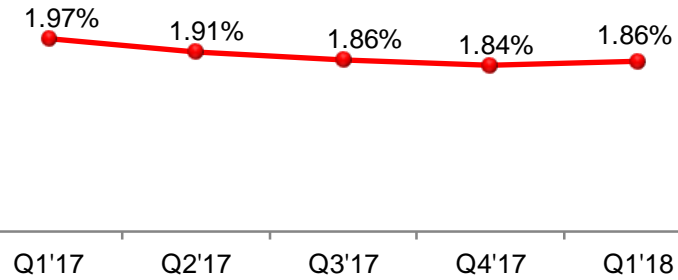
Q1'17	Q2'17	Q3'17	Q4'17	Q1'18
0.00	0.00	0.00	0.00	0.00



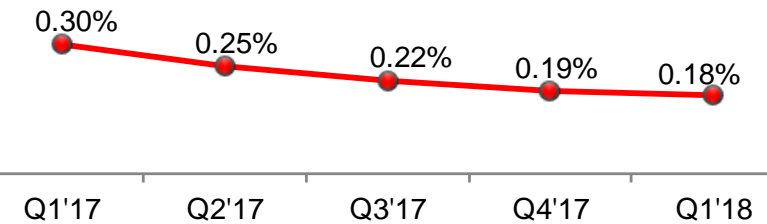
(1) Group criteria  
(2) Quarter average

Data from Q2'17 onwards restated to include ex-Popular Portugal

**Yield on loans (%)**



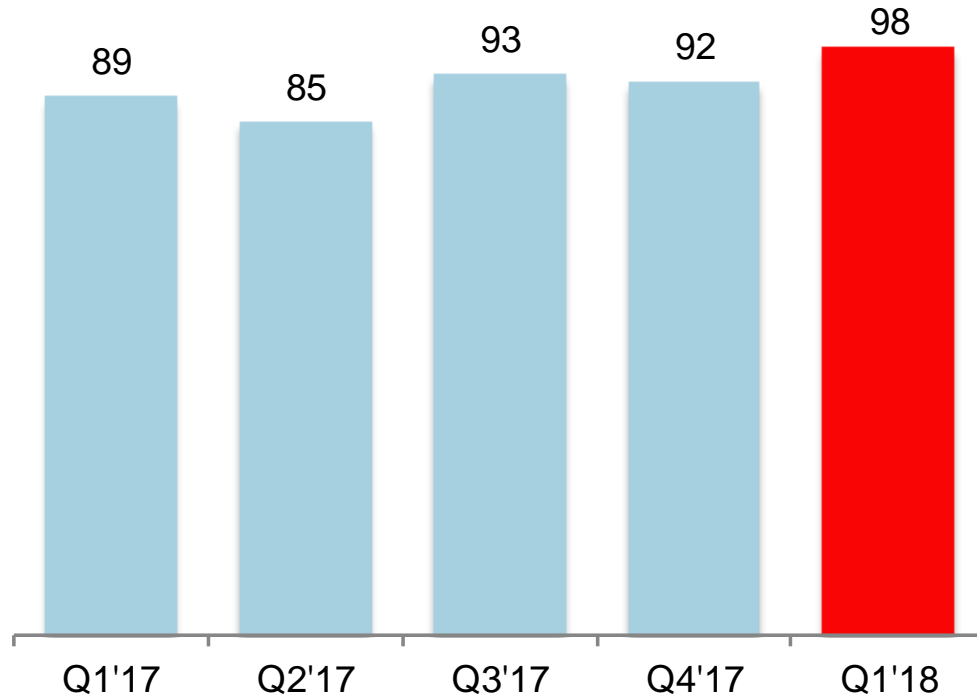
**Cost of deposits (%)**



# Fees evolved positively, with QoQ growth in insurance, credit and means of payment



**Net fees (EUR mn)**



	Q1'18	Q1'17	YoY (%)	QoQ (%)
Credit	21	23	-7.7	+8.9
Credit cards	21	21	+3.0	+7.2
Mutual funds	6	4	+34.7	+1.9
Insurance	25	25	-1.0	+10.9
Other	25	17	+49.2	+1.0
<b>Total</b>	<b>98</b>	<b>89</b>	<b>+9.4</b>	<b>+6.3</b>

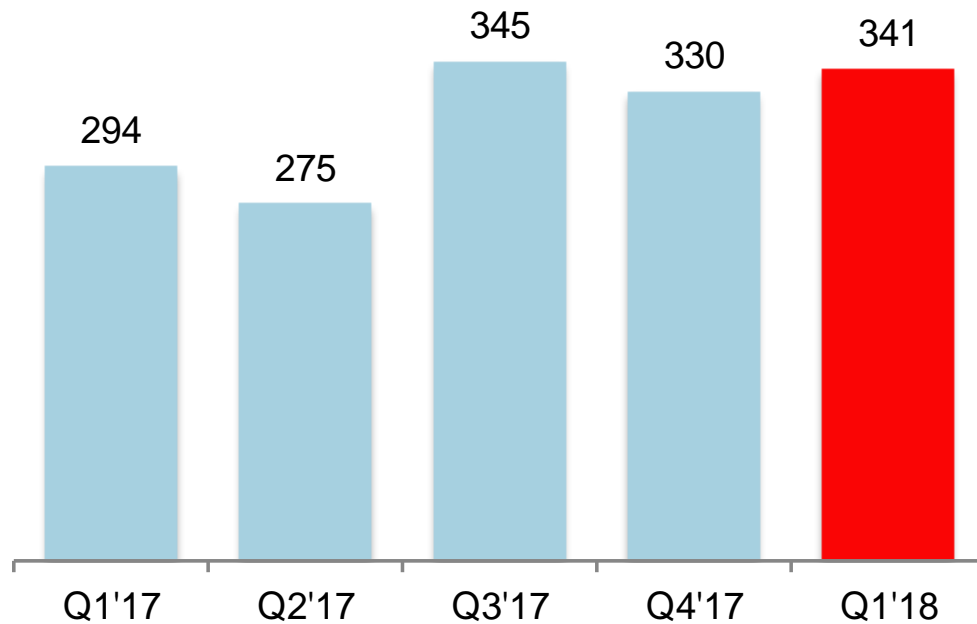
Note: "Other" includes BaPop commissions



# Sustained improvement in gross income, supported by commercial revenue



## Gross income (EUR mn)

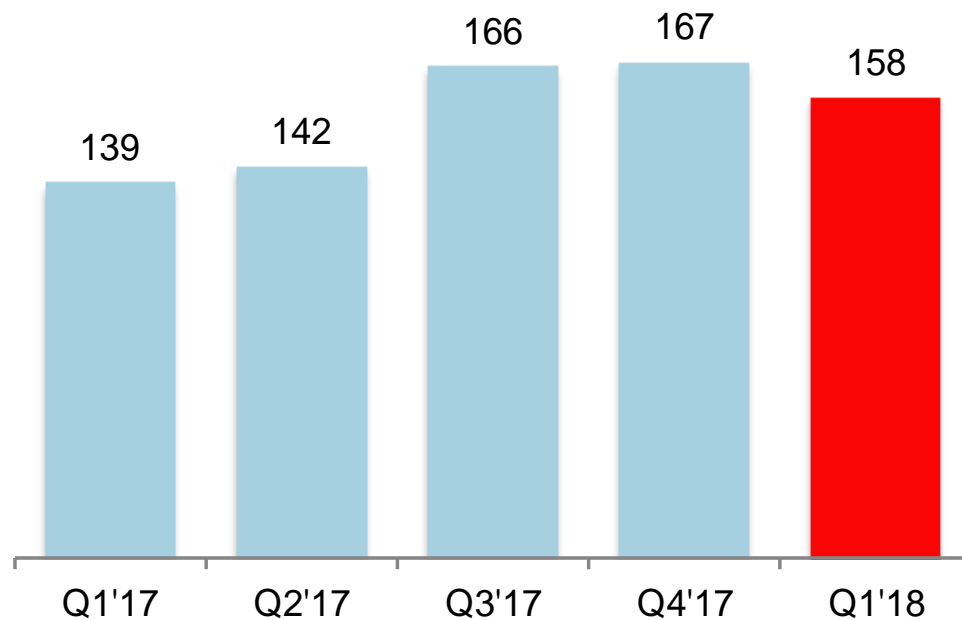


	Q1'18	Q1'17	YoY (%)	QoQ (%)
Net interest income	222	172	+29.3	+0.2
Net Fees	98	89	+9.4	+6.3
<b>Subtotal</b>	<b>320</b>	<b>261</b>	<b>+22.5</b>	<b>+2.0</b>
Gains/losses on financial transactions	22	34	-35.5	-
Other	0	-1	-68.9	-
<b>Gross income</b>	<b>341</b>	<b>294</b>	<b>+16.2</b>	<b>+3.3</b>



# Improved efficiency, as costs declined QoQ with leveraging of synergies

## Operating expenses (EUR mn)



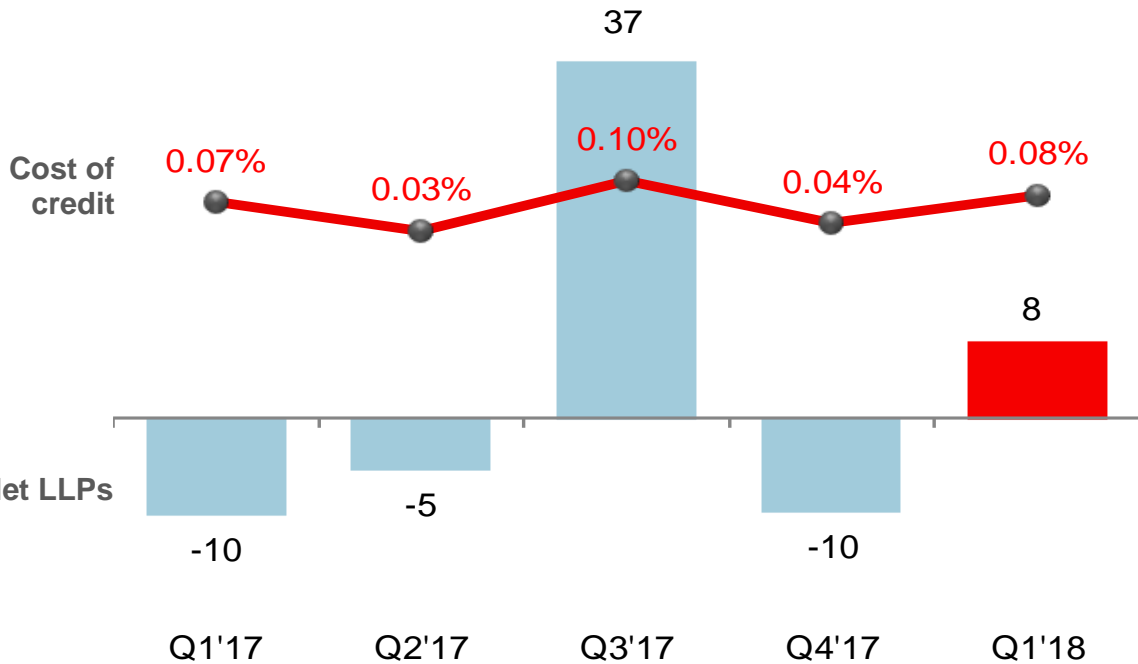
	Q1'18	Q1'17	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	148	129	+14.6	-5.7
Depreciation and amortisation	11	10	+10.2	+3.3
<b>Total</b>	<b>158</b>	<b>139</b>	<b>+14.3</b>	<b>-5.1</b>

Efficiency ratio (with amortisations)	46.4%	47.2%
Number of branches	676	627
Number of employees	7,018	6,232

# Cost of credit remained low, despite the inclusion of the ex-Popular portfolio



**LLPs and cost of credit (EUR mn, %)**

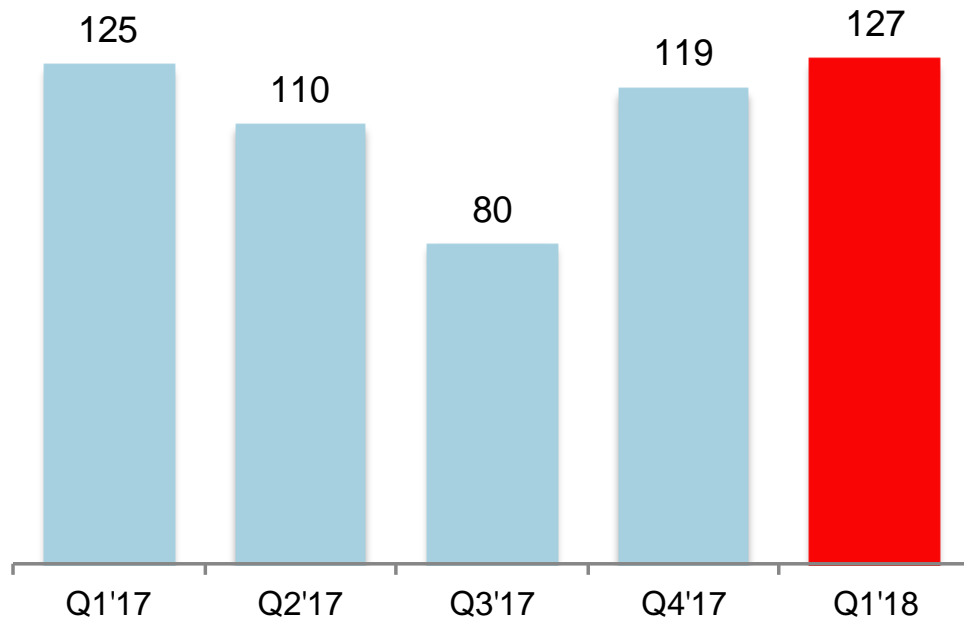


	Q1'18	Q1'17	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>183</b>	<b>155</b>	<b>+17.8</b>	<b>+11.9</b>
LLPs	8	-10	-	-
<b>Net Op. Income after LLPs</b>	<b>175</b>	<b>165</b>	<b>+5.8</b>	<b>+1.0</b>
NPL ratio	8.3%	8.5%		
NPL coverage ratio	53.9%	61.7%		

# Profit increased with the improvement in commercial revenue and lower costs



**Attributable profit (EUR mn)**



	Q1'18	Q1'17	YoY (%)	QoQ (%)
PBT	166	151	+10.2	-0.8
Tax on profit	39	25	+55.8	-18.5
<b>Consolidated profit</b>	<b>128</b>	<b>126</b>	<b>+1.2</b>	<b>+6.1</b>
<b>Attributable profit</b>	<b>127</b>	<b>125</b>	<b>+1.1</b>	<b>+6.3</b>
Effective tax rate	23.3%	16.5%		

# Improving business and results in the context of sustained economic growth



## Market Environment & Financial System

- ▶ Economic activity continues to expand at a solid pace, led by exports and investment. GDP should grow 2% in 2018
- ▶ The Government reduced the fiscal deficit to 0.9% in 2017, and aims to reduce it further in 2018
- ▶ Improvement in the financial system, but credit dynamics affected by NPL management

## Strategy & Business

- ▶ Following the integration of Banco Popular Portugal we have the opportunity to strengthen our position in the SME market particularly small businesses
- ▶ Digital transformation continues at a fast pace with constant deliveries helped by investment through new agile culture
- ▶ Sound capital and liquidity base, despite the integration of ex-Popular Portugal

## Results

- ▶ YoY comparison hampered by the high sovereign book gains registered in Q1'17
- ▶ Improvement in commercial revenues and lower costs, as synergies begin to produce effects
- ▶ Stabilisation of the loan book, considering the management of credit from ex-Popular

# Appendix



04

# Balance sheet



EUR million			Variation	
	31-Mar-18	31-Mar-17	Amount	%
Loans and advances to customers	35,722	27,215	8,507	31.3
Cash, central banks and credit institutions	2,410	3,544	(1,134)	(32.0)
Debt securities	12,058	10,786	1,272	11.8
<i>o/w: designated at fair value through equity</i>	5,501	4,538	963	21.2
Other financial assets	1,991	1,612	379	23.5
Other assets	2,257	1,945	312	16.0
<b>Total assets</b>	<b>54,438</b>	<b>45,102</b>	<b>9,335</b>	<b>20.7</b>
Customer deposits	35,114	29,784	5,330	17.9
Central banks and credit institutions	9,364	7,256	2,108	29.1
Debt securities issued	4,379	3,628	750	20.7
Other financial liabilities	235	325	(90)	(27.6)
Other liabilities	1,238	704	534	75.9
<b>Total liabilities</b>	<b>50,330</b>	<b>41,697</b>	<b>8,633</b>	<b>20.7</b>
<b>Total equity</b>	<b>4,107</b>	<b>3,405</b>	<b>702</b>	<b>20.6</b>
<b>Other managed and marketed customer funds</b>	<b>3,904</b>	<b>2,886</b>	<b>1,019</b>	<b>35.3</b>
Mutual funds	2,127	1,513	614	40.6
Pension funds	1,159	942	217	23.0
Managed portfolios	619	431	188	43.6

# Income statement



EUR million			Variation	
	Q1'18	Q1'17	Amount	%
Net interest income	222	172	50	29.3
Net fees	98	89	8	9.4
Gains (losses) on financial transactions	22	34	(12)	(35.5)
Other operating income	(0)	(1)	1	(68.8)
<b>Gross income</b>	<b>341</b>	<b>294</b>	<b>48</b>	<b>16.2</b>
Operating expenses	(158)	(139)	(20)	14.3
General administrative expenses	(148)	(129)	(19)	14.6
<i>Personnel</i>	<i>(91)</i>	<i>(83)</i>	<i>(8)</i>	<i>10.0</i>
<i>Other general administrative expenses</i>	<i>(57)</i>	<i>(46)</i>	<i>(11)</i>	<i>23.1</i>
Depreciation and amortisation	(11)	(10)	(1)	10.2
<b>Net operating income</b>	<b>183</b>	<b>155</b>	<b>28</b>	<b>17.8</b>
Net loan-loss provisions	(8)	10	(18)	—
Other income	(9)	(14)	6	(40.1)
<b>Underlying profit before taxes</b>	<b>166</b>	<b>151</b>	<b>15</b>	<b>10.2</b>
Tax on profit	(39)	(25)	(14)	55.8
<b>Underlying profit from continuing operations</b>	<b>128</b>	<b>126</b>	<b>2</b>	<b>1.2</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>128</b>	<b>126</b>	<b>2</b>	<b>1.2</b>
Minority interests	1	1	0	20.2
<b>Underlying attributable profit to the Group</b>	<b>127</b>	<b>125</b>	<b>1</b>	<b>1.1</b>
Net capital gains and provisions	—	—	—	—
<b>Attributable profit to the Group</b>	<b>127</b>	<b>125</b>	<b>1</b>	<b>1.1</b>



# Income statement



EUR million	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18
Net interest income	172	177	218	221	222
Net fees	89	85	93	92	98
Gains (losses) on financial transactions	34	9	31	2	22
Other operating income	(1)	4	3	15	(0)
<b>Gross income</b>	<b>294</b>	<b>275</b>	<b>345</b>	<b>330</b>	<b>341</b>
Operating expenses	(139)	(142)	(166)	(167)	(158)
General administrative expenses	(129)	(133)	(156)	(157)	(148)
<i>Personnel</i>	(83)	(84)	(92)	(91)	(91)
<i>Other general administrative expenses</i>	(46)	(49)	(64)	(66)	(57)
Depreciation and amortisation	(10)	(10)	(10)	(10)	(11)
<b>Net operating income</b>	<b>155</b>	<b>133</b>	<b>179</b>	<b>163</b>	<b>183</b>
Net loan-loss provisions	10	5	(37)	10	(8)
Other income	(14)	(9)	(16)	(5)	(9)
<b>Underlying profit before taxes</b>	<b>151</b>	<b>129</b>	<b>126</b>	<b>168</b>	<b>166</b>
Tax on profit	(25)	(19)	(45)	(47)	(39)
<b>Underlying profit from continuing operations</b>	<b>126</b>	<b>111</b>	<b>81</b>	<b>120</b>	<b>128</b>
Net profit from discontinued operations	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>126</b>	<b>111</b>	<b>81</b>	<b>120</b>	<b>128</b>
Minority interests	1	0	1	1	1
<b>Underlying attributable profit to the Group</b>	<b>125</b>	<b>110</b>	<b>80</b>	<b>119</b>	<b>127</b>
Net capital gains and provisions	—	—	—	—	—
<b>Attributable profit to the Group</b>	<b>125</b>	<b>110</b>	<b>80</b>	<b>119</b>	<b>127</b>

# Thank you.

Our purpose is to help people  
and business prosper.

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

## Simple Personal Fair



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



FTSE4Good