

# Portugal

## First Quarter 2014

*April 29, 2014*

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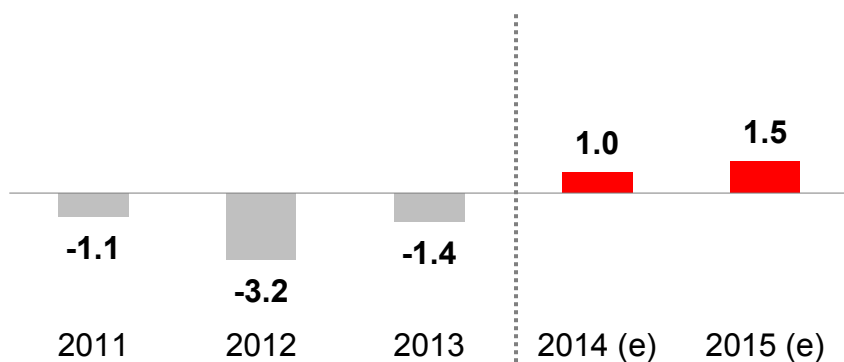
Note: The results information contained in this presentation has been prepared according to Spanish accounting criteria and regulation in a manner applicable to all subsidiaries of the Santander Group and as a result it may differ from the one disclosed locally by Banco Santander Totta.

# Agenda

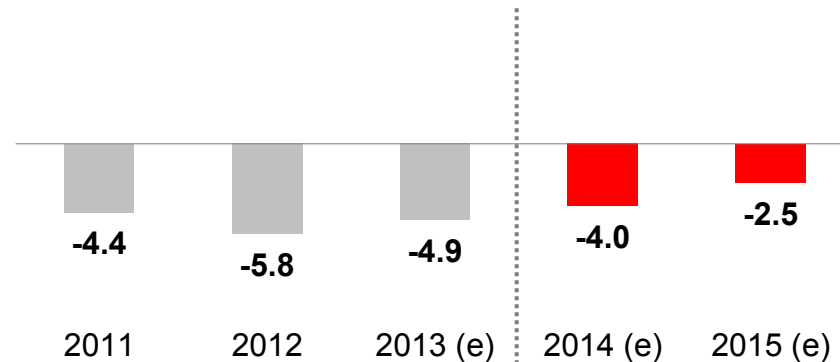
- **Macro-economic environment and financial system**
- Strategy and business
- Results
- Appendix

## Economic recovery to gain traction and support a decline in unemployment

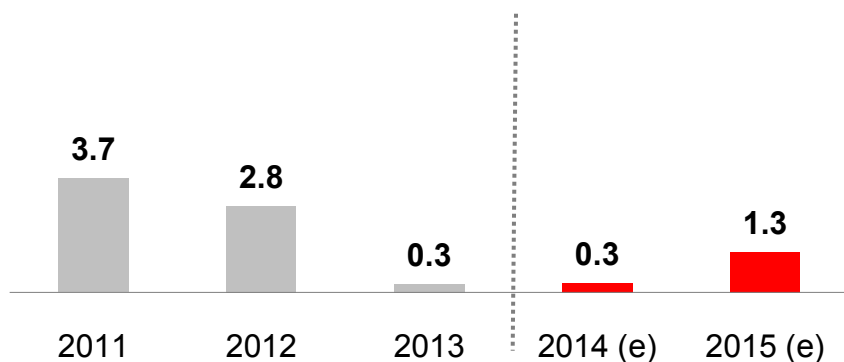
### Annual GDP Growth (% , real)



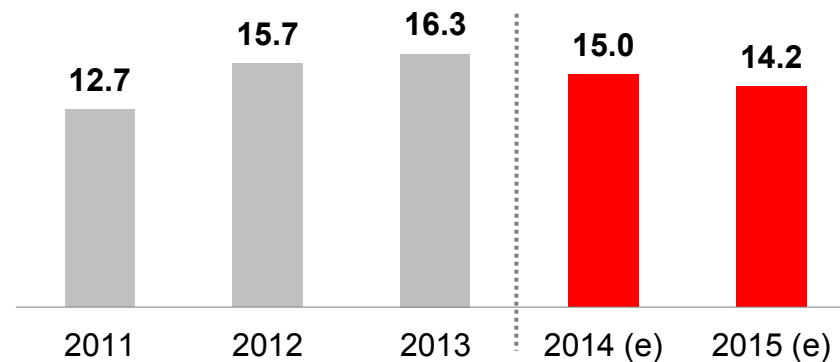
### Fiscal Balance (% GDP)



### Annual CPI inflation rate (% , annual average)

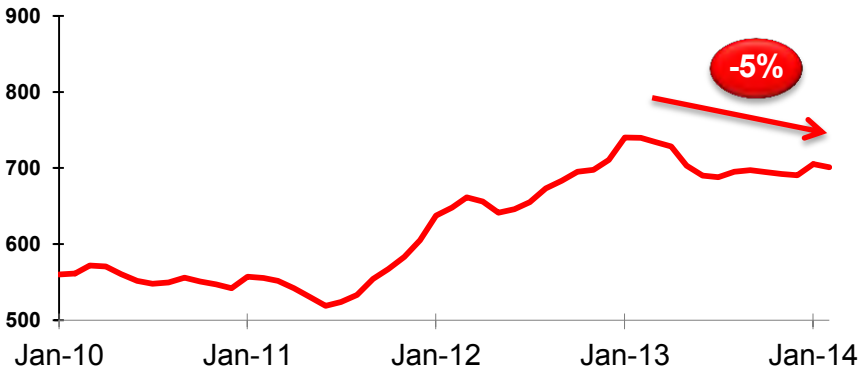


### Unemployment Rate (annual average)

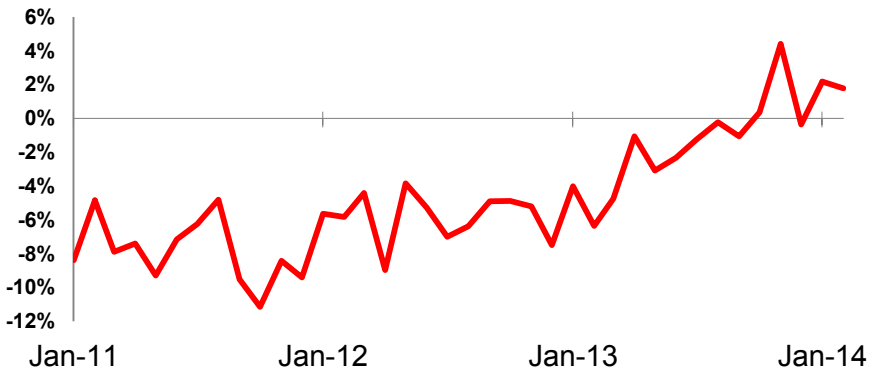


Underlying improvement in domestic demand, also at the level of investment

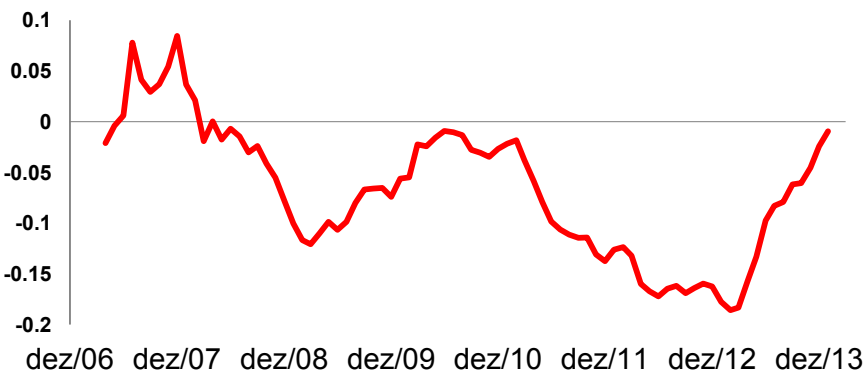
### Registered Unemployment (000)



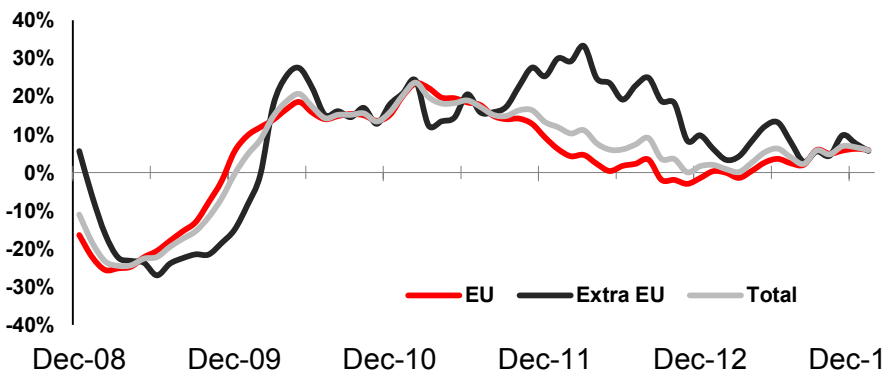
### Retail Sales (YoY)



### Investment Indicator (YoY)

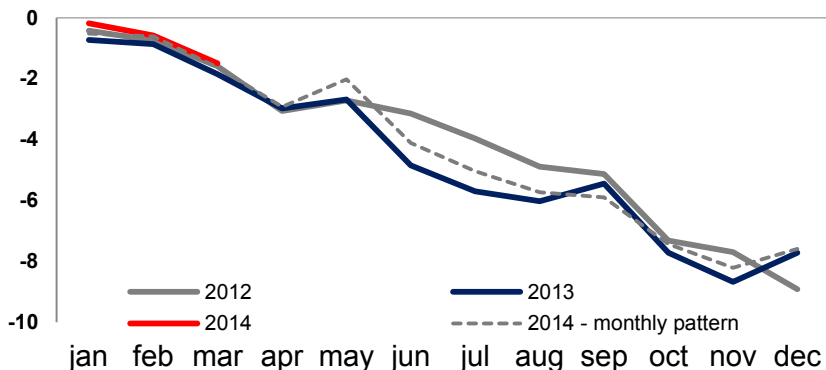


### Exports (MA3, YoY)

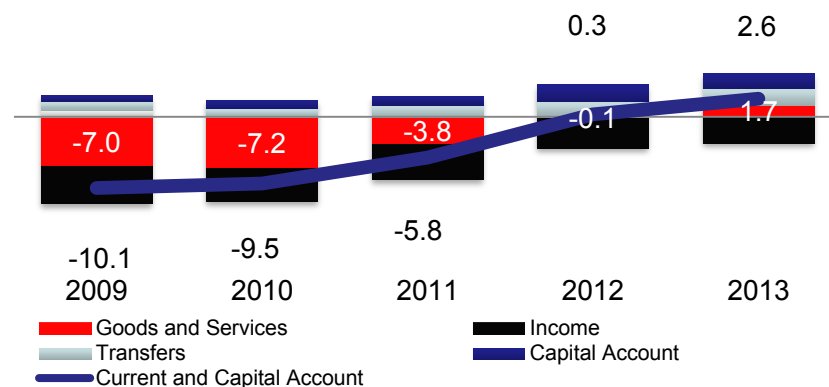


Better fiscal developments and easier market access conditions will allow a smooth conclusion to the economic and financial adjustment programme

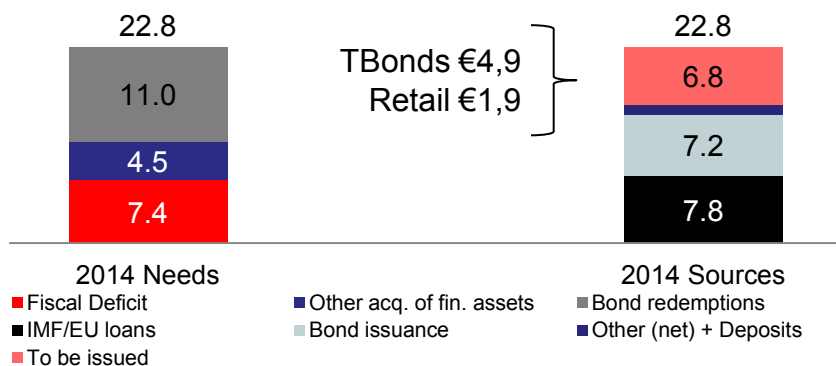
## Fiscal Balance (€ bn)



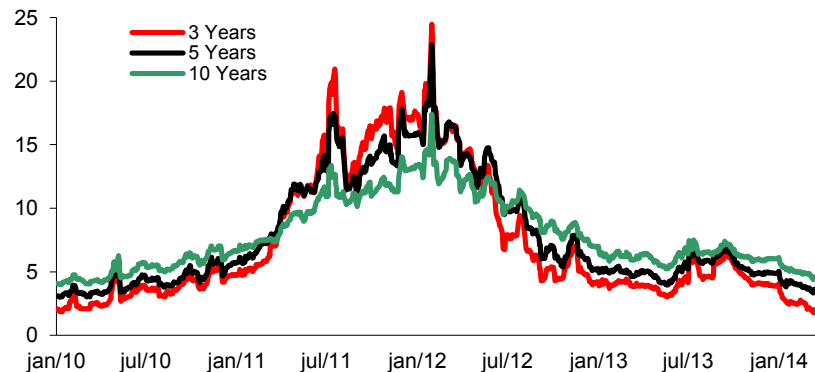
## Current account (% GDP)



## Funding Needs and Financing Plan (€ bn)



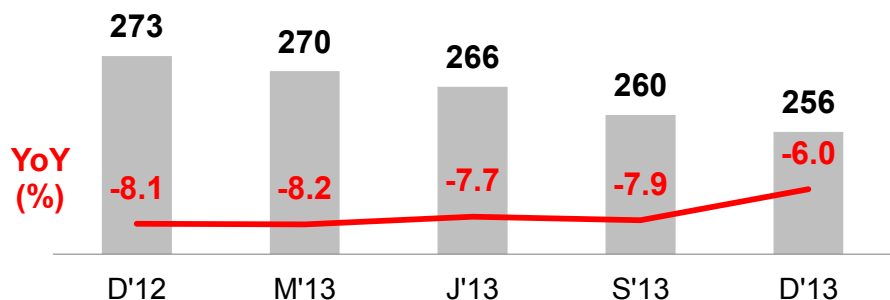
## Portuguese Government Bond Yields



**Deleveraging continues, at a gradual pace,  
as the banking sector already meets the 120% loan-to-deposit ratio**

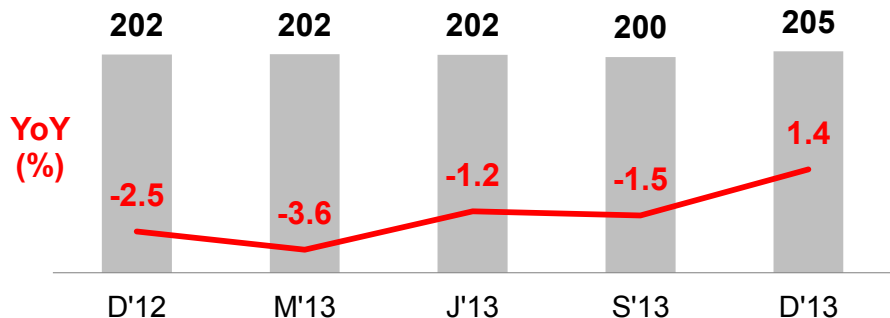
EURbn.

## Total loans



- Stocks of loans continues to decline, at the level of mortgages and non-financial corporates, despite an increase in new production (+19% YoY in 4Q13)
- Estimated growth of loans in 2014: -2,0%

## Total deposits



- Deposit growth remains healthy
- Deposit rates remain stable, as the banking sector continues to reduce its ECB dependency, amidst competition from retail products issued by the Government

## Financial system with stable growth trends

- Economic activity continues to strengthen in 1Q14, following stronger growth in 4Q13, and GDP is expected to grow 1,0% in 2014
- Declining unemployment and stabilizing incomes also provide support to private consumption, and investment is improving, as companies focus on capacity renewal
- The fiscal targets remain on track, benefiting from stronger growth and a better outcome in 2013 (the fiscal deficit was 4,9% of GDP vs the 5,9% target)
- The Republic will likely conclude its current adjustment programme with a “clean exit”, following a well-succeeded return to the wholesale markets (with two syndicated bond issues in 2014), amid support from the European Institutions and partners
- The financial sector has stabilized, but continues to deleverage at a slower pace, with loans falling in the main segments (mortgages and non-financial corporates) despite an improvement in new production.
- Deposit growth remains, but its future path is dependent on both increased market access by the banking sector and declining dependency on ECB funds



# Agenda

- Macro-economic environment and financial system
- **Strategy and business**
- Results
- Appendix

**Santander Totta is the 3<sup>rd</sup> private bank in domestic activity by total assets**



EUR	Mar'14	Var. YoY
<b>Business and Results</b>		
Loans	25,3 bn.	-4.4%
Deposits	23,6 bn.	-0.5%
Total customer funds	28,1 bn.	-4.7%
Consolidated profit	33,1 m.	+56.2%
Attributable profit	35,5 m.	+67.9%

<b>Other Data</b>		
Employees	5,512	-122
Branches	633	-25
ATMs	1,554	-57

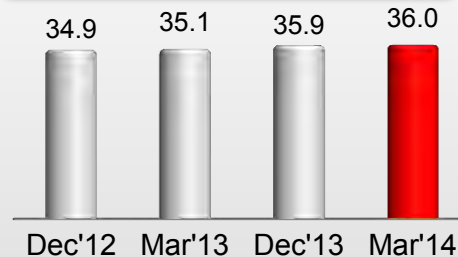
<b>Market Share (1)</b>		
Loans	9.68%	+0.36pp
- Individuals	12.49%	+0.15pp
- Corporates	7.61%	+0.42pp
Deposits	9.77%	-0.63pp

(1) Market share as of Dec, 2013

# Commercial focus / strategy

## Balance sheet mix

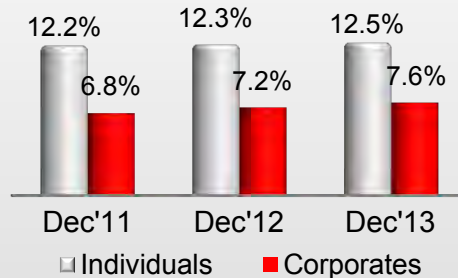
Mix of Corporates / Total loans (%)



Loans to corporates/SMEs increase its relative weight in loan portfolio...

## Market shares

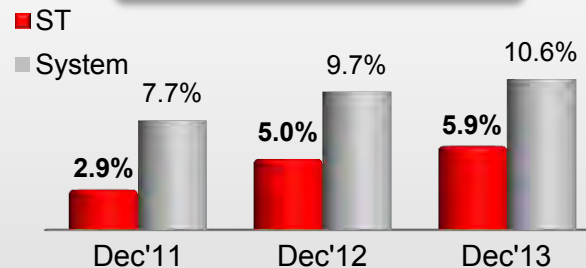
Market shares - Loans



...with a market share gain in corporates of +42bp in 12 months

## Asset quality

Credit at risk ratio



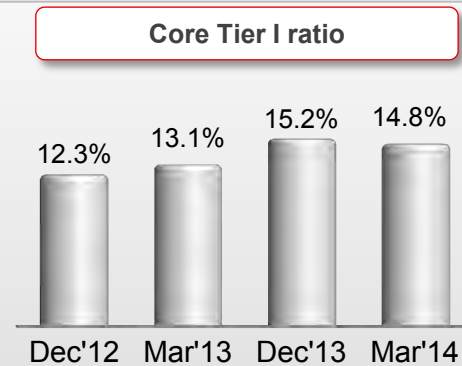
BST' asset quality indicators are better compared to the average of the banking system\*\*

(\*) Local criteria, total loans includes commercial paper

(\*\*) According to the latest available data with local criteria

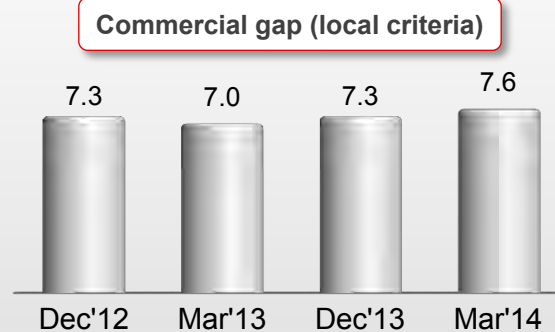
# Capital and funding / strategy

## Capital ratios



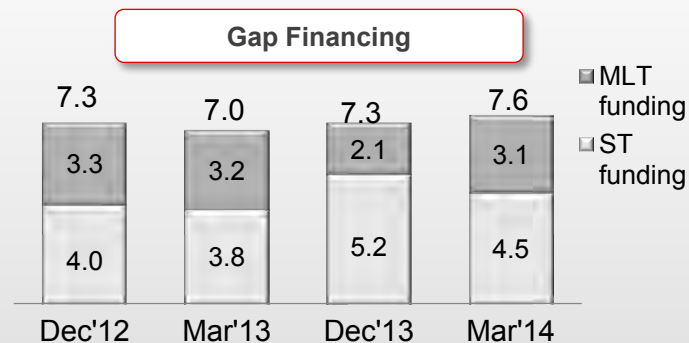
Capital ratios evolution continue to reflect the sound structure of the Bank

## Commercial gap



Commercial gap stabilises

## Financing the gap

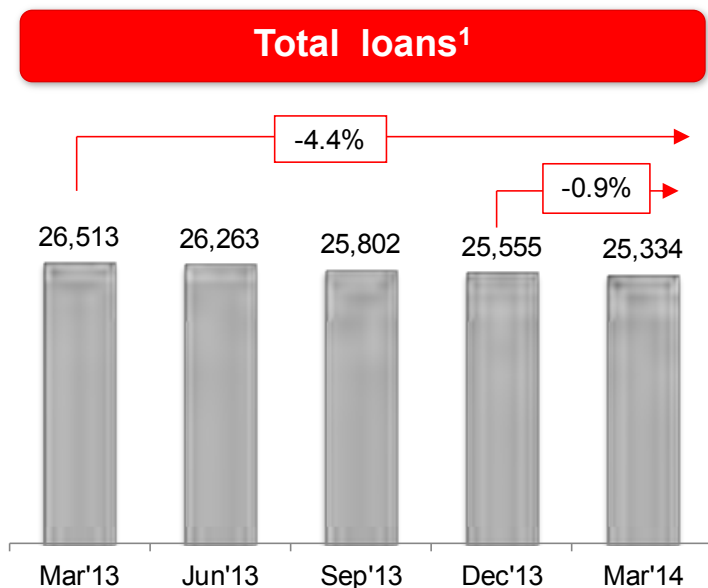


We are increasing the weight of MLT funding\*

(\*) At the end of march the bank issued 1bn covered bonds (3y). Settlement date (april,1)

The deleveraging of the private sector is reflected in the gradual reduction of the loan book

EUR million



	Mar'14	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>17,017</b>	<b>-3.4</b>	<b>-0.9</b>
Mortgage	15,133	-3.4	-0.9
Consumer credit	1,391	-0.1	0.6
<b>Corporates</b>	<b>7,821</b>	<b>-7.3</b>	<b>-0.5</b>
SMEs	2,617	-12.3	-2.2
Corporates	3,344	-10.3	-2.1
Large corporates	1,860	7.9	5.1
<b>Total</b>	<b>25,334</b>	<b>-4.4</b>	<b>-0.9</b>
Loans to Corporates (*)	9,820	-3.2	-0.5
Total Loans (*)	27,333	-3.1	-0.8

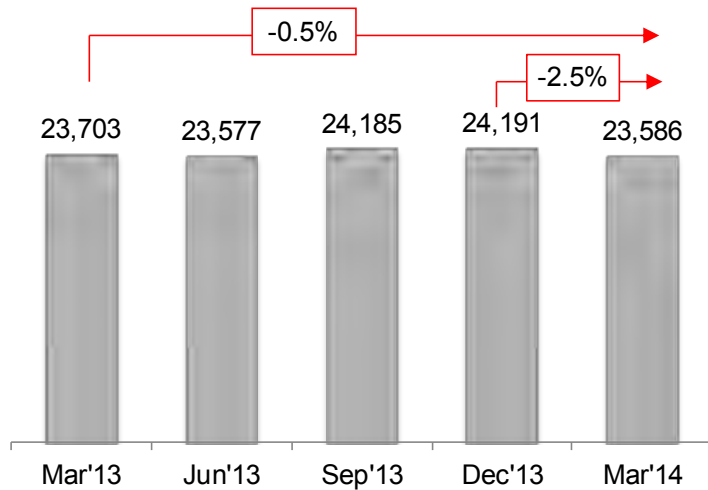
(\*) Including commercial paper

(1) Gross credit

Deposits showed a slight decrease yoy. Investment funds recovered qoq

EUR million

## Total deposits



	Mar'14	YoY (%)	QoQ (%)
Demand	4,244	-2.0	-5.4
Time and Savings	19,342	-0.2	-1.8
<b>Deposits</b>	<b>23,586</b>	<b>-0.5</b>	<b>-2.5</b>
Securities placed	2,248	-34.1	-3.5
Investment funds and other	2,226	-3.9	9.1
<b>Total Customer Funds</b>	<b>28,060</b>	<b>-4.7</b>	<b>-1.8</b>

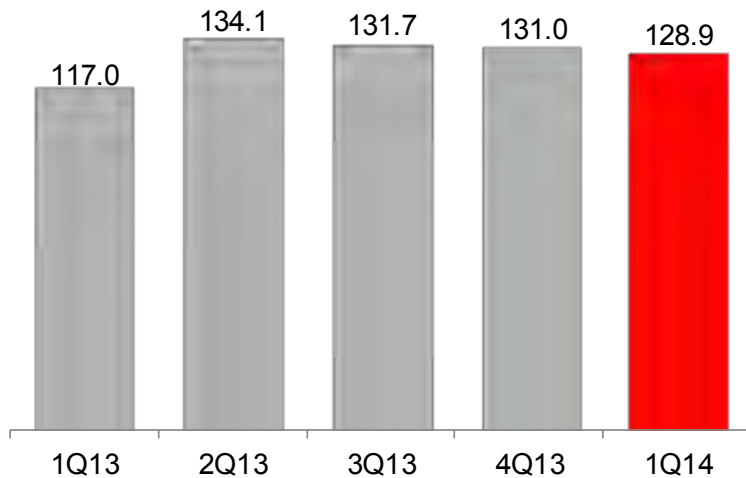
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Despite the strong growth yoy, NII decreased slightly qoq due to lower volumes

EUR million

## Net Interest Income



## Loan spreads, %

### Commercial Banking



1Q13 2Q13 3Q13 4Q13 1Q14

## Deposit spreads, %

### Commercial Banking



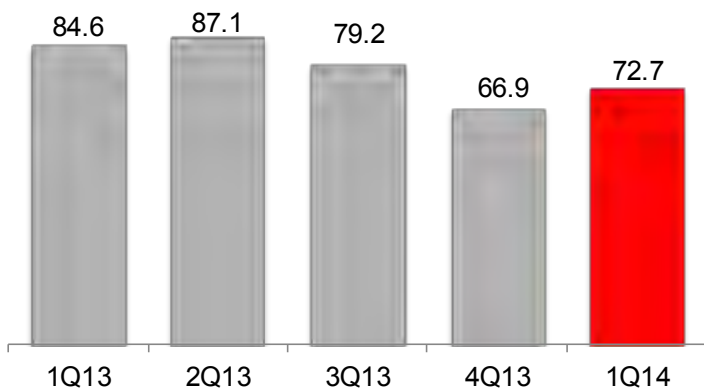
1Q13 2Q13 3Q13 4Q13 1Q14



**Net fees improved qoq reflecting mainly GBM commissions evolution and yoy there was a decline due to lower business volumes and a new regulatory framework**

EUR million

## Net Fees

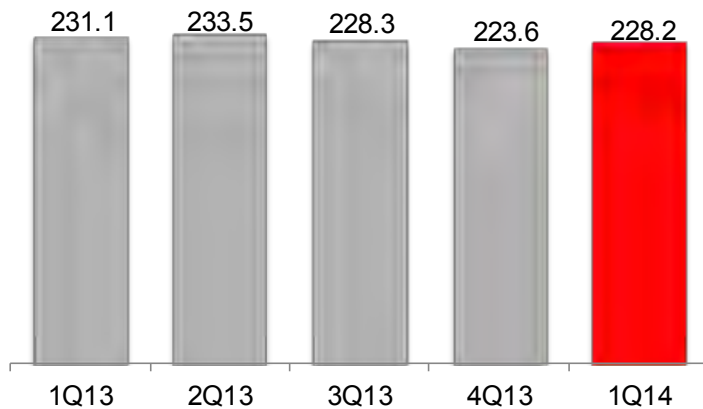


	1Q14	1Q13	YoY (%)	QoQ (%)
Credit	19.8	23.0	-14.0	2.8
Credit cards	11.8	13.4	-11.9	-3.2
Mutual funds / AM	4.1	6.9	-41.2	-31.4
Insurance	22.3	23.1	-3.4	-1.7
GBM	15.6	19.1	-18.5	33.3
Other	(0.8)	(0.8)	-7.3	-83.9
<b>Total</b>	<b>72.7</b>	<b>84.6</b>	<b>-14.1</b>	<b>8.7</b>

Increase in gross income over the previous quarter due to net commissions

EUR million

## Gross income



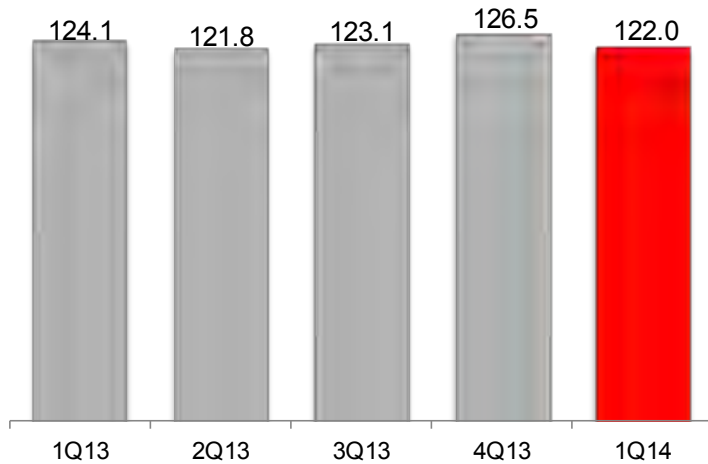
	1Q14	1Q13	YoY (%)	QoQ (%)
Net interest income	128.9	117.0	10.1	-1.6
Net Fees	72.7	84.6	-14.1	8.7
<b>Subtotal</b>	<b>201.6</b>	<b>201.6</b>	<b>0.0</b>	<b>1.9</b>
Other <sup>1</sup>	26.6	29.5	-9.9	3.4
<b>Gross income</b>	<b>228.2</b>	<b>231.1</b>	<b>-1.3</b>	<b>2.1</b>

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

## Operating costs evolved favourably

EUR million

### Operating expenses



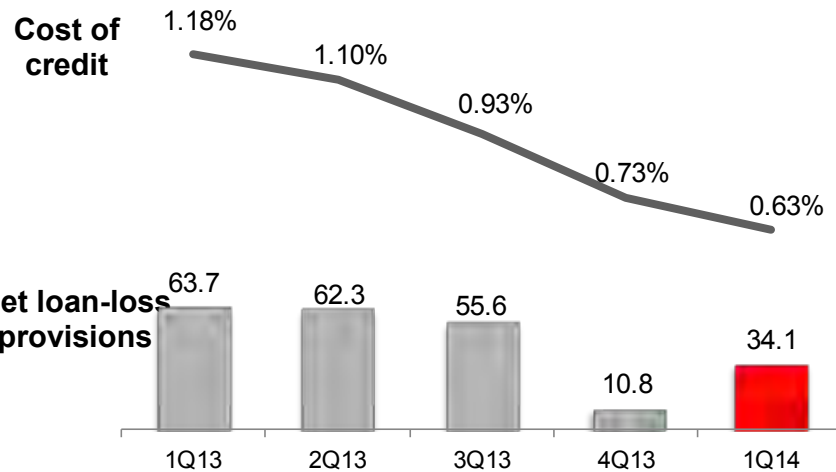
	1Q14	1Q13	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	102.6	104.2	-1.5	-4.2
Depreciation and amortization	19.4	19.9	-2.4	0.3
<b>Total</b>	<b>122.0</b>	<b>124.1</b>	<b>-1.7</b>	<b>-3.5</b>

Efficiency ratio (with amortisations)	53.5%	53.7%	-0.2 pp	-3.1 pp
Number of branches	633	658	-25	-7
Number of employees	5,512	5,634	-122	-96

## Cost of credit kept a downward trend

EUR million

### LLPs and cost of credit

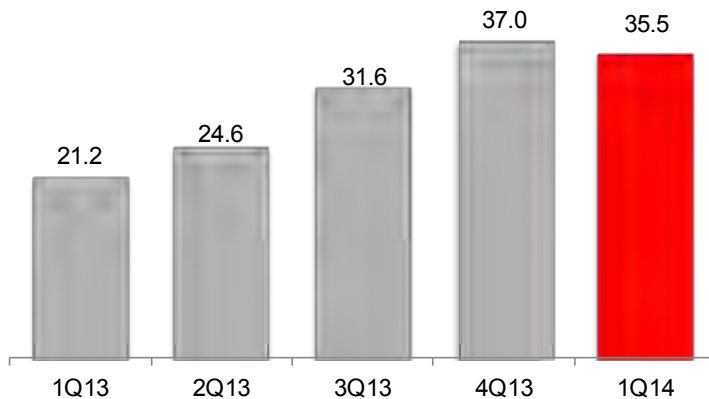


	1Q14	1Q13	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>106.1</b>	<b>107.0</b>	<b>-0.8</b>	<b>9.3</b>
LLPs	34.1	63.7	-46.4	217.2
<b>Net Op. Income after LLPs</b>	<b>72.0</b>	<b>43.3</b>	<b>66.3</b>	<b>-16.6</b>
NPL Coverage ratio	50.6%	52.9%	-2.3pp	0.6pp
NPL ratio	8.3%	6.9%	1.4pp	0.1pp

## Sustained increase in attributable profit in 2013 on a qoq basis

EUR million

### Attributable profit



	1Q14	1Q13	YoY (%)	QoQ (%)
<b>Net Op. Income after LLPs</b>	72.0	43.3	66.3	-16.6
Other provisions	30.0	12.6	137.9	-29.4
<b>Profit before taxes</b>	42.1	30.7	37.0	-4.1
Tax on profit	9.0	9.5	-5.9	-40.1
<b>Consolidated profit</b>	<b>33.1</b>	<b>21.2</b>	<b>56.2</b>	<b>14.5</b>
<b>Attributable profit</b>	<b>35.5</b>	<b>21.2</b>	<b>67.9</b>	<b>-4.0</b>
Effective tax rate	21.3%	31.0%		

## Market Environment & Financial System

- Economic growth is strengthening, with resilient export growth pulling investment and supporting private consumption.
- Improved investment outlook is being reflected into higher volumes of new production of loans to non-financial corporates.
- Fiscal targets for 2014 are within reach, given the better outcome of the 2013 budget (deficit of 4,9% of GDP), which is also being reflected in yields falling to the lowest since 2009.

## Strategy & Business

- Improving market shares in loans to corporates and a better balance sheet mix
- The Bank is continuously adapting its cost structure to the new competitive environment
- Cost of deposits continues to decline

## Capital and Profitability

- Capital ratios continue reflecting the sound structure of Santander Totta with the core capital ratio set at 14.8%
- Attributable profit grew 67.9% yoy which reflects lower operating costs and provisions. Comparing with the previous quarter there was a slight decrease
- Gross income declined 1.3% yoy but increased 2.1% over 4Q13 due to the positive evolution in commissions and gains in financial transitions
- NPL ratio is evolving at a slower pace and cost of credit maintains a downward trend

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# Balance sheet

EUR million	Variation			
	31.03.14	31.03.13	Amount	%
Loans and credits*	24.240	25.518	(1.278)	(5,0)
Trading portfolio (w/o loans)	1.884	1.905	(21)	(1,1)
Available-for-sale financial assets	6.711	4.675	2.036	43,5
Due from credit institutions*	2.540	3.447	(907)	(26,3)
Intangible assets and property and equipment	800	392	407	103,8
Other assets	5.810	6.198	(388)	(6,3)
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>41.986</b>	<b>42.136</b>	<b>(149)</b>	<b>(0,4)</b>
Customer deposits*	23.586	23.703	(116)	(0,5)
Marketable debt securities*	2.248	3.411	(1.164)	(34,1)
Subordinated debt	0	0	(0)	(44,6)
Insurance liabilities	80	88	(9)	(9,9)
Due to credit institutions*	12.915	12.203	712	5,8
Other liabilities	501	180	322	178,7
Shareholders' equity**	2.656	2.550	106	4,1
<b>Off-balance-sheet funds</b>	<b>2.227</b>	<b>2.316</b>	<b>(89)</b>	<b>(3,9)</b>
Mutual funds	1.185	1.437	(251)	(17,5)
Pension funds	862	780	82	10,5
Managed portfolios	179	99	80	80,4
<b>Customer funds under management</b>	<b>28.061</b>	<b>29.430</b>	<b>(1.369)</b>	<b>(4,7)</b>

\* Includes all stock of concept classified in the balance sheet

\*\* Not including profit of the year



# Income Statement

EUR million			Variation	
	1Q 14	1Q 13	Amount	%
<b>Net interest income</b>	<b>129</b>	<b>117</b>	<b>12</b>	<b>10,1</b>
Net fees	73	85	(12)	(14,1)
Gains (losses) on financial transactions	18	23	(5)	(21,9)
Other operating income**	9	6	2	33,4
<b>Gross income</b>	<b>228</b>	<b>231</b>	<b>(3)</b>	<b>(1,3)</b>
Operating expenses	(122)	(124)	2	(1,7)
General administrative expenses	(103)	(104)	2	(1,5)
<i>Personnel</i>	(73)	(75)	2	(3,1)
<i>Other general administrative expenses</i>	(30)	(29)	(1)	2,4
Depreciation and amortisation	(19)	(20)	0	(2,4)
<b>Net operating income</b>	<b>106</b>	<b>107</b>	<b>(1)</b>	<b>(0,8)</b>
Net loan-loss provisions	(34)	(64)	30	(46,4)
Other income	(30)	(13)	(17)	137,9
<b>Profit before taxes</b>	<b>42</b>	<b>31</b>	<b>11</b>	<b>37,0</b>
Tax on profit	(9)	(10)	1	(5,9)
<b>Profit from continuing operations</b>	<b>33</b>	<b>21</b>	<b>12</b>	<b>56,2</b>
Net profit from discontinued operations	—	—	—	—
<b>Consolidated profit</b>	<b>33</b>	<b>21</b>	<b>12</b>	<b>56,2</b>
Minority interests	(2)	0	(2)	—
<b>Attributable profit to the Group</b>	<b>36</b>	<b>21</b>	<b>14</b>	<b>67,9</b>

\*\* Including dividends, income from equity-accounted method and other operating income/expenses

# Quarterly statements of income

EUR million

	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14
<b>Net interest income</b>	<b>117</b>	<b>134</b>	<b>132</b>	<b>131</b>	<b>129</b>
Net fees	85	87	79	67	73
Gains (losses) on financial transactions	23	7	10	11	18
Other operating income**	6	6	7	15	9
<b>Gross income</b>	<b>231</b>	<b>233</b>	<b>228</b>	<b>224</b>	<b>228</b>
Operating expenses	(124)	(122)	(123)	(126)	(122)
General administrative expenses	(104)	(102)	(103)	(107)	(103)
<i>Personnel</i>	(75)	(74)	(74)	(76)	(73)
<i>Other general administrative expenses</i>	(29)	(28)	(29)	(31)	(30)
Depreciation and amortisation	(20)	(20)	(20)	(19)	(19)
<b>Net operating income</b>	<b>107</b>	<b>112</b>	<b>105</b>	<b>97</b>	<b>106</b>
Net loan-loss provisions	(64)	(62)	(56)	(11)	(34)
Other income	(13)	(17)	(6)	(42)	(30)
<b>Profit before taxes</b>	<b>31</b>	<b>32</b>	<b>44</b>	<b>44</b>	<b>42</b>
Tax on profit	(10)	(7)	(12)	(15)	(9)
<b>Profit from continuing operations</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>29</b>	<b>33</b>
Net profit from discontinued operations	—	—	—	—	—
<b>Consolidated profit</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>29</b>	<b>33</b>
Minority interests	0	0	(0)	(8)	(2)
<b>Attributable profit to the Group</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>37</b>	<b>36</b>

\*\* Including dividends, income from equity-accounted method and other operating income/expenses

